

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON)	
COMPANY)	
)	
)	
Proposal to implement a competitive)	No. 05-0159
procurement process by establishing Rider)	
CPP, Rider PPO-MVM, Rider TS-CPP)	
and revising Rider PPO-MI)	
)	

REBUTTAL TESTIMONY OF

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CONSTELLATION NEWENERGY, INC.

ON BEHALF OF THE
COALITION OF ENERGY SUPPLIERS

COMPRISED OF:

CONSTELLATION NEWENERGY, INC.
DIRECT ENERGY SERVICES, LLC
MIDAMERICAN ENERGY COMPANY
PEOPLES ENERGY SERVICES CORPORATION
U.S. ENERGY SAVINGS CORP.

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1 **I. INTRODUCTION**

2 **Q. Please provide your name.**

3 A. My name is Philip R. O'Connor and I am employed by Constellation NewEnergy,
4 Inc. ("NewEnergy"), an intervening party in this proceeding, as Vice-President
5 for the Illinois Market. NewEnergy is licensed to operate as an alternative retail
6 electric supplier in Illinois, and is located at 550 W. Washington Blvd. in
7 Chicago.

8

9 **Q. Are you the same Dr. Philip R. O'Connor who filed CES Ex. 1.0 in the**
10 **instant proceeding on behalf of the Coalition of Energy Suppliers ("CES" or**
11 **the "Coalition").**

12 A. Yes. As with the direct testimony submitted by the Coalition, the positions set out
13 in this rebuttal testimony represent the positions of the Coalition as a group, but
14 do not necessarily represent the positions of individual CES member companies.

15

16 **Q. What is the purpose of your testimony?**

17 A. The main purpose of my testimony is to respond to the direct testimony filed by
18 witnesses for intervenors and the Staff ("Staff") of the Illinois Commerce
19 Commission ("Commission") as well as the rebuttal testimony submitted by
20 Commonwealth Edison Company ("ComEd") witnesses. Specifically, I will
21 respond to the Staff and intervenor direct testimony submitted by the following
22 witnesses: Messrs. TJ Brookhover and Kristov Childress on behalf of the
23 Building Owners and Managers Association ("BOMA"); Robert Stephens on

24 behalf of the Illinois Industrial Energy Consumers (“IIEC”); Dr. Kenneth Rose on
25 behalf of the People of the State of Illinois (“AG”); Dr. Dale E. Swan and
26 Matthew I. Kahal on behalf of the Department of Energy (“DOE”); and Peter
27 Lazare, Dr. Eric Schlaf, and Dr. David Salant on behalf of Staff. Additionally, I
28 will respond to the rebuttal testimony, submitted by William McNeil, Dr.
29 Chantale LaCasse, and the panel of Lawrence Alongi and Paul Crumrine. (*See*
30 *generally*, ComEd Exs. 10.0, 11.0, 13.0.)

31

32 **Q. Do you have any overall observations regarding the Staff and intervenor**
33 **direct testimony and ComEd’s rebuttal?**

34 A. Yes. I have the following four (4) observations regarding the Staff and intervenor
35 direct testimony and ComEd’s rebuttal testimony:

36

37 **First, ComEd fails to recognize the big picture.** In several important respects,
38 ComEd’s rebuttal testimony is inexplicably incomplete or appears merely to
39 respond to specific proposals without considering the overall impact that the
40 proposals would have upon customers and the competitive market. Specifically,
41 ComEd has failed to address issues that were raised by Staff and intervenor
42 testimony with respect to a number of issues, including those associated with the
43 enrollment window, certain product offerings to customers, the methodology for
44 calculating the Supply Administration Charge (“SAC”), and the calculation of the
45 allocation of migration risk premiums.

46

47 **Second, there are several suggestions that would tend to have class cross-**
48 **subsidy implications.** Revisions to the methodologies and utility bundled service
49 product offerings that would result in cross-subsidies, intended or not, are out of
50 place in the post-transition environment.

51

52 **Third, certain intervenors suggest an expansion of the procurement and**
53 **supply obligations of the utility beyond those proposed by ComEd.** For
54 example, the IIEC and the BOMA effectively ask in this proceeding that the
55 Commission rescind the competitive declaration currently in force with respect to
56 customers formerly served under Rate 6L and with demand in excess of 3 MW.

57

58 **Fourth, various proposals (including the proposal for a combined ComEd-**
59 **Ameren auction) would be buttressed by the Coalition proposal for a single-**
60 **year product for 400 kW to 1 MW customers.** The Coalition's proposal to
61 remove the load for 400 kW to 1 MW customers in ComEd from the blended
62 auction product ("CPP-B") and create a single-year product provides market-
63 based solutions for problems that ComEd and others have suggested should be
64 addressed via administrative mechanisms.

65

66 **Q. What are the key principles that should guide the Commission in this**
67 **proceeding?**

68 A. Two overriding principles should guide the Commission. The first principle is
69 "Customer Focus." That is, the focus of this procurement proceeding must be on

70 customers more than on the institutional considerations or convenience of ComEd
71 or other non-customer market participants. The second principle is “Market
72 Reliance.” This principle is succinctly enunciated by ComEd’s own witness Dr.
73 LaCasse:

74 Regulation has its place. However, it is generally acknowledged
75 that it is a weaker force than competition in terms of achieving an
76 efficient allocation of resources and prices that track economic
77 realities. If a competitive alternative is available, it should be
78 preferred to achieve these goals. (ComEd Ex. 11.0 at lines 343-
79 46.)

80 These two principles should be at the heart of the Commission’s analysis as it
81 approaches each issue in this case and should be adhered to by ComEd in its
82 consideration of proposals made by other parties.

83

84 **Q. What specific recommendations do you address in your rebuttal testimony?**

85 A. The Commission should:

- 86 • Reject ComEd’s proposal to shorten the currently successful 75-day PPO
87 sign-up window to 30 days for post-transition PPO and CPP-A enrollment;
- 88 • Recognize that Staff witness Dr. Schlaf’s suggestion that the initial auction
89 take place in July 2006 is the “next best” alternative to the Coalition’s
90 proposal to hold the first auction in May 2006;
- 91 • Adopt the Coalition’s customer grouping proposal that the 400 kW to 1 MW
92 customers be offered a default product based upon a one-year auction product;
- 93 • Recognize that the Coalition’s 400 kW to 1 MW customer grouping proposal
94 is compatible with either separate auctions by Ameren and ComEd or Staff
95 witness Salant’s suggestion that there be a combined ComEd and Ameren
96 auction;

- 97 • Reject the suggestion by BOMA witnesses Brookhover and Childress and
98 Staff witness Lazare that there be no consideration of allocating migration risk
99 premium in the construction of the translation tariff (the “Prism”);

- 100 • Achieve more accurate allocation of migration risk premium by weighting the
101 switching propensity of PPO load at 100%, rather than ComEd’s proposed
102 50%;

- 103 • Direct ComEd to revise its translation tariff to better reflect conditions in the
104 wholesale market by requiring it to calculate forward price volatility based
105 upon the most recent 6 months prior to the auction;

- 106 • Reject the suggestion by certain intervenors that, in effect, that the
107 Commission rescind the currently in-force competitive declaration for
108 customers over 3 MW and require ComEd to offer an annual fixed price
109 product to such customers. Moreover, the Commission should reject the
110 proposal that the 1-3 MW customers be offered the multi-year blended auction
111 product (CPP-B) on an annual basis;

- 112 • Reject the suggestion made by an intervenor that ComEd should be directed to
113 continue offering Interim Supply Service (“ISS”) in the post-transition period;
114 and

- 115 • Recognize that unintended adverse consequences would result from Staff’s
116 suggestion that customers in the 1 to 3 MW, CPP-A class (i.e., customers with
117 demands between 1-3 MW) default to the annual product rather than be
118 required to affirmatively elect the service.

119 **II. THE COMMISSION SHOULD DIRECT COMED TO RETAIN**
120 **THE 75-DAY PPO ENROLLMENT WINDOW FOR THE PPO AND CPP-A**

121 **Q. What are parties’ positions with regard to the CPP-A and PPO enrollment**
122 **windows?**

123 A. The BOMA and the Coalition recommend that the current well-operating 75-day
 124 enrollment window for ComEd’s Rider PPO tariff be retained for CPP-A
 125 customers (1-3 MW) and for the post-transition period PPO, rather than shortened
 126 to 30 days as proposed by ComEd. ComEd favors shortening the existing
 127 window by 60% – giving customers just 30 days to make fully-informed supply
 128 decisions.

129
 130 **Q. What is the basis for ComEd’s opposition to retaining the 75-day window?**

131 A. ComEd opposes the 75-day enrollment window on the basis of general assertions
 132 about higher price premiums from auction bidders but offers no empirical support.
 133 No estimates, calculations, or other quantitative evidence is provided to support or
 134 oppose any given duration whether it is 30 days, 75 days, or some other length.
 135 However, ComEd ignores the most important empirical referent available: the
 136 excellent experience with the current market-tested 75-day enrollment window for
 137 the PPO.

138
 139 **Q. Please discuss the background related to the existing 75-day PPO enrollment**
 140 **window.**

141 A. In 2003, the Commission adopted a 75-day sign-up window for the PPO tariff that
 142 ComEd proposed to the Commission under the terms of what has often been
 143 called the “Global Settlement.” The PPO tariff in-place today contains a
 144 Commission-approved 75-day enrollment window that replaced a more
 145 complicated enrollment process in the prior PPO-MI tariff, which involved a

146 somewhat longer enrollment period but was combined with a required letter of
147 intent. According to ComEd, its proposed CPP-A is explicitly designed to replace
148 both current bundled service for 1-3 MW customers and the PPO tariff for those
149 same customers in the post-transition period. When it originally approved the
150 75-day enrollment window provision, the Commission noted:

151 [T]he Commission agrees with Trizec's proposal to allow
152 customers a 75-day window for PPO enrollment, which the Joint
153 Movants also proposed in the March 6, 2003 Motion. **The record**
154 **evidence supports a finding that the adoption of this proposal**
155 **will result in tangible benefits to all market participants. One**
156 **important advantage is that customers will have ample time to**
157 **make their decisions while suppliers will have time to procure**
158 **needed supplies.** Therefore, the Commission finds that customers
159 should have a 75-day window to enroll in Applicable Period A
160 PPO service or choose RES-supplied service beginning on the day
161 the MVECs are published.

162
163 (*See* Final Order dated March 28, 2005, ICC Docket Nos. 02-0656, -0671, -0672,
164 -0834 (consol.) at 109.) (Emphasis added.) Importantly, even in the proceedings
165 referenced above, ComEd originally proposed a 60-day enrollment and then
166 sponsored testimony supporting the Joint Motion, which included support for the
167 75-day enrollment window.

168
169 Further, ComEd has never proposed, suggested, supported, accepted, or otherwise
170 entertained any pricing component for calculating PPO charges to account for the
171 enrollment window "option." ComEd suggests now, in the instant proceeding,
172 that an enrollment window, regardless of its duration, will create a pricing
173 premium difference. However, while ComEd now asserts that there is a pricing
174 premium difference between a 30-day and a 75-day enrollment period that merits

175 rejecting the current well-operating sign-up window, ComEd has never seen fit to
176 suggest to the Commission any pricing element or recognition of such a window
177 with respect to its PPO tariff. It would be inappropriate for the Commission to
178 base a decision on this issue based upon nothing more than ComEd's unsupported
179 assertions.

180

181 **Q. What does ComEd have to say about customers' ability to make supply**
182 **decisions within its proposed 30-day window?**

183 A. ComEd asserts that 30 days is an adequate period of time for customers to make
184 supply and service decisions for a 17-month period following the certification of
185 the auction results and the posting of the translation of those results into the retail
186 rates. However, the Coalition and the BOMA, parties that are aware of both
187 customer behavior and customer information needs, argue strongly to the
188 contrary. ComEd has little or no experience of its own dealing with the processes
189 in which customers make these decisions. Indeed, the terms of the applicable
190 Commission Integrated Distribution Company ("IDC") regulations to which
191 ComEd subscribes necessarily make any such familiarity, at best, second hand for
192 ComEd. (*See* 83 Ill. Admin. Code § 452.) In addition to ignoring the
193 convenience of customers in favor of reverting to an approach that the
194 Commission deemed undesirable and therefore changed in 2002, ComEd also
195 ignores the fact that if indeed a 75-day enrollment window would adversely affect
196 prices in some significant way (a point for which ComEd provides no support)
197 then the competitive market will certainly solve that problem by offering

198 customers in the 1-3 MW customer class less expensive alternatives than the
199 auction. Competitive activity among RESs would also provide customers with
200 alternatives from any premium unacceptable to customers. Coalition witnesses
201 Mario Bohorquez and Wayne Bollinger, and Coalition witnesses John
202 Domagalski and Richard Spilky, all provide further rebuttal testimony on this
203 issue. (See CES Ex. 5.0 at lines 28-235; CES Ex. 6.0 at lines 350-434.)
204

205 **Q. Does the Coalition have any point of agreement with ComEd on the matter of**
206 **the length of an enrollment window?**

207 A. Yes, to an extent. ComEd witness McNeil notes that, if there is a September 2006
208 initial auction and if problems arise so that the auction must be re-done, a 75-day
209 enrollment window might not end prior to the commencement of service with the
210 auction products. (See ComEd Ex. 10.0, at lines 1191-96.) That is obviously
211 true. The Coalition proposal for a May 2006 initial auction and Staff's suggestion
212 of a July auction solve the problem that Mr. McNeil identified. However, if the
213 Commission ultimately decides that the initial auction should be held in
214 September 2006, it would be a simple matter to specify that a 75-day sign-up
215 window would be truncated to the extent that the auction is delayed or needs to be
216 re-run. It is worth noting that ComEd's concern about potential auction problems
217 is one of the very same reasons that the Coalition strongly recommends a May
218 2006 initial auction. The Coalition provides additional analysis of this issue in
219 CES Ex. 5.0, the Rebuttal Testimony of Mario Bohorquez and Wayne Bollinger.
220

221 **III. WHILE SETTING THE INITIAL AUCTION DATE**
 222 **IN MAY 2006 REMAINS PREFERABLE, STAFF’S**
 223 **PROPOSAL FOR A JULY AUCTION IS THE NEXT BEST OPTION**
 224

225 **Q. Please comment on Staff witness Dr. Schlaf’s suggestion that the initial**
 226 **auction take place in July 2006. (See Staff Ex. 5.0 at lines 480-505.)**

227 A. The Coalition continues to support its proposal, similar to Ameren’s original
 228 position, that May 2006 is the best time to schedule the initial auction. The
 229 reasons cited in our direct testimony remain the same.

230

231 It is fair to say Staff witness Dr. Schlaf has presented a new alternative that is
 232 definitely preferable to ComEd’s September proposal. The Coalition can accept
 233 Dr. Schlaf’s proposal for a July date for the initial auction because it is the next
 234 best option.

235

236 **IV. THE COMMISSION SHOULD DIRECT COMED**
 237 **TO REVISE THE CUSTOMER GROUPINGS FOR THE AUCTION**
 238

239 **Q. Please recap the Coalition’s position regarding the customer groupings for**
 240 **the auction.**

241 A. The Coalition quite simply proposed to remove the load of customers with
 242 demands between 400 kW and 1 MW from the CPP-B blended product auction.
 243 Instead, the Coalition recommends that those customers be offered a default
 244 product based upon a one-year auction product. Customers in the 400 kW to 1
 245 MW grouping who would be served with the one-year product still would be able
 246 to migrate retail electric supplier (“RES”) delivery services at any time, as has

247 been proposed by ComEd. In its rebuttal testimony, ComEd did not accept this
 248 recommendation to revise the customer groupings.

249
 250 **A. COMED FAILED TO PROPERLY CONSIDER**
 251 **THE COALITION PROPOSAL TO INCLUDE THE**
 252 **400 kW TO 1 MW CUSTOMER CLASS IN THE CPP-A AUCTION**
 253

254 **Q. What basis does ComEd offer in its rebuttal testimony for failing to agree**
 255 **with the Coalition’s proposal?**

256 A. ComEd, while admitting that the Coalition’s proposal for offering default service
 257 to 400 kW to 1 MW customers has merit, goes on to reject the idea based upon
 258 unsupported notions that the Coalition’s proposal would create additional auction
 259 complexity. In reality, as discussed below, the Coalition’s proposal results in less
 260 complexity overall, when all factors are considered. Further, ComEd does not
 261 address the several important arguments offered by the Coalition in support of its
 262 400 kW to 1 MW proposal, including the value to residential and smaller business
 263 customers. To the extent that the 5-year element of the auction is new and
 264 untried, ComEd should not so airily dismiss the Coalition’s “no regrets” option
 265 for the Commission for whom strict attention to the interests of these customers is
 266 paramount, since competitive options for such customers are immature.

267
 268 **Q. Do you agree that the Coalition customer grouping proposal would add**
 269 **complexity to the auction process?**

270 A. No. With respect to the question of complexity, the comments of Staff witness
 271 Dr. Salant are pertinent:

272 At times, getting the best rates for ratepayers can conflict with the
273 goal of maximizing the probability of regulatory approval,
274 especially when obtaining the best rates for ratepayers involves
275 some risks, or involves a procurement process that appears
276 complex.
277
278 (Staff Ex. 1.0, at lines 1947-50.) In other words, the Commission should focus
279 not on assertions regarding the complexities associated with competing proposals
280 but on what structure is most beneficial to customers.
281
282 In light of Dr. Salant’s observations, ComEd wrongly supposes that our modest
283 and straight-forward proposal adds complexity to the auction. The Coalition
284 would be happy to work with ComEd to help it better understand how easily our
285 proposal can be implemented.
286
287 The additional complexity, if it exists at all, is trivial, at best. Quite simply, the
288 only “complexity” is that approximately 11.5% of total ComEd system load
289 would be shifted from the CPP-B blended auction product to the CPP-A annual
290 auction product.¹ The only distinction between the over 1 MW customer
291 grouping and the 400 kW to 1 MW group is that, for the 400 kW to 1 MW group,
292 there would be no enrollment window and no limit on the ability to migrate from
293 the annual product to another service option.
294

¹ In my direct testimony at lines 300-08, I mistakenly reported that about 8% of total ComEd system load would be shifted. Rather than the originally reported 7500 GWh, the more correct figure is 9700 GWh. At a 62% load factor, this would translate to nearly 1800 MW of demand and therefore involve 18 auction tranches of 100 MW each.

295 Moreover, any asserted “complexity” associated with the implementation of the
296 Coalition customer grouping proposal would be more than compensated by a
297 corresponding reduction in the complexity associated with ComEd’s proposed
298 method for allocating the migration risk premium.

299

300 **Q. How would the Coalition’s proposal simplify the overall auction process?**

301 A. As explained in my direct testimony and reiterated above, the problem of error
302 inherent in the development and application of any migration risk premium
303 allocation method could be largely resolved by the market through adoption of the
304 Coalition’s 400 kW to 1 MW customer grouping proposal. (See CES Ex. 1.0 at
305 lines 415-32.)

306

307 Once the 400 kW to 1 MW customer group is separated from customers below
308 400 kW, any migration risk premium that suppliers might include in the blended
309 product auction price would certainly be smaller and easier to handle, and any
310 error in managing that allocation would have fewer consequences.

311

312 **Q. Please explain why the Coalition’s proposal would make the allocation of the**
313 **migration risk premium a smaller, easier, and less risky issue.**

314 A. There are two reasons.

315

316 First, the migration risk premium would only be allocated across customer groups
317 under 400 kW. ComEd has already agreed that residential customers would be

318 assigned a zero probability for switching, and that business customers under 400
319 kW would be assigned a considerably lower migration propensity than those
320 above 400 kW.

321

322 Second, by creating a separate 400 kW to 1 MW customer group in the auction,
323 whatever migration risk premium suppliers priced into their bids would be related
324 to and allocated among customers within that group. This would obviate any
325 need to use the Prism to allocate any premium as it might be related to this
326 customer group. By its nature, the allocation method in the Prism advocated by
327 ComEd must rely on *historical* switching levels rather than on market
328 expectations of *prospective* switching by customers under 1 MW. In contrast,
329 because the Coalition proposal sets apart the 400 kW to 1 MW customer group,
330 any migration risk premium is isolated to that group in the auction itself. This
331 approach is consistent with the Market Reliance principle advanced by ComEd
332 witness Dr. LaCasse.

333

334 **Q. Are there simple ways to address ComEd's complaint that the Coalition's**
335 **customer grouping proposal would bring greater complexity to the auction?**

336 A. Yes. Let us assume that there is no offsetting reduction in complexity and that
337 even this smidgen of additional complexity is more than ComEd may wish to
338 contemplate. There are two fairly simple ways to resolve the problem, both of
339 which would simply roll into the one-year product auction for those customers
340 with demands between 400 kW and 1 MW. Both approaches are consistent with

341 ComEd’s proposal that customers with demands below 1 MW would be allowed
342 to migrate away from utility service at any time and the service would be offered
343 to these customers on a default basis without the requirement of an affirmative
344 election during a specific enrollment window. Additionally, under each approach
345 the prices of RES products would act as a safety valve against any untoward
346 effects on both sets of customers.

347 • The first method is the “**Non-Allocation Approach.**” Under this approach,
348 no component for allocating migration risk premium for customers between
349 400 kW and 3 MW would be included in the Prism. Instead, whatever
350 migration risk premium might be bid into the auction would be managed
351 through the off-setting effects of the enrollment window for customers with
352 demands greater than 1 MW on one hand, and bidder expectations about
353 unrestricted migration by the customers with demands less than 1 MW, on the
354 other hand.

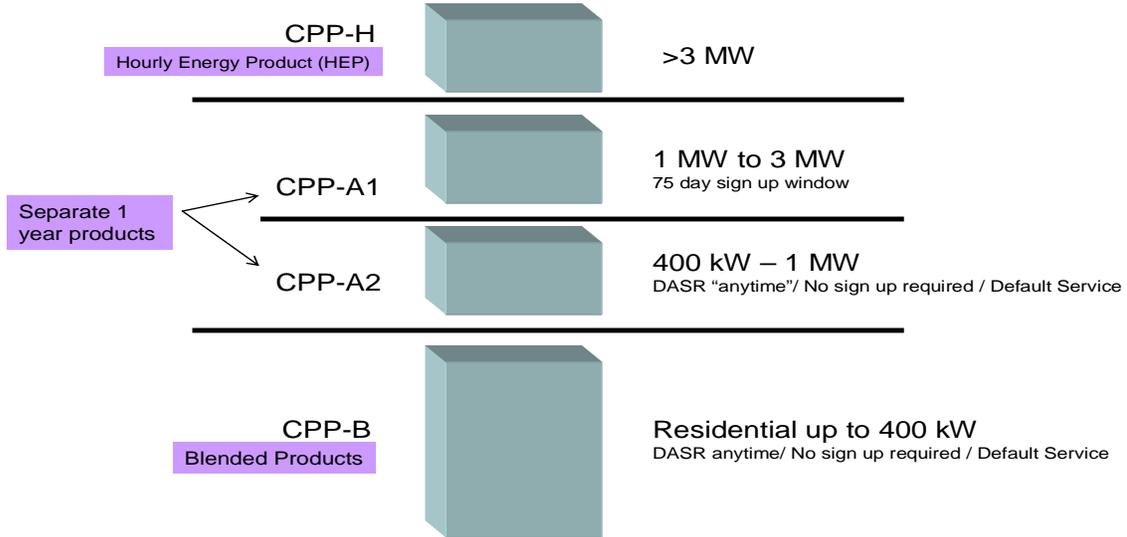
355 • The second method is the “**Allocation Approach.**” Under this approach, the
356 Prism would include a component for allocating migration risk premium
357 between those customers in the 400 kW to 1 MW group and the customers in
358 the 1-3 MW group. This would be a simpler allocation exercise than that
359 proposed by ComEd for all customers under 1 MW because the migration
360 behavior of the 400 kW to 1 MW customers is more similar to the 1-3 MW
361 customers than it is to residential and small business customers.

362

363 **Q. Can you illustrate how these two alternative methods compare to the**
364 **Coalition's original customer grouping proposal?**

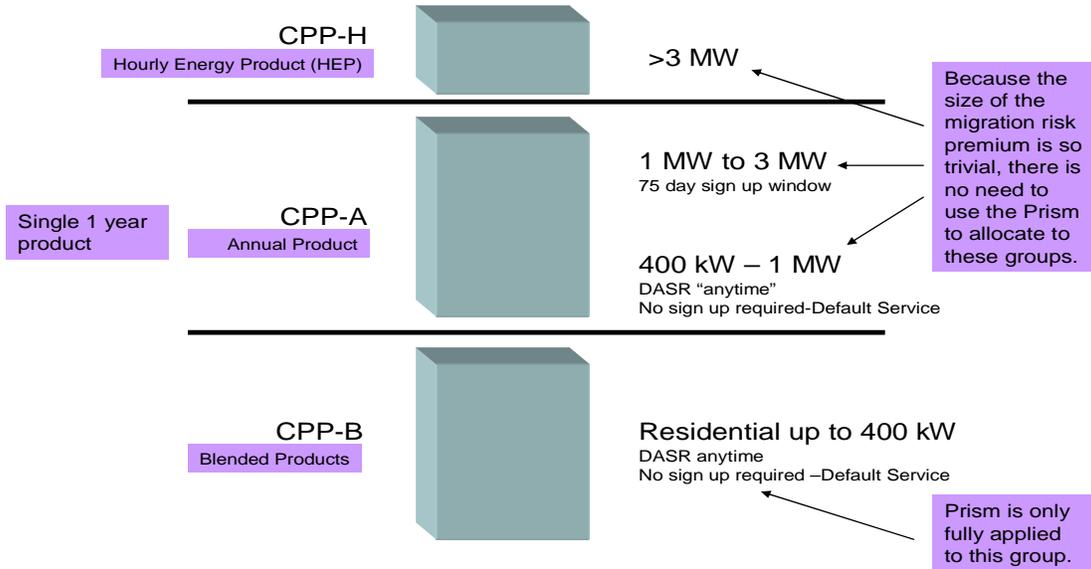
365 A. Yes. In my direct testimony, I provided an illustration that reflected the original
366 CES proposal for a single-year default product for the 400 kW to 1 MW group.
367 (*See* CES Ex. 1.2.) Below are three illustrations that reflect both the original
368 proposal and the two alternatives that roll the 400 kW to 1 MW customer group
369 into the same auction as the 1-3 MW customers.

Option #1 CES Original Proposed Customer Grouping



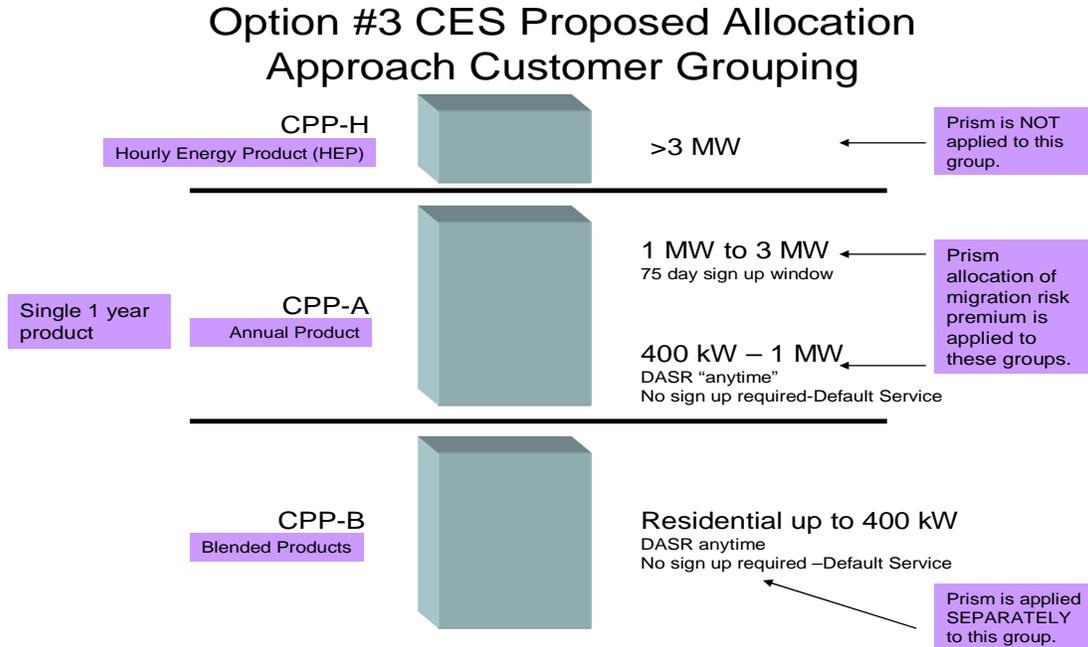
370

Option #2 CES Proposed Non-Allocation Approach Customer Grouping



371

372



373

374

375

376

377

378 **Q. How do each of the Coalition proposals discussed above compare to**
 379 **ComEd’s proposed customer grouping?**

380 A. If the Commission were to adopt any of the Coalition’s customer grouping
 381 options, as set forth above, in keeping with the two key principles set out earlier,
 382 there would be a greater orientation toward the needs of customers and reliance
 383 on market mechanisms. First, competitive options are less obvious at this time for
 384 smaller customers, and these customers should be the focus of the Commission’s
 385 attention. Second, adoption of any of these Coalition proposals would allow the

386 market to resolve the migration risk premium allocation problems with which
387 ComEd is grappling in the instant proceeding.

388

389 **Q. What considerations should be taken into account in evaluating the Non-**
390 **Allocation Approach and the Allocation Approach?**

391 A. The Coalition witnesses John Domagalski and Richard Spilky address this issue
392 in considerable detail in their rebuttal testimony. The essential point, however, is
393 that whether the migration risk premium as proposed by ComEd is applied, or
394 whether it is revised as recommended by the Coalition (to weight PPO load at
395 100% rather than 50%), the difference in allocated risk premium between 400 kW
396 to 1MW customers and 1-3 MW customers is small -- on the order of one to two
397 percent of the average exercise price of the two aforementioned customer groups.

398

399 Given that ComEd's proposed allocation method is heavily reliant upon historical
400 switching levels, which is problematic at best, it would be better to forego
401 allocation and instead allow any risk premium related to migration propensity to
402 be determined by the market and flow through to the full CPP-A group. In short,
403 if the Commission should decide to forego the Coalition's original proposal, the
404 Coalition's second preference is the Non-Allocation Approach that would not
405 apply the Prism for purposes of allocating migration risk premium between the
406 two groups.

407

408 As shown in my testimony below, the 400 kW to 1MW customers in ComEd
409 exhibit switching propensities roughly equal to that of 1-3 MW customers in
410 ComEd. Moreover, this fact demonstrates the compatibility of the Coalition
411 customer grouping proposal with Staff witness Salant's proposal for a combined
412 Ameren/ComEd auction.

413

414 **Q. Given that the Procurement Working Group relied to some extent on the**
415 **experiences of New Jersey with its auction model and Maryland with its RFP**
416 **model, is there current information from those states that the Commission**
417 **should take note of in considering the Coalition proposal for an annual**
418 **product for 400 kW to 1 MW customers?**

419 A. Yes. Currently, the New Jersey Board of Public Utilities ("NJ Board") places the
420 load of all customers with a peak load of 1.25 MW or greater in the hourly priced
421 auction. This "Commercial and Industrial Pricing" ("CIEP") rate class is only
422 offered an hourly priced utility product. Customers under 1.25 MW are offered a
423 blended product made up of one- and three-year wholesale auction products.

424

425 The NJ Board is currently deliberating whether to expand the CIEP rate class to
426 include all commercial and industrial customers over 750 kW. The NJ Board will
427 decide this matter by November 2005, with an effective date of June 1, 2006.

428

429 Since June 1, 2005, most Maryland business customers over 600 kW have been
430 only offered an hourly-priced utility product. Starting January 1, 2006 all

431 customers over 600 kW will be offered only an hourly-priced utility product.
 432 Business customers less than 600 kW will still be offered a single year fixed-price
 433 utility product after January 1, 2006.² Residential customers will continue to be
 434 offered a retail product based on a layered wholesale portfolio that consists of
 435 one-, two-, and three-year wholesale contracts that are acquired in an annual RFP
 436 that is similar in many respects to an auction.

437

438 **Q. What do the switching statistics for New Jersey and Maryland, respectively,**
 439 **demonstrate for us?**

440 A. In New Jersey, business customers offered the hourly-priced utility product have
 441 experienced little difficulty in arranging fixed-price service from RESs. As of
 442 June 2005, only 15.62% of peak load in the CIEP rate class is served by the
 443 hourly priced utility product. It is my understanding that most of this peak load
 444 has been affirmatively placed in the utility’s hourly-priced product. In Maryland,
 445 86.4% of all large commercial and industrial customer peak load (over 600 kW) is
 446 served by RESs, while 38.9% of all mid-sized commercial and industrial
 447 customer (60 kW to 600 kW) peak load are served by RESs.

448

449 **B. THE COALITION’S 400 KW TO 1 MW**
 450 **CUSTOMER GROUPING PROPOSAL IS CONSISTENT WITH**
 451 **STAFF’S PROPOSAL FOR A COMBINED COMED AND AMEREN AUCTION**
 452

453 **Q. Is the CES 400 kW to 1 MW customer grouping proposal consistent with the**
 454 **Staff proposal for a combined ComEd and Ameren auction?**

² Allegheny customers switch to hourly priced service on January 1, 2006 – at which time all Maryland electric service customers over 600 kW will be offered only an hourly product from the utility.

455 A. Yes. The Coalition has proposed that the 400 kW and 1 MW customer grouping
456 be served via an annual auction product for both Ameren and ComEd. We will
457 reiterate preference for our initial proposal again in rebuttal testimony that will be
458 filed next week in the Ameren Post-2006 Procurement Dockets.

459

460 **Q. Suppose the Coalition’s customer grouping proposal were adopted for**
461 **ComEd, but not for Ameren. Would that create incongruities for the**
462 **combined auction?**

463 A. No. I can understand why, at first blush, one might conclude that, if the Coalition
464 proposal were adopted for ComEd but not Ameren, it would create some
465 incongruence between the product mixes in the two utility areas in a combined
466 auction. However, even if the Coalition customer grouping proposal were
467 adopted for ComEd but not Ameren, the Coalition’s proposal and Staff’s proposal
468 could be easily reconciled. As set forth in my direct testimony the Coalition
469 recommends separating customers with peak demands between 400 kW and
470 1MW from all those below 400 kW and conducting a separate auction for a one-
471 year product. (*See* CES Ex. 1.0 at lines 287-432.)

472

473 In the post-transition world, given the proper rules, the Coalition members believe
474 that competition likely will develop in the Ameren service areas after the
475 transition period to the same extent that it already has developed in the ComEd
476 service area. The end of the transition period should also be the end of
477 institutional obstacles, intended or inadvertent, that frustrate customer choice in

478 the Ameren service territories. We are confident, however, that, with continued
479 Commission oversight and intervention (if necessary), similar switching levels
480 can be achieved in the Ameren service areas. Accordingly, for the reasons cited
481 by the Coalition in support of its 400 kW to 1 MW customer grouping proposal in
482 the first instance, the desire for perfect congruence in auction products should not
483 come at the expense of interfering with the market's role in allocating migration
484 risk premiums. Further, the desire for perfect congruence should not come at the
485 expense of inadvertently building incentives into the auction process for
486 continuing utility supply obligations that can easily be met by the competitive
487 retail market.

488

489 **Q. Assuming that the Coalition customer grouping proposal is adopted only for**
490 **ComEd, what would be the starting point for reconciling the two proposals?**

491 A. The objective is to assure greater symmetry between the customer population to
492 be served under the CPP-A and CPP-B equivalent products across both Ameren
493 and ComEd. Two points are key. First, the 400 kW to 1 MW customers in
494 ComEd have a propensity to migrate more akin to that of the 1-3 MW customers
495 in ComEd and all customers in the Ameren service territory over 1 MW than with
496 their similarly-sized counterparts in the Ameren service territory.

497

498 Second, the 400 kW to 1 MW customers in the Ameren service territory would
499 represent a mere 3% of the total load that would be included in a combined
500 blended product auction if ComEd's 400 kW to 1 MW customers were extracted

501 from the blended product auction and served through a one-year auction product.
502 That is, the 400 kW to 1 MW customer load in the Ameren service territory would
503 account for only 2,000 GWh annually in a combined blended annual auction load
504 of 65,600 GWh. This means that the load for Ameren customers between 400 kW
505 and 1 MW would represent an insignificant element in a combined auction.

506

507 **Q. Please compare the switching and migration propensity characteristics of the**
508 **400 kW to 1 MW group in Ameren with that of the 400 kW to 1 MW**
509 **customers in ComEd.**

510 A. At the end of calendar year 2004, the proportion of switched load for the 400 kW
511 to 1 MW customers in the ComEd service territory was nearly three times that of
512 switched load among the 400 kW to 1 MW customers in the Ameren service
513 territories. In the ComEd service territory, 63% of all load in the 400 kW to 1
514 MW group was on RES, PPO and ISS service, while the rate in the Ameren
515 service territory for this sized customer was shy of 23%.

516

517 **Q. Is there reason to believe that those figures understate the incongruity?**

518 A. Yes. The differences between the 400 kW to 1 MW customer groupings in the
519 Ameren and ComEd service territories with respect to implications for Prism
520 allocations are even more striking when it is remembered that under the proposals
521 of ComEd and Ameren, the Prism would give only a 50% weighting to PPO load.
522 In Ameren, almost 23% of total load for the 400 kW to 1 MW customers was on
523 delivery services at the end of 2004, with more than three-fourths (78%) of that

524 on the PPO, 11.6% on RES direct service, and 10.3% on ISS. In contrast, in the
525 ComEd service territory, nearly 63% of total load for that same grouping was on
526 delivery service, with less than one-third (32.3%) on PPO, two thirds on RES
527 service, and about 1% on ISS.³

528

529 **Q. How do the switching patterns of the 400 kW to 1 MW customers in the**
530 **ComEd service territory compare to the patterns for 1-3 MW customers in**
531 **the ComEd service territory and all customers over 1 MW in the Ameren**
532 **service territory?**

533 A. They are quite similar, underscoring the rationale for grouping them together for
534 an annual auction product. As noted above, the 400 kW to 1 MW customer group
535 in the ComEd service territory exhibits switching patterns much more in common
536 with those of larger customers with which they would be grouped under the
537 Coalition proposals than with similarly-sized customers in the Ameren service
538 territories.

539

540 The bottom line here is that the 400 kW to 1 MW customer group in the ComEd
541 service territory has shown greater total switching activity than even the 1-3 MW
542 group in the ComEd service territory and considerably more than that for all
543 Ameren customers over 1 MW.

544

³ Calculations computed based on information provided by ComEd in response to CES Data Request 1.13 and Ameren in response to CUB Data Request 1.04, respectively.

545 **Q. Is there another way to illustrate the similarities and differences in switching**
 546 **propensity among the customer groupings?**

547 A. Yes. One could construct a comparative index for these four customer groups:
 548 (1) Ameren 400 kW to 1 MW; (2) Ameren over 1 MW; (3) ComEd 400 kW to 1
 549 MW; and (4) ComEd 1 to 3 MW.

550
 551 Based on the migration propensity weightings of 50% for PPO and 100% for RES
 552 and ISS, CES Table 4(A) below helps to illustrate that the ComEd 400 kW to
 553 1 MW customers are more like the larger Ameren and ComEd customers than like
 554 the Ameren 400 kW to 1 MW customers.

555

556 **CES TABLE 4(A)**
 557 **Index of Switch Patterns in Ameren and ComEd Customer Groupings**
 558 **Over 400 kW Demand: Percent of Total Customer Class Load by Type of**
 559 **Switched Service**

	Ameren 400 kW-1 MW	Ameren > 1MW	ComEd 400 kW-1 MW	ComEd 1 MW-3 MW
PPO*	8.85% (17.7)	4.15% (8.3)	10.15% (10.3)	14.0% (28)
RES	2.6%	37.0%	42.2%	42.4%
ISS	2.3%	2.1%	0.7%	1.4%
Index	13.75	43.25	53.05	57.8

560
 561 (Calculations computed based on information provided by ComEd in response to
 562 CES Data Request 1.13 and Ameren in response to CUB Data Request 1.04,
 563 respectively. * PPO Load Percent at 50%.)

564
 565 **Q. So, would it be beneficial to include the 400 kW to 1 MW ComEd load in a**
 566 **combined Ameren-ComEd auction for the blended product offered to**
 567 **residential customers?**

568 A. No. The inclusion of the 400 kW to 1 MW ComEd load in a combined auction
569 for the blended product for residential customers (CPP-B) would not comport
570 with the two principles of Customer Focus and Market Reliance. A review of
571 switching experience shows that rolling the ComEd 400 kW to 1 MW customers
572 into a combined Ameren-ComEd blended product auction would actually create
573 incongruities, to the detriment of residential and small business customers.

574

575 It must be remembered that the Prism relies upon two major distinguishing factors
576 in order to allocate the final auction clearing price across the CPP-B customer
577 groupings: load shape and migration propensity, as measured by switching
578 volumes. Given the considerable switching potential of the 400 kW to 1 MW
579 customers in ComEd and the relative size of their total load, their inclusion in a
580 combined auction for the blended product would be a clear mistake. A review of
581 the switching history of the 400 kW to 1 MW customers in ComEd reveals that
582 their switching habits differ considerably from similarly-size customers in
583 Ameren. Moreover, the migration behavior of the 400 kW to 1 MW customers in
584 ComEd is completely incongruous with the migration propensity of residential
585 and small business customers. Again, as stated earlier in my rebuttal testimony,
586 we are confident that similar switching levels can be achieved in the Ameren
587 service areas in the post-transition period. Thus, if the Commission decides to
588 accept Staff's proposal for a combined ComEd-Ameren auction, it is imperative
589 that the Commission revise the customer groupings as proposed by the Coalition.

590

591 **V. THE COMMISSION SHOULD MODIFY COMED’S PROPOSED**
 592 **TRANSLATION TARIFF (A/K/A “PRISM”) TO ACCURATELY**
 593 **REFLECT MIGRATION RISKS AND FORWARD CONTRACT VOLATILITY**
 594

595 **Q. Please recap the Coalition’s position regarding ComEd’s proposed**
 596 **translation tariff.**

597 A. ComEd appropriately has proposed a translation tariff that would be used to
 598 transform the wholesale auction clearing prices into retail rates. While ComEd
 599 would properly employ its proposed translation tariff to allocate migration risk
 600 within customer classes to address potential cross-subsidies, ComEd has failed to
 601 accurately calculate the propensity of customers taking service under the utility’s
 602 PPO to switch to less expensive products. Further, as discussed by Coalition
 603 witnesses John Domagalski and Richard Spilky, the translation tariff does not
 604 properly reflect the volatility associated with forward contracts. (See CES Ex. 6.0
 605 at 108-192.)

606
 607 **A. THE COMMISSION SHOULD AUTHORIZE COMED TO**
 608 **INCLUDE A MIGRATION RISK PREMIUM ALLOCATION IN ITS PRISM**
 609

610 **Q. Please address the suggestions by the BOMA and Staff that the translation**
 611 **tariff include no migration risk premium. (See BOMA Ex. 2.0 at lines 305-41**
 612 **and Staff Ex. 6.0 at lines 569-666.)**

613 A. Certainly there are problems with the migration risk premium allocation in the
 614 Prism, as Coalition witnesses Domagalski and Spilky detailed in their direct
 615 testimony and revisit in their rebuttal testimony. (See CES Ex. 3.0 at lines 80-
 616 200l; CES Ex. 6.0 at lines 40-71.) However, if the price differences between
 617 groups appear to be of sufficient magnitude to warrant the application of an

618 administrative mechanism, the solution is not simply to do away with any
619 consideration of how to allocate any risk premium.

620

621 If it can be agreed that across classes of customers there are apparent appreciably
622 different levels of migration propensity, even though we may not be able to
623 precisely predict the levels of migration, in order to prevent cross-subsidies, the
624 Commission must allocate the price premium that likely will be present in the
625 final auction clearing price.

626

627 **Q. What is the Coalition's proposed solution?**

628 A. The Coalition has proposed a two-step approach to addressing the migration risk
629 premium issue that is a nearly complete solution. First, as outlined in my direct
630 testimony, and again in Section IV of this rebuttal testimony, the Coalition has
631 recommended separating the customers in the 400 kW to 1 MW grouping from
632 those customers with lower demands. Under the Coalition's customer grouping
633 proposal, the multi-year blended auction would apply only to those below 400
634 kW, and the migration risk premium for the 400 kW to 1 MW group would be
635 entirely internalized within that customer group. As discussed more fully in
636 Section IV(A) of this rebuttal testimony, under the Coalition's customer grouping
637 proposal any migration risk premium that suppliers might include in the blended
638 product auction price would certainly be smaller and easier to handle, and less
639 risky.

640

641 Second, the Coalition has suggested that in estimating migration potential, full
642 weight should be given to load served by the PPO, to better measure migration
643 potential, especially among business customers below 400 kW of demand. It is
644 important to emphasize that failure to properly apportion migration risk premium
645 across customer classes, according to migration potential, would work to the
646 disadvantage of residential and smaller business customers whose migration
647 potential is lower.

648

649 **Q. In its rebuttal testimony, does the Coalition suggest an alternative way that**
650 **the Commission could address the customer groupings and the associated**
651 **migration risk premium?**

652 A. Yes. In response to ComEd's suggestion that the Coalition's proposal might add
653 complexity to the process, we suggest that the customers in the 400 kW to 1 MW
654 grouping could be rolled into the single year auction product with 1 to 3 MW
655 customers. This proposal is addressed more fully in Section IV of this rebuttal
656 testimony. As detailed in the rebuttal testimony of Coalition witnesses
657 Domagalski and Spilky, under this alternative proposal, there would be either
658 little need for a premium allocation within the 400 kW to 3 MW grouping or the
659 allocation would be comparatively simple, with minimal rate impact. (See CES
660 Ex. 6.0 at lines 194-232.)

661 **B. COMED FAILS TO PROPERLY**
662 **CONSIDER THE COALITION’S PROPOSAL**
663 **TO MORE ACCURATELY ALLOCATE MIGRATION RISK PREMIUM**
664

665 **Q. Please recap the Coalition’s position regarding the allocation of the**
666 **migration risk premium to customers presently taking service under**
667 **ComEd’s Rider PPO tariff (the “PPO”).**

668 A. In our direct testimony, the Coalition witnesses demonstrated that ComEd’s
669 proposal would give inadequate weight to the migration propensity of certain
670 customers. Specifically, we explained that by assigning only 50% weighting to
671 PPO load, ComEd substantially understated the likelihood of customers to
672 participate in the competitive market following the transition period.
673 Additionally, the Coalition witnesses explained that the Coalition customer
674 grouping proposal for the 400 kW to 1 MW customers would allow market
675 mechanisms to allocate migration risk premium instead of relying upon “the
676 Prism,” which is an administrative mechanism. ComEd opposes these
677 recommendations.

678
679 **Q. What is the basis for ComEd’s opposition to the Coalition proposals to more**
680 **accurately allocate any migration risk premium?**

681 A. In its rebuttal testimony, ComEd opposes the Coalition’s suggestion to give full
682 weighting to PPO switched load with little discussion. The Coalition has shown
683 in its direct testimony that ComEd’s half-weighting of PPO load in the Prism is
684 belied by the empirical data. In rebuttal, ComEd offers up two unsupported
685 assertions and still no empirical support.

686 One rebuttal argument from ComEd witnesses Alongi and Crumrine is merely
687 that ComEd believes that by adhering to its original proposal it is occupying the
688 “reasonable middle-ground” between the suggestion of Staff and the BOMA (to
689 forgo any allocation at all) and the empirical experience of the Coalition (to
690 provide full weighting of PPO switched load). (ComEd Ex.13.0 at line 513.)
691 Customers deserve more from ComEd than a middle-of-the-road approach that is
692 not empirically supported or that relies on a misinterpretation of historical data
693 that may not be indicative of future migration propensity.

694

695 Second, ComEd guesses that customers have remained with the utility based upon
696 some economically irrational loyalty to the utility. In spite of Dr. LaCasse’s
697 warning about having faith in the market, ComEd witnesses Alongi and Crumrine
698 justify ComEd’s half-weighting of PPO load in the migration risk allocation
699 method by opining that:

700 . . . not all PPO customers switch to RES supply. Some of these
701 customers are likely taking PPO service because they can both
702 obtain savings and remain on the utility supply offering. We
703 believe that an estimate of 50% represents an appropriate middle
704 ground value with respect to these customers.

705 (*See id.* at lines 327-30.)

706

707 ComEd offers no support for the idea that as much as 50% of the load accounted
708 for by PPO service may simply stay put with the utility irrespective of the
709 availability of lower prices outside the utility. The more reasonable notion is that
710 PPO customers have selected the PPO in order to save money rather than to stay
711 with the utility and, that if given the opportunity to save money in the post-

712 transition period, when the utility will have only one rather than two prices for its
 713 service, customers will continue to seek savings.

714
 715 **Q. Does the Coalition have any point of agreement with ComEd on the matter of**
 716 **allocating any migration risk premium among customers to be served under**
 717 **the CPP-B product?**

718 A. Yes. To their credit, ComEd witness Alongi and Crumrine acknowledge that the
 719 Coalition’s proposal would result in a greater allocation of any migration risk
 720 premium to the large customers receiving the blended auction product. (*See*
 721 *ComEd Ex. 13.0 at lines 295-306.*) The Coalition agrees with that observation.
 722 The Coalition made the proposal so that if there is a migration risk premium, it
 723 would be allocated fairly in the direction of those customer classes with the
 724 greatest propensity to migrate, in keeping with cost causation principles.

725
 726 **VI. THE COMMISSION SHOULD CLOSELY SCRUTINIZE OTHER INAPPROPRIATE**
 727 **AND UNNECESSARY PROPOSALS TO MODIFY COMED’S AUCTION PROPOSAL**

728
 729 **A. THE COMMISSION SHOULD NOT**
 730 **RESCIND THE COMPETITIVE DECLARATION FOR**
 731 **RATE 6L CUSTOMERS WITH DEMANDS OVER 3 MW**

732
 733 **Q. Please address the suggestion that, in effect, the currently in-force**
 734 **competitive declaration for customers over 3 MW be rescinded.**

735 A. The BOMA, IIEC, and DOE suggest that the Commission should direct ComEd
 736 to offer an annual, fixed-price bundled service product to customers over 3 MW.
 737 (*See BOMA Ex. 2.0 at lines 487-507; IIEC Ex. 1 at lines 32-34; USDOE Ex.*
 738 *2.0000 at p.7.*) Although the proponents do not frame their suggestion as a

739 rescinding of the competitive declaration, that would be the practical effect of
740 their suggestion. The competitive declaration of the aforementioned customers
741 became effective by the Commission's Order in ICC Docket No. 02-0479. The
742 heart of the competitive declaration was that the utility would no longer have an
743 obligation to provide a bundled service supply product to customers over 3 MW,
744 other than an hourly priced utility product, because the market had developed to
745 the point that such customers could reliably expect to find comparable and
746 alternative energy service products in the market. No party has petitioned the
747 Commission to directly rescind the competitive declaration, likely because they
748 could not demonstrate any inability of customers over 3 MW to purchase energy
749 services in the market on reasonable terms. If there is indeed a need to rescind the
750 competitive declaration, it would be an immediate one, not one that could
751 leisurely await the arrival of January 2, 2007.

752

753 The Commission should reject these proposals as being a retreat from the
754 principle of Market Reliance, directly contrary to the Commission's Order in ICC
755 Docket No. 02-0479, not in keeping with the goals of the 1997 Choice Act, and
756 contrary the facts of the existing Illinois retail electric market.

757

758 **Q. Please address the BOMA's suggestion that 1-3 MW customers be offered**
759 **the multi-year blended auction product on an annual basis, along the lines of**
760 **what ComEd has proposed be offered to customers below 1 MW.**

761 A. The BOMA witnesses Brookhover and Childress suggest that the Commission
762 direct ComEd to offer the 1-3 MW customer classes a product identical to the

763 CPP-B blended product. This suggestion reflects a point of view that tends to
 764 favor an expansion of utility supply obligations beyond those proposed by
 765 ComEd. (See BOMA Ex. 2.0, at lines 508-34.) This would be a retreat from the
 766 progress already achieved and that can easily be furthered in assuring customers a
 767 vigorously competitive retail market. Moreover, as noted in the Coalition’s direct
 768 testimony, the Commission may wish to take steps to better assure that the hoped-
 769 for benefits of the multi-year blended auction product will flow to residential and
 770 smaller business customers who have not yet had practical energy choice options.
 771 (See CES Ex. 1.0 at lines 387-413) Customers in the 1-3 MW grouping do not
 772 need a blended product offered by the utility pursuant to a Commission order
 773 because they will continue to have easy access to a range of products in the
 774 competitive market, as well as annual products from both the utility and RES.
 775 Burdening the auction process with unnecessary obligations serves no purpose
 776 when the needs of customers otherwise can be met.

777

778 **B. THE COMMISSION SHOULD REJECT THE**
 779 **SUGGESTION THAT COMED CONTINUE TO OFFER RIDER ISS**

780

781 **Q. Please address the suggestion that ComEd continue offering Interim Supply**
 782 **Service (“ISS”) in the post-transition period. (See BOMA Ex. 2.0 at lines 554-**
 783 **56.)**

784 **A.** The primary problem associated with this suggestion is that a necessary condition
 785 for accepting it is to also devise a PPO product that has a pricing mechanism
 786 separate from those established by CPP-A or CPP-B. In other words, it would

787 require something along the lines of perpetuating the existing PPO pricing
 788 mechanism.

789

790 The hourly service proposed by ComEd should be adequate given the alternatives
 791 available in the market, including the utility offered bundled service. To the
 792 extent that ComEd is required to offer a monthly default service, then it should be
 793 with supply that is acquired in supplementary auctions just prior to the month in
 794 question.

795

796 **C. THE COMMISSION SHOULD REJECT THE PROPOSAL THAT 1-3 MW**
 797 **CUSTOMERS AUTOMATICALLY DEFAULT TO THE CPP-A PRODUCT**

798

799 **Q. Please address Staff witness Dr. Schlaf’s suggestion that 1-3 MW customers**
 800 **should default to the annual product rather than be required to affirmatively**
 801 **elect that service. (See Staff Ex. 5.0 at lines 165-74).**

802 A. Defaulting to an hourly service remains a good approach for 1-3 MW customers
 803 because they have shown a great deal of sophistication in navigating the market.
 804 Further, making CPP-A the default service for 1-3 MW customers likely presents
 805 more problems than it would solve.

806

807 **Q. Do you agree with Dr. Schlaf’s premise that 1-3 MW customers currently**
 808 **taking bundled service are taking that service because they prefer bundled**
 809 **utility service?**

810 A. No. No credible evidence indicates that there is any significant population of
 811 such customers that would fail to contract with a RES or to affirmatively elect

812 bundled service within an enrollment window of reasonable duration. These
813 customers are not confused or otherwise unfamiliar with the energy market as it
814 has developed since the transition period commenced. To the extent that some
815 1-3 MW customers remain on bundled service today, it should be noted that the
816 variable impact of transition charges and of special rates such as Rate 25 have
817 made staying on bundled rates the smart thing to do for some customers -- not
818 because bundled utility service is intrinsically preferable, but because in specific
819 instances it is economically advantageous.

820

821 **Q. What problems could arise if the annual product is made the default product**
822 **for 1-3 MW customers?**

823 A. The adoption of this suggestion would result in unintended consequences. To the
824 extent that the annual product would be the default option for 1-3 MW customers,
825 it would be reasonable to expect that these customers also would be able to leave
826 bundled service at any time, rather than be required to stay for the full annual term
827 of a contract that they did not affirmatively select. This condition would
828 substantially complicate migration risk premium considerations for wholesale
829 suppliers in the auction. If, on the other hand, these customers were required to
830 remain on the annual product for the full term after having defaulted to it, there
831 would likely be instances in which the customers would have preferred to be on
832 hourly service for a month or two before entering into a service contract with a
833 RES, but instead, would be forced to continue for many months on this default
834 product. The Coalition's proposal for a 75-day enrollment window for the annual

835 product by 1-3 MW customers would largely address Dr. Schlaf's understandable
836 concerns that these customers might forget or be unable to make a decision.

837

838 **VII. PROGRESS HAS BEEN MADE IN THE DEVELOPMENT OF A COMPETITIVE**
839 **ELECTRIC MARKET FOR COMMERCIAL AND INDUSTRIAL CUSTOMERS**

840

841 **Q. Please address the contentions of AG witness Dr. Rose and IIEC witness**
842 **Stephens with respect to competitive conditions and implications for an**
843 **auction. (See AG Ex. 1.0 at p. 5-23; IIEC Ex. 1 at lines 80-113.)**

844 A. As set forth in the direct testimony of the various Coalition witnesses, customers
845 in the ComEd service territory have seen progress in the development of a
846 competitive market. There is clear evidence that by year-end 2004, transition
847 period competitive conditions had yielded something on the order of \$1 billion in
848 savings to business customers. (See CES Ex. 1.0, at lines 804-57.) Further,
849 residential customers have benefited significantly from rate reductions that, while
850 statutory mandated, were predicated on the well-founded belief that competitive
851 wholesale market conditions were such that prescribing savings relative to
852 embedded costs of generation was justified.

853

854 Further, IIEC's concerns about the impact of reciprocity conditions at this point
855 appear more academic than practical. Recent decisions by the Commission may
856 prove to have obviated some of the IIEC's concerns. With respect to Dr. Rose's
857 concerns that the wholesale market is somehow insufficiently competitive to
858 support an auction, the auction approach itself is more likely than other methods
859 of utility wholesale supply acquisition to elicit competitive activity among

860 wholesale suppliers and to address various imperfections in the wholesale market
861 that may exist.

862

863 **VIII. CONCLUSION**

864 **Q. Please summarize your recommendations in this proceeding.**

865 A. In this proceeding, the Commission is being asked by ComEd to establish the
866 framework for the future of the competitive electric market in Illinois. While the
867 ComEd proposal is a step in the right direction, there are some necessary
868 modifications to ComEd's proposal in order to ensure that all customers reap the
869 benefits of competition. The Coalition recommends that the Commission:

- 870 • Reject ComEd's proposal to shorten the currently successful 75-day PPO
871 sign-up window to 30 days for post-transition PPO and CPP-A enrollment;
- 872 • Adopt the Coalition's customer grouping proposal that the 400 kW to 1 MW
873 customers be offered a default product based upon a one-year auction product;
- 874 • Schedule the first auction for May 2006 or, alternatively, adopt Staff's July
875 2006 date as the "next best" alternative;
- 876 • Reject the suggestion that there be no consideration of allocating migration
877 risk premium in the construction of the translation tariff;
- 878 • Achieve more accurate allocation of migration risk premium by weighting the
879 switching propensity of PPO load at 100%, rather than ComEd's proposed
880 50%;
- 881 • Direct ComEd to revise its translation tariff to better reflect conditions in the
882 wholesale market by requiring it to calculate forward price volatility based
883 upon the most recent 6 months prior to the auction;

- 884 • Reject the suggestion that, in effect, the Commission rescind the competitive
885 declaration for customers over 3 MW and require ComEd to offer an annual
886 fixed price product to such customers.
- 887 • Reject the proposal that the 1-3 MW customers be offered the multi-year
888 blended auction product (CPP-B) on an annual basis;
- 889 • Reject the suggestion that ComEd should be directed to continue offering
890 Interim Supply Service in the post-transition period;
- 891 • Recognize that cross-subsidies would result from the proposal that in the post-
892 transition period former Rate 25 customers (i.e., space-heat customers) not be
893 assessed a facilities charge for delivery services in the non-summer months in
894 order to financially mimic Rate 25; and
- 895 • Recognize that unintended adverse consequences would result from Staff's
896 suggestion that customers in the 1-3 MW, CPP-A class default to the annual
897 product rather than be required to affirmatively elect the service.

898

899 **Q. Does this conclude your rebuttal testimony?**

900 A. Yes.