

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

CENTRAL ILLINOIS LIGHT COMPANY)
d/b/a AmerenCILCO,)
)
Proposal to implement a competitive) No. 05-0160
procurement process by establishing)
Rider BGS, Rider BPS-L, Rider RTP,)
Rider RTP-L, Rider D and Rider MV)

CENTRAL ILLINOIS PUBLIC SERVICE)
COMPANY d/b/a AmerenCIPS,)
)
Proposal to implement a competitive) No. 05-0161
procurement process by establishing)
Rider BGS, Rider BPS-L, Rider RTP,)
Rider RTP-L, Rider D and Rider MV)

ILLINOIS POWER COMPANY d/b/a)
AmerenIP,)
)
Proposal to implement a competitive) No. 05-0162
procurement process by establishing)
Rider BGS, Rider BPS-L, Rider RTP,)
Rider RTP-L, Rider D and Rider MV)

Rebuttal Testimony of

Robert Stephens

On Behalf of

Illinois Industrial Energy Consumers

August 10, 2005
Project 8378



BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

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Rebuttal Testimony of Robert R. Stephens

- 1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
- 2 A My name is Robert R. Stephens. My business address is 1215 Fern Ridge Parkway,
3 Suite 208; St. Louis, Missouri 63141.
- 4 Q ARE YOU THE SAME ROBERT R. STEPHENS WHO HAS PREVIOUSLY FILED
5 TESTIMONY IN THIS PROCEEDING?
- 6 A Yes.

7 Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS
8 PROCEEDING?

9 A I will respond to specific items in the rebuttal testimony of Ameren witnesses James
10 C. Blessing and Wilbon L. Cooper relating to retail product offerings and in the direct
11 testimonies of the witnesses for the Coalition of Energy Suppliers (CES) relating to
12 the enrollment window for Ameren's proposed fixed-price offering for large customers.
13 My failure to address a position taken by Ameren, Staff or other parties in this
14 proceeding should not be interpreted as approval of or acceptance of such position.

15 Q PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY ON THESE POINTS.

16 A My rebuttal testimony can be summarized as follows:

17 1. Ameren's product design objectives should be more customer-focused
18 than the limited objectives of simply providing a default service option for
19 customers and maximizing the efficiency of the auction process. There is
20 a real possibility that the auction-based product for large customers will
21 amount to more than simply a "default service option" but may be the
22 primary service option for many customers until such time as a competitive
23 retail market develops. Customer interests should not be sacrificed solely
24 to maximize administrative efficiency.

25 2. Ameren's providing a fixed-price product (which IIEC supports), with the
26 associated risk premiums and other costs built into the price, is not likely
27 to hinder the development of retail competition. Further, as long as there
28 is a chance that the BGS-LFP product is beneficial to customers and is not
29 a financial burden on Ameren, there is no reason why it should not be
30 offered, even if it seems like the product is not needed in one particular
31 year.

32 Despite Ameren's claim that my proposed rate design element of an
33 isolated capacity component, assessed through a demand charge, is
34 "somewhat arbitrary," it is less arbitrary than other capacity charges
35 currently collected by AmerenIP. However, IIEC could agree to a delay in
36 the implementation of such a demand charge, if Ameren were to withdraw
37 its proposed Rider D charge.

38 3. Proposals by other intervenors related to expanding the 30-day signup
39 window for the BGS-LFP product to 75 days should be rejected. As
40 acknowledged by several other witnesses, this expansion of the signup
41 period will increase risk to potential suppliers and, in turn, increase auction

42 prices. Thirty days represents a reasonable balance in the competing
43 interests of offering customers time to make decisions on competitive
44 supply options and keeping the bid price premiums to a minimum.

45 **Q ARE THERE OTHER IIEC WITNESSES PROVIDING REBUTTAL TESTIMONY?**

46 A Yes. My colleague James R. Dauphinais provides rebuttal testimony relating to the
47 need for a common deliverability test within a joint auction, capacity charges for self-
48 generation customers, Demand Response Resources and Interruptible Demand,
49 Rider D - Default Supply Service Availability Charges (or Rider D charges) and
50 Ameren witness Dr. Chantale LaCasse's inference regarding other parties' support for
51 the auction proposal. Brian C. Collins provides rebuttal testimony relating to auction
52 procedures, including the timing of the initial auction, load caps, and the need for
53 periodic formal ICC reviews.

54 **RESPONSE TO THE REBUTTAL TESTIMONY OF AMEREN WITNESS JAMES C.**
55 **BLESSING, RESP. EXHIBIT 11.0 (REVISED)**

56 **Q AT PAGES 21 THROUGH 22, MR. BLESSING CRITICIZES VARIOUS**
57 **PROPOSALS BY IIEC AND CES RELATED TO PRODUCT DESIGN FOR THE**
58 **AUCTION PROCURED PRODUCTS, CLAIMING THAT SUCH CHANGES APPEAR**
59 **TO SEEK TO HAVE THE AMEREN COMPANIES TO PROVIDE A WIDE RANGE**
60 **OF RETAIL OPTIONS. HOW DO YOU RESPOND?**

61 A I believe Mr. Blessing's criticism is overstated. With respect to the division of the
62 BGS-LFP customers, my proposal is to divide them between the 1-3 MW customer
63 group and the 3 MW and over customer group. This division is similar to the
64 demarcation proposed by ComEd in its procurement process (Docket No. 05-0159)
65 and, as I explained in my direct testimony, does provide a reasonable breakpoint
66 between dissimilar customer groups, such as the large commercial and small

67 manufacturing customers that typically are below 3 MW and the larger energy
68 intensive industries that typically are greater than 3 MW. While not perfect, I believe
69 such a demarcation is a reasonable demand breakpoint and its use would contribute
70 to the benefit of uniformity between the ComEd and Ameren processes which Mr.
71 Blessing seems to agree is desirable where feasible.¹

72 Another criticism levied by Mr. Blessing is my proposal in direct testimony for
73 a three-year product for large customers. While I agree that this three-year product
74 offering is in addition to the product Ameren has proposed to offer, such a product is
75 not so different from the BGS-FP product. However, there would be no blending from
76 year to year in my three-year product, as there is in the BGS-FP product.

77 The other two IIEC proposals which Mr. Blessing criticizes will be addressed
78 by IIEC witness Dauphinais.

79 **Q IN THAT SAME PASSAGE, MR. BLESSING ALSO OPINES THAT THE PRIMARY**
80 **OBJECTIVE OF THE PRODUCT DESIGN IS TO SUPPORT AMEREN**
81 **COMPANIES' EFFORTS TO A) PROVIDE A DEFAULT SERVICE OPTION FOR**
82 **CUSTOMERS NOT PARTICIPATING IN RETAIL CHOICE, AND B) MAXIMIZE THE**
83 **EFFICIENCY OF THE PROPOSED AUCTION PROCESS. HOW DO YOU**
84 **RESPOND?**

85 **A** I believe the product design objectives should be more customer-focused than the
86 limited objectives mentioned by Mr. Blessing. The various Ameren Companies
87 currently provide a wide set of rate products to their customers which, had they not
88 unilaterally chosen to transfer their generating units to affiliates, presumably could
89 continue to provide to customers on an ongoing basis. Ameren's proposed

¹ For example, see his testimony at page 12, lines 262-270.

90 contraction of product offerings to large customers, combined with the extremely thin
91 retail market options available to customers, is likely to result in a narrowing of
92 options for Illinois industries. With as few as one (1) RES operating in an Ameren
93 territory (e.g. AmerenIP in 2004), there is a real possibility that the auction-based
94 product will amount to more than simply a “default service option” but may be the
95 primary service option for many customers until such time as a competitive retail
96 market develops. Customers’ interests should not be sacrificed solely to maximize
97 administrative efficiency.

98 **Q AT PAGE 22 OF HIS REBUTTAL TESTIMONY, MR. BLESSING LIKENS AMEREN**
99 **COMPANIES’ ROLE AS A WIRES COMPANY IN THIS CASE TO THAT OF GAS**
100 **UTILITIES, AND SUGGESTS THAT AS SUCH, AMEREN SHOULD NOT BE**
101 **OFFERING A VARIETY OF RETAIL GENERATION PRODUCTS TO MEET**
102 **SPECIFIC END-USE CUSTOMER NEEDS. HOW DO YOU RESPOND?**

103 **A** Mr. Blessing overlooks one very important aspect. Large companies have been able
104 to purchase natural gas on an unbundled basis for nearly 20 years. There are no
105 reciprocity restrictions on natural gas suppliers in Illinois analogous to the restrictions
106 on ARES, and it is my understanding that there are many such suppliers. These
107 facts, combined with the fundamental differences between natural gas and electricity,
108 render Mr. Blessing’s comparison not apt.²

² Mr. Blessing even acknowledges some of these differences at pages 33-35.

109 Q **ALSO ON PAGE 22, MR. BLESSING STATES THAT THE AMEREN COMPANIES,**
110 **AS IDCs SHOULD NOT BE COMPETING WITH RESs. HOW DO YOU RESPOND?**

111 A My initial response is to wish there were a significant number of RESs in the Ameren
112 territories for the Ameren Companies to worry about competing against. Setting that
113 aside, however, as I explained at length in my direct testimony, providing a fixed-price
114 product, with the associated risk premiums and other costs built into the price, is not
115 likely to hinder the development of retail competition. Also, as I suggested in my
116 direct testimony, if the wholesale procurement process employed by Ameren were to
117 provide the better avenue to benefits through competition than the retail competitive
118 market structure, then customers should not be deprived of this avenue to benefits.
119 Finally, I do not believe the IDC rules should be viewed as a mechanism that allows
120 utilities to avoid offering a tariffed service that might benefit customers.

121 Q **AT PAGE 23, MR. BLESSING ANNOUNCES THAT ONCE COMPETITION FOR**
122 **THE BGS-LFP PRODUCT OR CUSTOMER GROUP HAS IMPROVED, IT MAY**
123 **VERY WELL BE WITHDRAWN FROM THE AUCTION. HOW DO YOU RESPOND?**

124 A My hope, and I believe the hope of most IIEC companies, is that the default service
125 from the utility will not need to be utilized widely. There may indeed come a day
126 when its usefulness is limited. However, I would urge the decision makers to not
127 allow this to happen prematurely, as the competitive retail market in Illinois and in
128 other parts of the U.S. is still young, and in my opinion relatively fragile.

129 Even if it seems like the BGS-LFP product is not needed in one year, this
130 does not automatically mean that it should be dropped for subsequent years, as
131 market conditions and market players can change significantly from year to year.
132 This is especially true if providing it does not harm the Ameren companies. Under

133 their proposal, they are shielded from any negative cost responsibility associated with
134 the provision of this product. In other words, as long as there is a chance that the
135 existence of the product is beneficial to customers and it is not a financial burden on
136 Ameren to offer the product, I see no reason why it need not be offered.

137 **Q AT PAGES 24 AND 25, MR. BLESSING TWICE QUOTES YOUR TESTIMONY IN**
138 **RESPONDING TO MR. DAUPHINAIS' PROPOSAL FOR DEMAND RESPONSE**
139 **AND INTERRUPTIBLE RELATED PRODUCTS, BY SUGGESTING THAT**
140 **CUSTOMERS SHOULD SEEK THESE CUSTOMIZED PRODUCTS FROM RESs.**
141 **HOW DO YOU RESPOND?**

142 **A** While I am not testifying as to the merits of either of these products, since
143 Mr. Dauphinais is, I will only respond to the notion that such products are readily
144 available from RESs in the Ameren territories. In my dealings with the competitive
145 supplier(s) in the Ameren territories, I have yet to see any viable offers for these types
146 of products. While utility dismissal of customer concerns by "leaving it to the market"
147 may have superficial appeal, it can ignore the realities of the market.

148 **Q AT PAGES 25 AND 26, MR. BLESSING DESCRIBES AMEREN'S APPROACH TO**
149 **PRODUCT DESIGN AS CONSERVATIVE, TAKING INTO CONSIDERATION ITEMS**
150 **SUCH AS SWITCHING RISK, POINTING OUT THAT THE ABILITY OF A**
151 **CUSTOMER TO SWITCH TO A RES CREATES VOLUME UNCERTAINTY AND**
152 **RISK FOR BGS SUPPLIERS. HOW DO YOU RESPOND?**

153 **A** As Mr. Blessing notes, the switching risk is potentially greater for larger customers
154 than for smaller customers, as I discussed in my direct testimony at pages 11-12. My
155 proposal for customers for the fixed-price auction to prequalify their load is an attempt

156 to mitigate this risk. Further, the dividing of the 1 MW and over group into 1-3 MW
157 and greater than 3 MW groups could help to better define the relative risks for
158 suppliers. This, in turn, could help to avoid what might otherwise have been a form of
159 intra-class subsidy associated with these differences in risk.

160 **RESPONSE TO AMEREN WITNESS WILBON L. COOPER, RESP. EXHIBIT 15.0**

161 **Q DID YOU REVIEW MR. COOPER'S RESPONSE TO YOUR PROPOSAL TO**
162 **ISOLATE A COMPONENT OF THE BGS-LFP AUCTION PRICE ASSOCIATED**
163 **WITH CAPACITY AND TO CREATE A DEMAND CHARGE AS PART OF THE**
164 **BGS-4 RATE STRUCTURE?**

165 A Yes, I have. Mr. Cooper states an opinion that to include such a charge at this time
166 would be premature, as it would be "somewhat arbitrary," given that the MISO market
167 is in its early stages, and that it may not send the proper price signal.

168 **Q HOW DO YOU RESPOND?**

169 A My first response is to note the dissonance in Mr. Cooper's position in this case and
170 AmerenIP's actions in the last market value index case, Docket No. 02-0672. In that
171 case, AmerenIP proposed, through settlement with other parties, a "somewhat
172 arbitrary" capacity charge of \$12 per kW-year as an adder on top of the market value
173 index charges which AmerenIP had previously claimed properly captured market
174 value. This capacity charge of \$12 per kW-year was spread somewhat arbitrarily
175 across the 12 months of the year, yielding maximum demand charges of \$3 per kW-
176 month. Given the total lack of basis for the monthly capacity charges in the record of
177 that case, I think they could be described as more than "somewhat arbitrary." These
178 same capacity charges are currently being used by AmerenIP in calculating PPO and

179 transition charges. I believe my proposal in this case would be both less arbitrary and
180 less significant (because it does not add to cost) in comparison to what has already
181 been done in the AmerenIP territory.

182 I also note that Mr. Cooper tries to explain away the incongruity between
183 Ameren's position on my proposed demand charge and its own proposal to collect a
184 Rider D capacity charge at pages 17-18. It is difficult to see a justification for
185 charging a capacity charge through Rider D for a cost not actually incurred by
186 Ameren and at the same time not be willing to try to simply isolate a component of a
187 cost that will be charged to Ameren by the suppliers through the fixed-price auction.

188 Setting these criticisms aside, as a potential compromise, I offer the following
189 alternative proposal. If Ameren drops its proposed Rider D – Default Supply Service
190 Availability Charge, which Mr. Dauphinais has explained has no cost basis, and
191 commits to include a cost-based capacity or demand component in the first auction
192 cycle that reflects full maturity of the MISO capacity market (or the third Ameren
193 auction cycle, in 2009, whichever comes sooner), then I believe it would be
194 reasonable for the Commission to approve a first round BGS-4 rate that does not
195 have the capacity component isolated and collected through a demand charge.

196 **Q MR. BLESSING AND MR. COOPER RESPOND IN A SIMILAR MANNER TO THE**
197 **PRODUCT RECOMMENDATIONS OF YOURSELF, MR. DAUPHINAIS AND CES**
198 **WITNESS DR. O'CONNOR (SEE PAGES 22-24). HOW DO YOU REPLY?**

199 **A** Like Mr. Blessing, Mr. Cooper also seems to believe that a wide variety of products
200 exists from alternative suppliers in the market (see lines 500-506). As I explained
201 earlier, this sentiment ignores the current realities of the market where very few

202 suppliers are currently operating (as of 2004) and relatively few large customers are
203 finding desirable competitive offerings.³

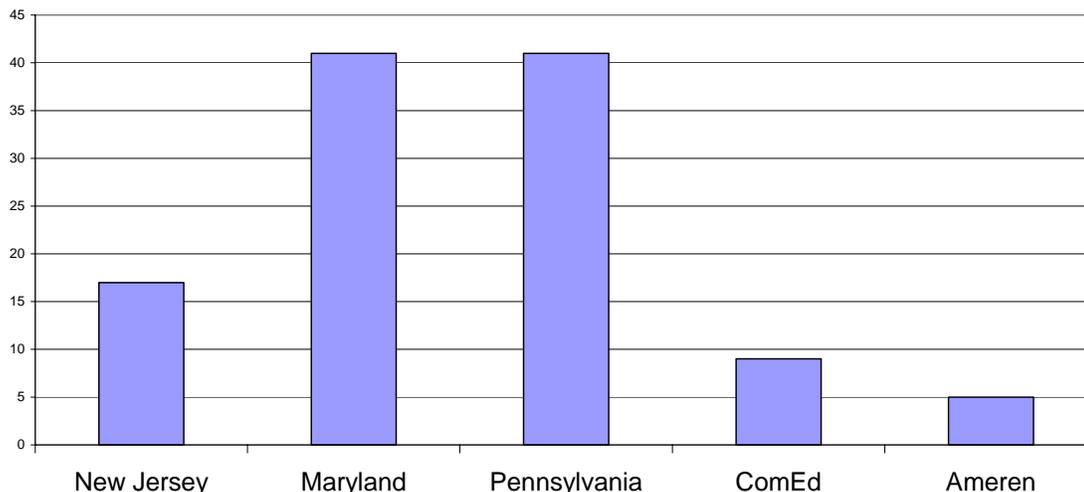
204 Also, Mr. Cooper seems to criticize IIEC witnesses' efforts to "address the
205 perceived needs of their clients." IIEC companies are Ameren's customers, and as
206 long as there are limited choices of power suppliers, as is the case today, these
207 customers may need to rely on Ameren for their power supply needs. Illinois is not
208 Maryland or Pennsylvania, with 41 active suppliers each, or even New Jersey, with 17
209 active suppliers for commercial and industrial suppliers.

210 Figure 1 below, graphically shows the disparity between these other states
211 where competitive utility procurements have been held and the two Illinois utilities. It
212 is relatively easy to see from Figure 1 the differences between Illinois, with its
213 restrictions on ARES, and the other states, which I understand, based on the advice
214 of counsel, do not have the kind of reciprocity requirement that exists in Illinois,
215 which, as indicated in my direct testimony, contributes to the small number of
216 competitive retail suppliers in Illinois.

217 Totally absent from Mr. Cooper's discussion is a concern for overall
218 competitiveness of industrial electric rates. Every other state in the Midwest,
219 including the open access states of Michigan and Ohio, provide for a form of fixed-
220 price service option through the utility. In an environment of increasing cost
221 pressures on industries, Illinois benefits when its industries are best able to compete.
222 This concept should not be ignored in establishing post-2006 rates and processes.

³ According to the latest switching statistics available on the ICC website, the following percentages of large customers are taking RES supply in the various Ameren Companies' territories: AmerenCILCO – 2.2%, AmerenCIPS – 8.9% and AmerenIP – 14.7%.

Figure 1. Number of Competitive Suppliers⁴



223 As I previously mentioned, Ameren is proposing to condense a relatively wide
224 menu of tariffed services available to large customers down to essentially one
225 product, BGS-4. While Mr. Cooper's concern stresses complexity, the desire for
226 simplicity should be outweighed by the need to provide service that addresses the
227 varying needs of customers in the absence of a large number of retail suppliers.
228 Perhaps if Illinois eventually experiences the number of competitive suppliers seen in
229 the other states I discussed above, it may be appropriate to focus more on simplicity.
230 However, as long as the Reciprocity Clause and/or other factors create a burden on
231 the level of competitive suppliers in Illinois, it would not be appropriate to allow the
232 desire for simplicity outweigh customers' needs, assuming it is ever appropriate.

⁴ Data Sources:

New Jersey: <http://www.bpu.state.nj.us>

Maryland: <http://webapp.psc.state.md.us/intranet/supplierinfo/searchsupplier.cfm>

Pennsylvania: http://www.puc.state.pa.us/electric/electric_suppliers_list.aspx

ComEd: ComEd Exhibit 10.0 at 57.

Ameren: IIEC Exhibit 1 in Docket No. 05-0160, et al., at 4. In 2004, the Ameren Companies had the following number of active Retail Electric Suppliers:

- AmerenCILCO: 1
- Ameren CIPS: 5
- AmerenIP: 3
- AmerenUE: 1

233 **RESPONSE TO TESTIMONY OF INTERVENOR PARTIES**

234 **Q IN THEIR DIRECT TESTIMONIES, CES WITNESS O'CONNOR⁵ AND PANEL**
235 **WITNESSES BOHORQUEZ AND BOLLINGER⁶ AND DOMAGALSKI AND SPILKY⁷**
236 **ALL INDICATE A DESIRE TO EXTEND THE BGS-LFP FIXED-PRICE SIGNUP**
237 **WINDOW FROM 30 TO 75 DAYS. HOW DO YOU RESPOND?**

238 A IIEC supports Ameren's proposed 30-day signup window for this service. As
239 indicated by several witnesses in this case, and by a ComEd witness in the ComEd
240 case, a longer signup period is likely to increase the power prices. Constellation
241 Commodities Group witness Michael Smith suggests the same at page 3. Ameren
242 witness Blessing states at page 28 of his rebuttal testimony that:

243 increasing the open enrollment period from 30 to 75 days and, as
244 a result, asking the BGS-LFP Suppliers to hold their price open for
245 an additional 45 days will increase the resulting auction price for
246 the BGS-LFP product.⁸

247 Also, ComEd witness William McNeil in the ComEd procurement case, states
248 in his rebuttal testimony in that case that:

249 suppliers will require greater compensation (i.e., price premiums)
250 for the costs associated with their risks if the rate is held open for
251 a longer time period...⁹

252 I concur with these witnesses and believe that 30 days represents a
253 reasonable balance of the competing interests of offering customers time to make
254 decisions on competitive supply options and keeping the bid price premiums to a
255 minimum. I also note that Staff witness Eric Schlaf has supported the 30-day period
256 in his rebuttal testimony in the ComEd procurement case.¹⁰

⁵ CES Exhibit 1.0 at 670-679.

⁶ CES Exhibit 2.0 at 10-11.

⁷ CES Exhibit 3.0 at 25.

⁸ Resp. Exhibit 11.0 (Revised), at 28.

⁹ ComEd Exhibit 10.0 at 54, ICC Docket No. 05-0159.

¹⁰ ICC Staff Exhibit 13.0, Docket No. 05-0159, at 7.

257 Q CES WITNESSES O'CONNOR AND PANEL WITNESSES BOHORQUEZ AND
258 BOLLINGER COMPARE THE SIGNUP WINDOW FOR THE FIXED-PRICE
259 PRODUCT WITH THE CURRENT 75-DAY SIGNUP WINDOW THAT APPLIES TO
260 COMED'S PPO SERVICE.¹¹ HOW DO YOU RESPOND?

261 A Their comparison of the annual fixed-price product to PPO is misplaced. PPO prices
262 are administratively determined, based on limited snapshot views of wholesale
263 market conditions. Such prices do not result from direct solicitations of retail power
264 supply by ComEd, where power is actually procured and resold to customers, as
265 would be the case in the BGS auction. In many cases, the wholesale transactions
266 used to set PPO prices may have nothing to do with ComEd (or Ameren) load. In
267 contrast, the annual fixed-price option in this case is an actual power supply offer,
268 which wholesale suppliers take on risk to provide to Ameren customers.

269 More importantly, the length of the PPO signup window has no effect on PPO
270 prices. It would not matter if the signup window was one day or 365 days for PPO,
271 since none of the wholesale entities are actually seeking to serve Ameren (or
272 ComEd) customers via the PPO rate. In fact, prior to the most recent market value
273 index case, ComEd made PPO election periods open for much longer periods of time
274 than 75 days, and AmerenIP currently gives most customers less than 30 days to
275 decide. As I indicated in my previous answer, I agree with those parties that indicate
276 that holding open the power supply offer for a longer period than 30 days will
277 inevitably increase the resulting price.

278 Based on the above, I see no valid reason to try to make the Ameren annual
279 price product signup window conform to what has recently been used by ComEd
280 (only) for PPO service.

¹¹ CES Exhibit 1.0 at 8, 30 and CES Exhibit 2.0 at 5-6.

281 Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

282 A Yes.

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