

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	)	
	)	

REVISED REBUTTAL TESTIMONY OF

PHILIP R. O'CONNOR, PH.D.  
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-MVM and CPP-A  
88 enrollment;
- 89 • Recognize that Staff witness Dr. Schlaf’s suggestion that the initial auction  
90 take place in July 2006 is the “next best” alternative to the Coalition’s  
91 proposal to hold the first auction in May 2006;
- 92 • Adopt the Coalition’s customer grouping proposal that the 400 kW to 1 MW  
93 customers be offered a default product based upon a one-year auction product;
- 94 • Recognize that the Coalition’s 400 kW to 1 MW customer grouping proposal  
95 is compatible with either separate auctions by Ameren and ComEd or Staff

- 96 witness Salant’s suggestion that there be a combined ComEd and Ameren  
97 auction;
- 98 • Reject the suggestion by BOMA witnesses Brookhover and Childress and  
99 Staff witness Lazare that there be no consideration of allocating migration risk  
100 premium in the construction of the translation tariff (the “Prism”);
  - 101 • Achieve more accurate allocation of migration risk premium by weighting the  
102 switching propensity of PPO load at 100%, rather than ComEd’s proposed  
103 50%;
  - 104 • Direct ComEd to revise its translation tariff to better reflect conditions in the  
105 wholesale market by requiring it to calculate forward price volatility based  
106 upon the most recent 6 months prior to the auction;
  - 107 • Reject the suggestion by certain intervenors that, in effect, the Commission  
108 rescind the currently in-force competitive declaration for customers over 3  
109 MW and require ComEd to offer an annual fixed price product to such  
110 customers. Moreover, the Commission should reject the proposal that the 1-3  
111 MW customers be offered the multi-year blended auction product (CPP-B) on  
112 an annual basis;
  - 113 • Reject the suggestion made by an intervenor that ComEd should be directed to  
114 continue offering Interim Supply Service (“ISS”) in the post-transition period;  
115 and
  - 116 • Recognize that unintended adverse consequences would result from Staff’s  
117 suggestion that customers in the 1 to 3 MW, CPP-A class (i.e., customers with  
118 demands between 1-3 MW) default to the annual product rather than be  
119 required to affirmatively elect the service.

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

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

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

130

131 **Q. What is the basis for ComEd's opposition to retaining the 75-day window?**

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

139

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

142 A. In 2003, the Commission adopted a 75-day sign-up window for the PPO tariff that  
143 ComEd proposed to the Commission under the terms of what has often been  
144 called the "Global Settlement." The PPO tariff in-place today contains a

145 Commission-approved 75-day enrollment window that replaced a more  
146 complicated enrollment process in the prior PPO-MI tariff, which involved a  
147 somewhat longer enrollment period but was combined with a required letter of  
148 intent. According to ComEd, its proposed CPP-A is explicitly designed to replace  
149 the power and energy supply component of current bundled service for 1-3 MW  
150 customers and the PPO tariff for those same customers in the post-transition  
151 period. When it originally approved the 75-day enrollment window provision, the  
152 Commission noted:

153 [T]he Commission agrees with Trizec’s proposal to allow  
154 customers a 75-day window for PPO enrollment, which the Joint  
155 Movants also proposed in the March 6, 2003 Motion. **The record  
156 evidence supports a finding that the adoption of this proposal  
157 will result in tangible benefits to all market participants. One  
158 important advantage is that customers will have ample time to  
159 make their decisions while suppliers will have time to procure  
160 needed supplies.** Therefore, the Commission finds that customers  
161 should have a 75-day window to enroll in Applicable Period A  
162 PPO service or choose RES-supplied service beginning on the day  
163 the MVECs are published.  
164

165 (*See* Final Order dated March 28, 2005, ICC Docket Nos. 02-0656, -0671, -0672,  
166 -0834 (consol.) at 109.) (Emphasis added.) Importantly, even in the proceedings  
167 referenced above, ComEd originally proposed a 60-day enrollment and then  
168 sponsored testimony supporting the Joint Motion, which included support for the  
169 75-day enrollment window.

170  
171 Further, ComEd has never proposed, suggested, supported, accepted, or otherwise  
172 entertained any pricing component for calculating PPO charges to account for the  
173 enrollment window “option.” ComEd suggests now, in the instant proceeding,

174 that an enrollment window, regardless of its duration, will create a pricing  
175 premium difference. However, while ComEd now asserts that there is a pricing  
176 premium difference between a 30-day and a 75-day enrollment period that merits  
177 rejecting the current well-operating sign-up window, ComEd has never seen fit to  
178 suggest to the Commission any pricing element or recognition of such a window  
179 with respect to its PPO tariff. It would be inappropriate for the Commission to  
180 base a decision on this issue on nothing more than ComEd's unsupported  
181 assertions.

182

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

185 A. ComEd asserts that 30 days is an adequate period of time for customers to make  
186 supply and service decisions for a 17-month period following the certification of  
187 the auction results and the posting of the translation of those results into the retail  
188 rates. However, the Coalition and the BOMA, parties that are aware of both  
189 customer behavior and customer information needs, argue strongly to the  
190 contrary. ComEd has little or no experience of its own dealing with the processes  
191 in which customers make these decisions. Indeed, the terms of the applicable  
192 Commission Integrated Distribution Company ("IDC") regulations to which  
193 ComEd subscribes necessarily make any such familiarity, at best, second hand for  
194 ComEd. (*See* 83 Ill. Admin. Code § 452.) In addition to ignoring the  
195 convenience of customers in favor of reverting to an approach that the  
196 Commission deemed undesirable and therefore changed in 2002, ComEd also

197 ignores the fact that if indeed a 75-day enrollment window would adversely affect  
198 prices in some significant way (a point for which ComEd provides no support)  
199 then the competitive market will certainly solve that problem by offering  
200 customers in the 1-3 MW customer class less expensive alternatives than the  
201 auction. Competitive activity among RESs would also provide customers with  
202 alternatives from any premium unacceptable to customers. Coalition witnesses  
203 Mario Bohorquez and Wayne Bollinger, and Coalition witnesses John  
204 Domagalski and Richard Spilky, all provide further rebuttal testimony on this  
205 issue. (See CES Ex. 5.0 at lines 28-235; CES Ex. 6.0 at lines 350-434.)  
206

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

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

220 2006 initial auction. The Coalition provides additional analysis of this issue in  
221 CES Ex. 5.0, the Rebuttal Testimony of Mario Bohorquez and Wayne Bollinger.

222

223 **III. WHILE SETTING THE INITIAL AUCTION DATE**  
224 **IN MAY 2006 REMAINS PREFERABLE, STAFF'S**  
225 **PROPOSAL FOR A JULY AUCTION IS THE NEXT BEST OPTION**  
226

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

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

232

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

237

238 **IV. THE COMMISSION SHOULD DIRECT COMED**  
239 **TO REVISE THE CUSTOMER GROUPINGS FOR THE AUCTION**  
240

241 **Q. Please recap the Coalition's position regarding the customer groupings for**  
242 **the auction.**

243 A. The Coalition quite simply proposed to remove the load of customers with  
244 demands between 400 kW and 1 MW from the CPP-B blended product auction.  
245 Instead, the Coalition recommends that those customers be offered a default  
246 product based upon a one-year auction product. Customers in the 400 kW to 1

247 MW grouping who would be served with the one-year product still would be able  
248 to migrate retail electric supplier (“RES”) delivery services at any time, as has  
249 been proposed by ComEd. In its rebuttal testimony, ComEd did not accept this  
250 recommendation to revise the customer groupings.

251  
252  
253  
254  
255

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

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

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

269

270 **Q. Do you agree that the Coalition customer grouping proposal would add**  
271 **complexity to the auction process?**

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

274 At times, getting the best rates for ratepayers can conflict with the  
275 goal of maximizing the probability of regulatory approval,  
276 especially when obtaining the best rates for ratepayers involves  
277 some risks, or involves a procurement process that appears  
278 complex.

279 (Staff Ex. 1.0, at lines 1947-50.) In other words, the Commission should focus  
280  
281 not on assertions regarding the complexities associated with competing proposals  
282 but on what structure is most beneficial to customers.

283  
284 In light of Dr. Salant’s observations, ComEd wrongly supposes that our modest  
285 and straight-forward proposal adds complexity to the auction. The Coalition  
286 would be happy to work with ComEd to help it better understand how easily our  
287 proposal can be implemented.

288  
289 The additional complexity, if it exists at all, is trivial, at best. Quite simply, the  
290 only “complexity” is that approximately 11.5% of total ComEd system load  
291 would be shifted from the CPP-B blended auction product to the CPP-A annual  
292 auction product.<sup>1</sup> The only distinction between the over 1 MW customer  
293 grouping and the 400 kW to 1 MW group is that, for the 400 kW to 1 MW group,  
294 there would be no enrollment window and no limit on the ability to migrate from  
295 the annual product to another service option.

---

<sup>1</sup> 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.

296

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

301

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

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

308

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

313

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

316 A. There are two reasons.

317

318 First, the migration risk premium would only be allocated across customer groups  
319 under 400 kW. ComEd has already agreed that residential customers would be  
320 assigned a zero probability for switching, and that business customers under 400  
321 kW would be assigned a considerably lower migration propensity than those  
322 above 400 kW.

323

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

335

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

338 A. Yes. Let us assume that there is no offsetting reduction in complexity and that  
339 even this smidgen of additional complexity is more than ComEd may wish to  
340 contemplate. There are two fairly simple ways to resolve the problem, both of

341 which would simply roll into the one-year product auction for those customers  
342 with demands between 400 kW and 1 MW. Both approaches are consistent with  
343 ComEd’s proposal that customers with demands below 1 MW would be allowed  
344 to migrate away from utility service at any time and the service would be offered  
345 to these customers on a default basis without the requirement of an affirmative  
346 election during a specific enrollment window. Additionally, under each approach  
347 the prices of RES products would act as a safety valve against any untoward  
348 effects on both sets of customers.

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

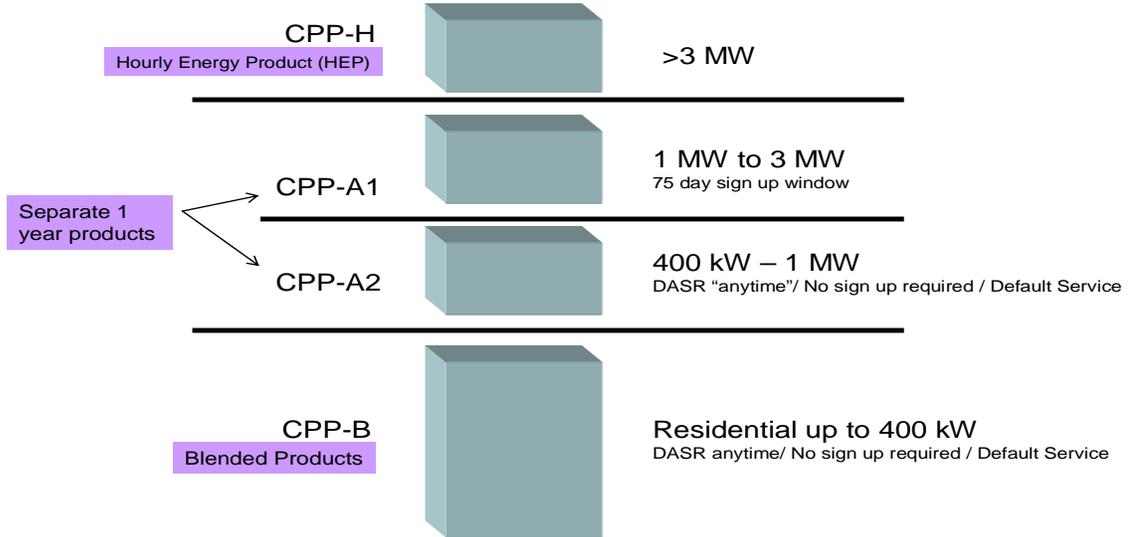
357 • The second method is the “**Allocation Approach.**” Under this approach, the  
358 Prism would include a component for allocating migration risk premium  
359 between those customers in the 400 kW to 1 MW group and the customers in  
360 the 1-3 MW group. This would be a simpler allocation exercise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

364

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

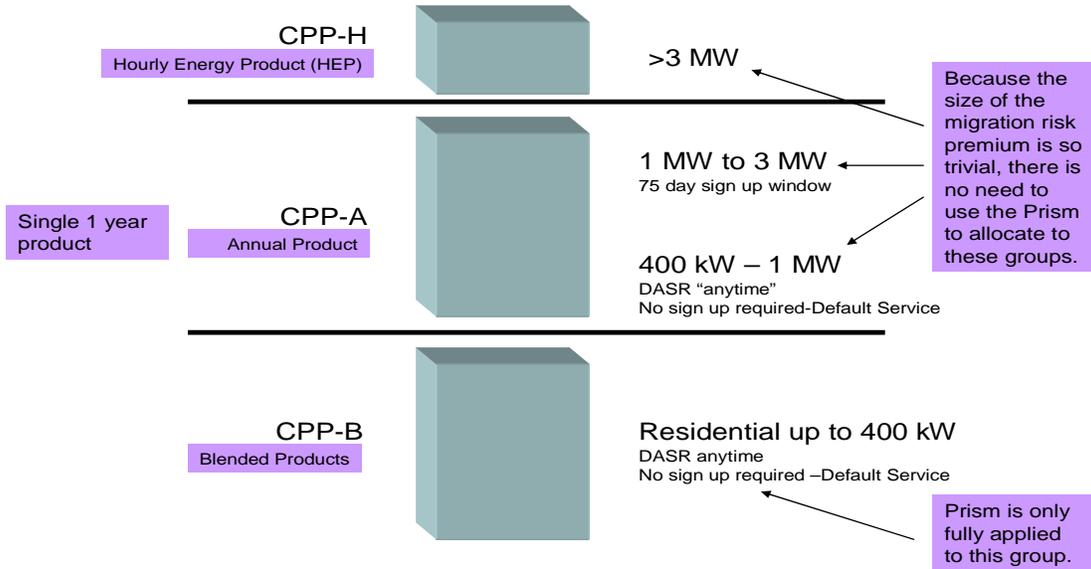
367 A. Yes. In my direct testimony, I provided an illustration that reflected the original  
368 CES proposal for a single-year default product for the 400 kW to 1 MW group.  
369 (*See* CES Ex. 1.2.) Below are three illustrations that reflect both the original  
370 proposal and the two alternatives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

### Option #1 CES Original Proposed Customer Grouping



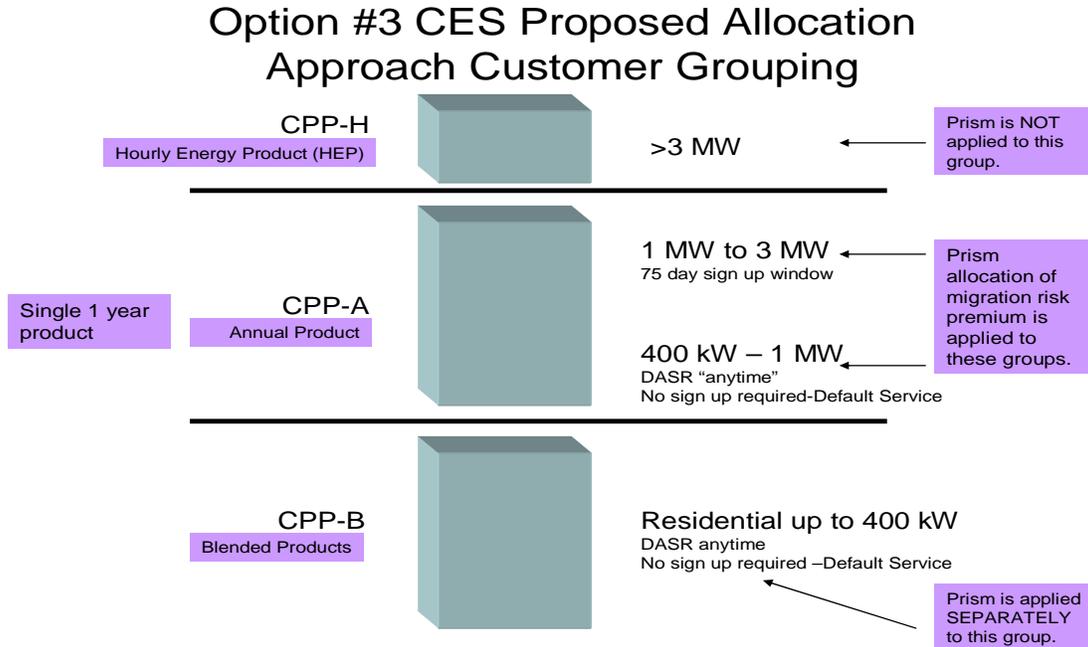
372

### Option #2 CES Proposed Non-Allocation Approach Customer Grouping



373

374



375

376

377

378

379

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

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

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

390

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

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

400

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

409

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

415

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

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

426

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

430

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

433 customers over 600 kW will be offered only an hourly-priced utility product.  
434 Business customers less than 600 kW will still be offered a one or two year fixed-  
435 price utility product after January 1, 2006.<sup>2</sup> Residential customers will continue  
436 to be offered a retail product based on a layered wholesale portfolio that consists  
437 of one-, two-, and three-year wholesale contracts that are acquired in an annual  
438 RFP that is similar in many respects to an auction.

439

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

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

450

451 **B. THE COALITION'S 400 kW TO 1 MW**  
452 **CUSTOMER GROUPING PROPOSAL IS CONSISTENT WITH**  
453 **STAFF'S PROPOSAL FOR A COMBINED COMED AND AMEREN AUCTION**  
454

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

---

<sup>2</sup> 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.

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

461

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

465 A. No. I can understand why, at first blush, one might conclude that, if the Coalition  
466 proposal were adopted for ComEd but not Ameren, it would create some  
467 incongruence between the product mixes in the two utility areas in a combined  
468 auction. However, even if the Coalition customer grouping proposal were  
469 adopted for ComEd but not Ameren, the Coalition's proposal and Staff's proposal  
470 could be easily reconciled. As set forth in my direct testimony the Coalition  
471 recommends separating customers with peak demands between 400 kW and  
472 1MW from all those below 400 kW and conducting a separate auction for a one-  
473 year product. (*See* CES Ex. 1.0 at lines 287-432.)

474

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

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

490

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

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

499

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

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

508

509 **Q. Please compare the switching and migration propensity characteristics of the**  
510 **400 kW to 1 MW group in Ameren with that of the 400 kW to 1 MW**  
511 **customers in ComEd.**

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

518

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

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

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

530

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

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

541

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

546

---

<sup>3</sup> 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.

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

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

552  
 553 Based on the migration propensity weightings of 50% for PPO and 100% for RES  
 554 and ISS, CES Table 4(A) below helps to illustrate that the ComEd 400 kW to  
 555 1 MW customers are more like the larger Ameren and ComEd customers than like  
 556 the Ameren 400 kW to 1 MW customers.

557

558 **CES TABLE 4(A)**  
 559 **Index of Switch Patterns in Ameren and ComEd Customer Groupings**  
 560 **Over 400 kW Demand: Percent of Total Customer Class Load by Type of**  
 561 **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% (20.3)	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

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

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

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

576

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

592

593 V. **THE COMMISSION SHOULD MODIFY COMED’S PROPOSED**  
594 **TRANSLATION TARIFF (A/K/A “PRISM”) TO ACCURATELY**  
595 **REFLECT MIGRATION RISKS AND FORWARD CONTRACT VOLATILITY**  
596

597 Q. **Please recap the Coalition’s position regarding ComEd’s proposed**  
598 **translation tariff.**

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

608  
609 A. **THE COMMISSION SHOULD AUTHORIZE COMED TO**  
610 **INCLUDE A MIGRATION RISK PREMIUM ALLOCATION IN ITS PRISM**  
611

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

615 A. Certainly there are problems with the migration risk premium allocation in the  
616 Prism, as Coalition witnesses Domagalski and Spilky detailed in their direct  
617 testimony and revisit in their rebuttal testimony. (See CES Ex. 3.0 at lines 80-  
618 200l; CES Ex. 6.0 at lines 40-71.) However, if the price differences between  
619 groups appear to be of sufficient magnitude to warrant the application of an

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

622

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

628

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

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

642

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

650

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

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

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

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

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

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

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

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

696

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

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

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

708

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

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

716

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

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

727

728 **VI. THE COMMISSION SHOULD CLOSELY SCRUTINIZE OTHER INAPPROPRIATE**  
729 **AND UNNECESSARY PROPOSALS TO MODIFY COMED'S AUCTION PROPOSAL**

730

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

734

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

737 A. The BOMA, IIEC, and DOE suggest that the Commission should direct ComEd  
738 to offer an annual, fixed-price bundled service product to customers over 3 MW.  
739 (*See BOMA Ex. 2.0 at lines 487-507; IIEC Ex. 1 at lines 32-34; USDOE Ex.*  
740 *2.0000 at p.7.*) Although the proponents do not frame their suggestion as a

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

754

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

759

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

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

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

779

780 **B. THE COMMISSION SHOULD REJECT THE**  
781 **SUGGESTION THAT COMED CONTINUE TO OFFER RIDER ISS**

782

783 **Q. Please address the suggestion that ComEd continue offering Interim Supply**  
784 **Service (“ISS”) in the post-transition period. (See BOMA Ex. 2.0 at lines 554-**  
785 **56.)**

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

789 require something along the lines of perpetuating the existing PPO pricing  
790 mechanism.

791

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

797

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

800

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

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

808

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

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

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

822

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

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

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

839

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

842

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

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

855

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

862 wholesale suppliers and to address various imperfections in the wholesale market  
863 that may exist.

864

865 **VIII. CONCLUSION**

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

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

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

886           • Reject the suggestion that, in effect, the Commission rescind the competitive  
887           declaration for customers over 3 MW and require ComEd to offer an annual  
888           fixed price product to such customers.

889           • Reject the proposal that the 1-3 MW customers be offered the multi-year  
890           blended auction product (CPP-B) on an annual basis;

891           • Reject the suggestion that ComEd should be directed to continue offering  
892           Interim Supply Service in the post-transition period;

893           • Recognize that unintended adverse consequences would result from Staff's  
894           suggestion that customers in the 1-3 MW, CPP-A class default to the annual  
895           product rather than be required to affirmatively elect the service.

896

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

898    A.    Yes.