STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Central Illinois Light Company d/b/a AmerenCILCO Proposal to implement a competitive procurement process by establishing Rider BGS, Rider BGS-L, Rider RTP, Rider RTP-L, Rider D, and Rider MV. (Tariffs filed on February 28, 2005)	:	05-0160 (Cons.)
Central Illinois Public Service Company d/b/a AmerenCIPS Proposal to implement a competitive procurement process by establishing Rider BGS, Rider BGS-L, Rider RTP, Rider RTP-L, Rider D, and Rider MV. (Tariffs filed on February 28, 2005)	:	05-0161
Illinois Power Company d/b/a AmerenIP Proposal to implement a competitive procurement process by establishing Rider BGS, Rider BGS-L, Rider RTP, Rider RTP-L, Rider D, and Rider MV. (Tariffs filed on February 28, 2005)	:	05-0162

Rebuttal Testimony of

Michael D. Smith
Vice President, Regulatory and Legislative Affairs
Constellation Energy Commodities Group, Inc.

CCG Exhibit 2.0

REBUTTAL TESTIMONY OF MICHAEL D. SMITH

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Michael D. Smith, and my primary business address is Constellation Energy Commodities Group, Inc. ("CCG"), 111 Market Place, Suite 500, Baltimore, MD 21202.

Q. DID YOU SUBMIT INITIAL DIRECT TESTIMONY IN THIS MATTER?

A. Yes. I submitted Direct Testimony on behalf of CCG on June 15, 2005 (Smith Direct, Exhibit 1.0).

Q. COULD YOU BRIEFLY SUMMARIZE YOUR DIRECT TESTIMONY IN THIS MATTER?

A. Yes. CCG has supported and continues to support the Competitive Procurement Auction ("CPA") proposed in this case by Central Illinois Light Company, d/b/a AmerenCILCO, Central Illinois Public Service Company, d/b/a AmerenCIPS, and Illinois Power Company d/b/a AmerenIP (collectively "Ameren"). CCG believes that the mechanism proposed by Ameren will bring the benefits of competition to those customers who do not or cannot obtain their electric service from an Alternative Retail Electric Supplier ("ARES"). In my direct testimony, CCG recommended a couple of modifications to the proposed auction process and the proposed Supplier Forward Contract ("SFC"). Ameren has apparently, in its rebuttal testimony, agreed to some of CCG's suggestions, and CCG urges the Commission to approve those suggestions. CCG also urges the Commission to approve those suggestions that Ameren has not agreed to for the reasons presented in my direct testimony. Again, CCG fully supports the proposed auction structure and offers these remaining suggestions as a way to improve that process to the benefit of the Ameren ratepayers.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to address Ameren's rebuttal to my initial testimony and to address one additional aspect of Ameren's rebuttal testimony.

Q. WHICH OF CCG'S PROPOSED AUCTION PROCESS CHANGES HAS AMEREN REJECTED?

A. First, in my initial testimony, CCG agreed with Ameren that the initial Ameren and ComEd auctions be held in May of 2006, although CCG suggested that the auctions be held at separate times in May. In its rebuttal testimony, Ameren has agreed with ComEd that the auctions should be held simultaneously in September of 2006 and that participating suppliers be permitted to switch their bids during the auction between the fixed price products being purchased by Ameren and the fixed price products being purchased by ComEd. As a potential supplier in the auction or auctions, as the case may be, CCG continues to believe that holding the auction(s) in May would be preferable, for the reasons expressed in my direct testimony. However, CCG would not object to simultaneous September auctions. The September timing will not adversely affect CCG's desire to participate in the ComEd or Ameren auctions.

Second, in my initial testimony, CCG proposed that the Ameren tariff provisions (Original Sheet No. 27.028 of Rider MV) regarding the Commission's review of the auction results be revised to more clearly and more specifically define the scope of that review. Again, the purpose of that clarification would be to provide potential auction suppliers with confidence that the auction will result in executed SFCs with the winning bidders and, hence, maximize auction participation and competitiveness. Ameren has not clarified the language in its tariff and therefore appears to have rejected this proposal. Although Ameren states that "Witness Michael Smith agrees with the Ameren Companies that the ICC's post auction review should be focused on ensuring that the approved auction process was followed and that no bid anomalies were identified," Ameren also states that it is not willing to make appropriate changes to its proposed tariff, stating that "The Ameren Companies stand behind the structure of their ICC review process." (see Rebuttal Testimony of Craig D. Nelson, Ameren Exhibit 10, p.26). Thus, although Ameren also states that it has proposed an "ICC review process that permits the ICC to review and approve the auction process (i.e., this proceeding), to review the actual auction activities through the Auction Manager's and ICC Staff's reports, and to initiate an investigation or complaint if the auction was not performed according to the auction rules, (Cooper Rebuttal, lines 602-606) the Ameren Rider MV, at Original Sheet No. 27.028, continues reflect a Commission approval process that could be construed to be much more broad than perhaps Ameren intends. As I stated in my initial testimony, Ameren should revise Original Sheet No. 27.028 to more clearly define the parameters of the Commission's review of the auction results, perhaps along the line of the New Jersey BPU process, attached to my initial testimony as CCG Exhibit 1.1.

Q. WHICH OF CCG'S PROPOSED SFC CHANGES HAS AMEREN NOT AGREED TO?

A. First, CCG proposed that the provisions of the SFC regarding termination of the SFC on default be modified so that the BGS Supplier and Ameren have symmetrical rights in the event of a default by one party. As the proposed form SFC currently reads (and as Ameren confirms in the rebuttal testimony of Mr. James C. Blessing, Ameren Exhibit 11.0, page 4), where Ameren is the Non-Defaulting Party it has the right to choose whether to cross default multiple SFCs and which SFCs to cross default. However, when Ameren is the Defaulting Party, the BGS Supplier, as a Non-Defaulting Party, does not have the same right under one or more SFCs. As I stated in my initial testimony, the proposed form SFCs' language should be clarified to provide that, upon the early termination of one of multiple SFCs between Ameren and a BGS Supplier, all SFCs between the parties will be terminated. In his testimony, Mr. Blessing provides no compelling reason for Ameren to reject CCG's proposal or to support this asymmetrical treatment, stating only that the Ameren companies do not have the financial incentive to "cherry pick" which SFCs to terminate (Rebuttal Testimony of James C. Blessing, Ameren Exhibit 11.0, page 4). This is hardly a compelling reason for not providing the same right to BGS Suppliers if Ameren is the /Defaulting Party under an SFC. The fact that BGS Suppliers could be left obligated to supply under certain SFCs even in the face of an Ameren default as to a separate SFC could lead bidders to increase their bid prices to account for this additional risk. It is also worth noting that CCG made this same suggestion in the ComEd proceeding and ComEd has agreed to this change (see Rebuttal Testimony of

Arlene A. Juracek, ComEd Exhibit 9.0, page 30). CCG urges the Commission to approve the same rights for BGS suppliers in the event of default by Ameren.

I also testified, and Ameren has agreed, that the Non-Defaulting Party will calculate a single Termination Payment applicable to all such agreements under Section 5.4.e. (see Rebuttal Testimony of James C. Blessing, Ameren Exhibit 11.0, page 5).

Second, CCG proposed that Section 15.13 of the form SFC be modified to include a new paragraph which would allow the Commission to determine whether certain new taxes imposed on auction suppliers could and should be passed on to retail customers. Ameren disagrees with this proposal, essentially stating that the Delivery Point should be the firm line of demarcation for tax responsibility. (Rebuttal testimony of James C. Blessing, Ameren Exhibit 11.0 page 8). Ameren's assessment misses the point. The purpose of the proposed language is not to change the initial responsibility for a new tax but to provide a mechanism whereby a determination can be made as to whether a new tax should be passed on to end users. Certainly, if a new tax were imposed on Ameren as the load serving entity, it would pass the tax on to the end user if it were entitled to do so; BGS Suppliers should have the same right. This will provide clarity to potential bidders and winning BGS Suppliers. Should there be a new tax that is imposed on Energy or Capacity, for which the supplier under the SFC could be responsible, there is no reason why there should not be a mechanism for the Commission to determine whether these taxes should ultimately be borne by the Ameren ratepayers. The proposed language does not necessarily mean that such new taxes will be passed on, only that the Commission has an opportunity to make that determination under the SFC. CCG urges the Commission to approve this modification.

Q. DOES CCG HAVE ANY SPECIFIC REACTION TO ANY OF THE OTHER DIRECT TESTIMONY FILED IN THIS CASE OR AMEREN'S REBUTTAL TESTIMONY?

A. Yes. CCG would like to address one aspect of Ameren's rebuttal testimony. Apparently, Ameren has, with some potential caveats, agreed to Staff witness

Lazare's (Staff Exhibit. 6.0) proposed "rate moderation plan" (see Rebuttal Testimony of Wilborn L. Cooper, Ameren Exhibit 15.0, pages 2-7). As CCG understands it, the rate moderation plan would apply to the below 1 MW customer classes. Under this proposed plan, the auction would be held as proposed by Ameren, creating an auction clearing price. That auction clearing price would be input into the Ameren retail rate determination mechanism to develop new retail rates for Ameren bundled service customers. Rather than stopping there, however, the rate moderation plan would require, after the auction and after the delivery service rate case, Ameren to determine if the resulting final bundled retail rate of any customer supply group in the below 1 MW group increased by a certain threshold percentage. If the retail rate for any such customer group increased by an amount greater than that percentage, the retail rate of that group would be reduced to the threshold amount, and the excess Ameren revenue requirement would be collected by increasing the retail rates of all other below 1 MW customer groups to make up the difference.

Q. WHAT PROBLEMS DOES CCG SEE WITH THIS PROPOSED RATE MODERATION PLAN?

A. CCG sees at least two problems with the rate moderation plan. First, it is unclear what would happen if the final bundled retail rates of all customer groups in the below 1 MW exceeded the established threshold. The plan, as presented, does not indicate how Ameren's revenue shortfall will be recouped in such an event. Second, and more importantly to CCG, however, is the fact that this rate moderation reallocation would take place after completion of the auction.

Q. WHY IS THAT A PROBLEM?

A. This is a problem because the proposed rate moderation plan will impact how bidding suppliers asses the risk of customer migration to and from bundled service.

Q. WHY IS THAT MIGRATION ANALYSIS IMPORTANT?

A. The migration analysis is important because, when preparing bids for an auction like Ameren has proposed, suppliers will consider, among many other factors, the risk that customers in any given rate group will migrate from bundled service to competitive supply and vice versa. Suppliers will account for this risk in their prices. One important element to determining the magnitude of this migration risk for any customer group is the bundled retail rate to be paid by the customer group upon completion of the auction. Based on the retail rate translation mechanism provided by the utility prior to the auction, suppliers will model the bundled retail rates of all customer groups based on various auction clearing prices. This information will inform the supplier's migration risk premium as a component of its overall bid.

Q. HOW DOES THE PROPOSED RATE MODERATION PLAN AFFECT THAT MIGRATION ANALYSIS?

A. Under the proposed rate moderation plan, the migration analysis will now have to account for an additional layer of uncertainty as the application of mitigation to the final bundled retail rates of customers in the below 1 MW segment will not be known until after the auction is completed. As a result, the moderation plan makes the final, full bundled rate a moving target, for both those whose retail rate would be moderated and thus reduced and for those whose retail rate would be increased. Suppliers typically model the retail price translation methodology when they prepare their bids and they cannot model if the rate moderation plan's effects are not known when it is time to bid. Therefore, the rate moderation proposal introduces a new level of uncertainty that cannot accurately be modeled and may therefore add an additional risk premium.

Q. CAN YOU QUANTIFY THE AMOUNT OF ANY ADDITIONAL RISK PREMIUM?

A. No. It is impossible to know whether there will be an additional migration risk premium and, if so, how much, until the time that bids are prepared. The totality of a bidding supplier's bid, including the charges for the risks the supplier takes, is based on market conditions at the time the bid is made. As a general principle, however, uncertainty leads to additional risk to the suppliers, and suppliers charge for the risks they take. Conversely, increased certainty leads to lower risks, and, in theory, lower prices.

Q. DOES CCG HAVE ANY GENERAL COMMENTS ABOUT A RATE MODERATION PLAN SUCH AS THAT DESCRIBED BY AMEREN AND STAFF WITNESS LAZARE?

A. Yes. CCG believes that there is no need to have a plan to artificially "moderate" the bundled rates of customers after completion of the auction or to soften the impact of any potential "rate shock." There is nothing inherent in the auction structure proposed by Ameren in this docket that will cause final bundled retail rates to increase. Those rates could just as easily decrease or stay the same. They could increase by a small amount or decrease by a large amount. We simply do not know at this time, over a year prior to any auction even taking place. The auction allows the competitive market to set the price for generation that is used to determine the bundled rates, and where that generation price comes out is almost entirely a function of where the electricity market is at the time the auction is held. If, as a result of the auction, final bundled service rates increase, this won't be "rate shock" but merely the reality of moving from retail rates that were artificially frozen and reduced by 20% for residential customers for almost ten years to rates established by the actual, operating electricity market as it exists at the time of the auction.

It also bears mentioning that the Ameren proposal is designed generally to ensure that the proper market price signal is developed through the auction process. Thus, for instance, the auction proposal generally provides for a lot of clarity around the auction rules and supplier forward contract, thereby reducing uncertainty and risk for suppliers. The auction itself is a mechanical, objective process which itself ensures that the prices resulting from the auction reflect the actual bids of the winning suppliers without any opportunity for non-market or subjective adjustment. Finally, the Ameren proposal includes a rolling annual procurement of generation to serve bundled customer. This means that any price increases in any particular procurement, as a result of high market prices at the time, will be averaged in with the prices of other procurements to "smooth" the price effect felt by bundled customers.

Q. WHAT IF THE COMMISSION STILL WANTS TO IMPOSE SOME KIND OF RATE MODERATION PLAN?

A. Then there are a couple of principles that the Commission should hold inviolate. First and foremost, no moderation plan can impact the generation prices paid to willing bidders in the auction. All winning bidders must be entitled to be paid, on time, the auction clearing price applicable to the tranches they are selected to provide. If there is any risk that suppliers will not be paid that clearing price, it is very likely that they will decline to participate in the auction. Second, any moderation plan should not create uncertainty for potential and actual bidding suppliers. Again, uncertainty increases risk which tends to increase prices. Any moderation plan should thus operate in such a way that the full retail prices of affected bundled customers can be calculated for various auction generation price results—i.e. the rate translation mechanism is established and fixed—prior to the commencement of the auction and such prices will not change after completion of the auction.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.