

ILLINOIS COMMERCE COMMISSION

DOCKET NOS. 05-0160, 05-0161 and

05-0162 (consolidated)

SURREBUTTAL TESTIMONY

OF

JAMES C. BLESSING

Submitted On Behalf

Of

**Central Illinois Light Company d/b/a AmerenCILCO,
Central Illinois Public Service Company d/b/a Ameren CIPS,
and Illinois Power Company d/b/a AmerenIP**

August 29, 2005

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ILLINOIS COMMERCE COMMISSION
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05-0162 (CONSOLIDATED)
SURREBUTTAL TESTIMONY
OF
JAMES C. BLESSING

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is James C. Blessing. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. By whom and in what capacity are you employed?

A. I am employed by Ameren Services Company as Managing Supervisor, Power Supply Acquisition in the Strategic Initiatives Department.

Q. Are you the same James C. Blessing who previously filed direct and rebuttal testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony in this proceeding?

A. The purpose of this testimony is to respond to certain of the statements and concerns expressed by intervenors in their rebuttal testimony in this case. My failure to address a particular statement or argument should not be construed as an endorsement of same.

24 **II. SUPPLIER CONTRACTS**25 **Q. What is the purpose of this section of your surrebuttal testimony?**

26 A. The purpose of this section is to respond to certain non-credit issues raised by
27 interveners in their rebuttal testimony in this case – in particular, Michael D.
28 Smith of Constellation Energy Commodities Group, Inc. ("CCG"), David J.
29 Salant of ICC Staff, Heather L. Dornbusch of Dynegy Inc. ("Dynegy"), and Barry
30 Huddleston of Dynegy. Credit-related issues raised by intervenors are being
31 addressed by Timothy I. Moloney on behalf of the Ameren Companies.

32 **Q. Have the Ameren Companies modified the proposed Supplier Forward
33 Contracts ("SFC") since the submission of rebuttal testimony?**

34 A. Yes. The Ameren Companies have engaged in discussions with Commonwealth
35 Edison Company ("ComEd") and have modified their proposed SFCs so that they
36 more closely conform to the comparable ComEd contracts. As a result of these
37 efforts, the Ameren Companies have incorporated various organizational as well
38 as substantive modifications of the draft form of contract submitted with their
39 rebuttal testimony. The substantive modifications include the following:

40

41 1. Force Majeure. We have accepted ComEd's language, with the exception
42 that the Ameren Companies continue to exclude the unavailability of
43 Energy in the LMP markets from the circumstances providing Force
44 Majeure relief to Suppliers. *See* definition of "*Force Majeure*."

45 2. Termination of one of multiple contracts with a Supplier. We have now
46 provided that the termination of any one of multiple contracts between a
47 Supplier and one of the Ameren Companies for BGS Supply results in the

48 automatic termination of all such contracts between that Supplier and the
49 Ameren Companies. *See* SFC Section 5.4.e.

50 3. Compliance with Governmental Directives. The provision acknowledging
51 that the parties may be required to act in response to governmental or civil
52 authority directives which may affect BGS-FP customer load previously
53 benefited only the Ameren Companies. The provision now applies to the
54 Supplier as well. *See* SFC Section 10.5.

55 4. Assignment. The Ameren Companies have eliminated their ability to
56 reject an assignment if regulatory approval is pending after 90 days. See
57 SFC Section 15.3.

58 5. Mutuality. The Ameren Companies have provided that certain provisions
59 concerning setoff and netting which previously benefited only the Ameren
60 Companies will now apply to the Supplier as well. *See* SFC Section 5.4.f.

61

62 I have included as Respondents' Exhibit 18.1 a clean version of the
63 Ameren Companies' BGS-FP SFC along with Respondents' Exhibit 18.2 a
64 redlined version of the BGS-FP SFC which will highlight the modifications
65 incorporated to the form of BGS-FP SFC previously submitted as Respondents'
66 Exhibit 11.1 to my rebuttal testimony. Similar changes will be made to the
67 Ameren Companies BGS-LFP and BGS-LRTP SFCs.

68 **Q. Mr. Smith (CCG Exhibit 2.0 at page 3) continues to support the concept that**
69 **"upon early termination of one of multiple SFCs between Ameren and a BGS**
70 **Supplier, all SFCs between the parties will be terminated." He also notes that**

71 **ComEd agreed to make a similar change to its SFCs. Are the Ameren**
72 **Companies willing to make this change to their SFCs?**

73 A. Yes. As stated earlier, the Ameren Companies have agreed to conform to the
74 language included in the ComEd SFCs. *See* SFC Section 5.4.e.

75 **Q. Mr. Smith notes (CCG Exhibit 2.0 at page 4) that Ameren rejected CCG's**
76 **request that Section 15.13 of the SFC be amended so as to allow the ICC to**
77 **determine whether new taxes should be passed on to retail customers, and**
78 **states that you missed Mr. Smith's point regarding what CCG requests. He**
79 **goes on to explain that CCG does not seek to change responsibility for any**
80 **new tax but rather, CCG seeks to create a mechanism for determining**
81 **whether such tax should be passed on to end users. Does this explanation**
82 **change your earlier response?**

83 A. As stated in my rebuttal testimony, the SFCs have been drafted to provide a clear
84 line of demarcation with respect to responsibility for taxes. Section 15.14 draws
85 that line at the Delivery Points, with the BGS Supplier taking responsibility for
86 taxes with respect to the BGS Supply up to the Delivery Points, and the Ameren
87 Companies taking responsibility thereafter. That same allocation applies in
88 respect of new taxes or government impositions and relieving the BGS Supplier
89 from responsibility in respect of new taxes simply shifts costs to end-use
90 consumers.

91 Moreover, Mr. Smith's proposal appears to be based on the New Jersey
92 form of supplier agreement. However, that agreement made the suppliers direct
93 providers of retail services to retail customers, and as such, suppliers were

94 responsible for the collection and payment of all taxes imposed on retail sales.
95 This is not the case in Illinois or under the SFCs. The Ameren Companies have
96 the obligation to provide retail service and are responsible for the collection and
97 payment of all taxes related to retail sales that are imposed after the Delivery
98 Point.

99 **Q. Dr. Salant states (ICC Staff Exhibit 11.0 at page 18) that the Ameren**
100 **Companies' rebuttal testimony did not fully address the concerns he raised in**
101 **his direct testimony. He recommends that the Ameren Companies change**
102 **their SFCs to incorporate the *force majeure* provisions of the ComEd SFCs.**
103 **Please comment.**

104 A. As stated earlier, the Ameren Companies have now included *force majeure*
105 language similar to ComEd's, with the exception that the unavailability of Energy
106 in the MISO LMP markets will not entitle the BGS Supplier to *force majeure*
107 relief. As I discussed in my rebuttal testimony, the fundamental objective of the
108 SFCs is to secure uninterrupted actual physical delivery of the BGS Supply, and
109 that fundamental obligation is assumed by the BGS Suppliers. The Ameren
110 Companies do not feel that the unavailability of Energy in the MISO LMP
111 markets should entitle the BGS Supplier to *force majeure* relief if it is still
112 physically possible for the BGS Supplier to deliver to the Delivery Points.

113 **Q. Dr. Salant takes issue (ICC Staff Exhibit 11.0 at pages 20-21) with the**
114 **Ameren Companies' SFCs insofar as, in his view, they do not clearly state**
115 **which provisions apply to the Ameren Companies collectively and which**
116 **apply to each Ameren Company individually. He suggests that Section**

117 **15.13(ii) be modified so that the three Ameren Companies are jointly and**
118 **severally liable to the BGS Supplier. Similarly, Ms. Dornbusch states (DYN**
119 **Exhibit 2.1 at page 10) that the SFCs should treat the Ameren Companies**
120 **consistently either as one entity or as three separate entities. Please**
121 **comment.**

122 A. As stated earlier in my rebuttal testimony, the Ameren Companies cannot
123 undertake to commit themselves to assuming joint and several liability to the BGS
124 Suppliers because they are not authorized by the ICC to pay or guarantee each
125 others' debt or obligations. We have not sought to obtain such authorization from
126 the ICC, nor do we believe that seeking such authorization would advance the
127 objectives of this proceeding.

128 **Q. Ms. Dornbusch (DYN Exhibit 2.1 at page 2) and Mr. Huddleston (DYN**
129 **Exhibit 1.2 at page 2) both state that if Dynegy's proposed changes to the**
130 **SFCs are not made, the resultant prices in the auction will be higher than if**
131 **the changes were made. Mr. Huddleston states that this fact is the result of,**
132 **in some cases, the Ameren Companies being in a better position than**
133 **Suppliers to bear certain risks (DYN Exhibit 1.2 at page 4). Please comment.**

134 A. The Ameren Companies' objective is not to minimize the resulting prices in the
135 auction but rather to minimize the total cost to the consumer. The Ameren
136 Companies have attempted to accomplish this by weighing all potential costs and
137 placing the risk on the BGS Supplier or the Ameren Companies in a manner that
138 will minimize the total cost borne by the consumer.

139 In the case of the "Prudent Utility Practice" language that Mr. Huddleston
140 uses in his example (DYN Exhibit 1.2 at page 4), Mr. Huddleston is proposing
141 that Suppliers should be paid for the energy that would have been used if not for a
142 disruption of electric service to end use customers due to an act of negligence on
143 the part of the Ameren Companies. The SFCs currently provide that the Ameren
144 Companies "shall not be required to accept quantities of Energy, Capacity or any
145 other component of BGS-FP Supply utilized by Customers on an instantaneous
146 basis as a function of electrical load, in excess of such Customer's instantaneous
147 consumption of such component of BGS-FP Supply". *See* SFC Section 5.3.c.
148 Mr. Huddleston's suggestion would potentially subject the Ameren Companies to
149 a prudence review of every distribution system outage despite the fact that for the
150 most part, these outages are caused by factors beyond the Ameren Companies'
151 control, such as weather. The resulting increases in disputes and prudence
152 reviews would have the potential to significantly increase the Ameren Companies'
153 cost and these costs would ultimately be borne by the end use consumer. In this
154 instance, while having the BGS Supplier bear whatever small risk there may be
155 due to outages attributable to negligence on the part of the Ameren Companies
156 and allowing the Supplier to factor that into its bid price results in an more
157 efficient process and ultimately the lowest cost to the end use consumer.

158 In addition, since in this example service has been interrupted to the end
159 use customer, it is unclear to me how it would be determined what the load would
160 have been had the disruption of service not occurred. This too would be a likely

161 area of dispute, further increasing the cost to the Ameren Companies and their
162 customers.

163 **Q. Mr. Huddleston states (DYN Exhibit 1.2 at page 7) that, as regards the**
164 **Ameren Companies' ability pursuant to SFC Section 2.1.c(vii) to retain a**
165 **portion of payments received from a defaulting Alternative Retail Electric**
166 **Supplier ("ARES"), they have failed to identify what costs they will incur**
167 **due to such occurrences. Please comment.**

168 A. As stated in my rebuttal testimony, Mr. Huddleston has suggested that Section
169 2.1.c(vii) permits the Ameren Companies to retain "some unknown portion" of
170 the amounts received from an ARES as damages, penalties, or forfeited security
171 due to the failure of such ARES to provide adequate notice of customer switching
172 or other default. The amounts that the Ameren Companies retain cannot be
173 arbitrarily determined by the Ameren Companies. Rather, those amounts retained
174 must be no greater than appropriate to offset their costs or losses attributable to
175 the ARES' default. If Mr. Huddleston is correct, and the Ameren Companies' cost
176 attributable to the ARES default is zero, then the existing provisions in the SFCs
177 would require them to pay the full amount to the BGS Suppliers. Moreover, it is
178 worth noting that the Ameren Companies' current ARES Agreements do not
179 provide for any damages to be paid to the Ameren Companies by an ARES who is
180 in this position.

181 **Q. Mr. Huddleston states (DYN Exhibit 1.2 at page 8) that the Ameren**
182 **Companies still have not explained why they will not put language in the**

183 **SFCs stating expressly that the SFCs do not alter existing interconnection**
184 **agreements. Please comment.**

185 A. As stated in my rebuttal testimony, it is not the intention of the Ameren
186 Companies that the SFCs modify any existing interconnection agreements; nor, to
187 my knowledge and understanding, do they or could they have such legal effect.
188 Moreover, Mr. Huddleston concedes that he is not a lawyer, yet nevertheless, he
189 then proceeds to offer his "logical" analysis of the legal issue in question. In an
190 effort to eliminate this issue, the Ameren Companies have included language to
191 address Mr. Huddleston's concern. *See* SFC Section 10.1.

192 **Q. Mr. Huddleston states (DYN Exhibit 1.2 at page 8) that the SFCs' definition**
193 **of Delivery Point "threatens to make the SFCs unintelligible as a practical**
194 **matter" He states (DYN Exhibit 1.2 at pages 8-9) that the Ameren**
195 **Companies are mixing concepts and that you yourself have not disagreed**
196 **with this point. Please comment.**

197 A. First, it is certainly not the Ameren Companies' intent to create confusion by their
198 definition of this term. We have simply attempted to define the term in a manner
199 that is consistent with the MISO energy markets. The MISO's current business
200 practices create the need for two specific differences in the definition of this term
201 as compared to the ComEd definition. First, the MISO allows only one market
202 participant per load zone. What this means is that while ComEd can point each of
203 its CPP Suppliers to a common load zone as the Delivery Point in its SFCs, the
204 Ameren Companies will need to define separate load zones for each of its BGS
205 Suppliers and then define those BGS Supplier-specific load zones as the Delivery

206 Point within its SFCs. Second, the MISO does not allow for the creation of load
207 zones that span multiple control areas. What this means is that the Ameren
208 Companies will need to define separate load zones for each BGS Supplier for
209 each of the three Ameren Company control areas.

210 The Ameren Companies' definition of the term "Delivery Point" attempts
211 to incorporate these concepts. The intent of the first sentence of this definition
212 ("Delivery Point means the load zone(s) recognized by the MISO as
213 encompassing the BGS-FP Load of a given Company multiplied by the BGS-FP
214 Supplier Responsibility Share and specific to the BGS-FP Supplier, as specified in
215 Appendix A.") is to recognize that MISO will require that each BGS Supplier will
216 need its own load zones and that those load zones will be defined as
217 encompassing the BGS-FP Load of a given Company multiplied by the BGS-FP
218 Supplier Responsibility Share. The intent of the second sentence ("The BGS-FP
219 Supplier shall deliver BGS-FP Supply to each of three (3) Delivery Points – each
220 tied to the BGS-FP Load of a given Company.") is to recognize that each BGS
221 Supplier will need separate load zones for each of the three Ameren Company
222 control areas.

223 The Ameren Companies continue to believe that these basic principles that
224 are embedded in this definition are appropriate and should remain in the Ameren
225 Companies' SFCs. With that said, the Ameren Companies are willing to modify
226 their SFCs to more clearly define the Delivery Point and invite Dynegy or any
227 other Supplier who wishes to offer an alternative definition that makes these
228 points more clear to do so.

229 **Q. Mr. Huddleston proposes (DYN Exhibit 1.2 at page 13) that the Ameren**
230 **Companies provide daily forecasts – by 6:30 a.m. of the day prior – of the**
231 **portion of load to be served by each Supplier. Would you care to comment**
232 **on his proposal?**

233 A. Yes. Mr. Huddleston's underlying premises regarding the level of forecasting the
234 Ameren Companies do today are incorrect. Secondly, the Ameren Companies
235 will not have preferential access to the data needed to perform such forecasts and
236 finally, if the intent is to obtain the best possible forecast, it would seem that a
237 party with a direct economic interest in the outcome of the forecast should be
238 responsible for its preparation.

239 **Q. Please clarify your first point.**

240 A. Mr. Huddleston (DYN Exhibit 1.2 at page 13) "proposes that the Ameren
241 Companies provide daily forecasts for the portion of load to be served by each
242 Supplier" This is a level of granularity much greater than is performed today.
243 His understanding that "they currently and for years prior have (1) prepared and
244 used similar forecasts; and (2) assembled the tools and collected the data . . .
245 needed to provide accurate forecasts . . ." is simply incorrect. None of the
246 Ameren Companies prepares a load forecast today which is differentiated by
247 customer class (upon which the SFCs are differentiated) nor have they ever
248 prepared such forecasts. Further, I understand that the current models do not
249 utilize any customer class specific data, nor do they specifically incorporate
250 customer switching. To prepare the load forecasts which Mr. Huddleston is
251 proposing would require significant changes to existing models.

252 **Q. What is the significance of your second point?**

253 A. The historical data necessary to build and train forecasting models will be equally
254 available to Suppliers. If a Supplier wants to know how the load historically
255 reacts on a "given day of the week in August when temperatures are above normal
256 by X° F", that Supplier will have the data available prior to the auction to make
257 that determination. Additionally, since the data provided will be at a granularity
258 greater than that used by the Ameren Companies in preparing the control area
259 forecast, the Supplier may well be able to determine the behavior of specific load
260 classes which otherwise could not be determined using the existing Ameren
261 Company models.

262 Finally, the SFCs specifically provide updates of the forecasted on-peak
263 and off-peak load requirements for Mark-to-Market ("MtM") purposes as well as
264 an estimate of their aggregate load obligation both twenty (20) and five (5) days
265 prior to the supply day. Such data should be more than sufficient as an indicator
266 of load switching.

267 **Q. Please expand on your final point.**

268 A. I am not suggesting that the Ameren Companies would not use due diligence in
269 the performance of their duties -- if indeed providing such a forecast was their
270 duty, which it is not under the proposed contract -- however, the Supplier and not
271 the Ameren Companies would bear the consequence of an inaccurate load
272 forecast. While I obviously cannot speak for any individual Supplier, it would
273 seem reasonable that Suppliers would be hesitant to rely upon the Ameren
274 Companies' forecast in this instance and also to presume that they would develop

275 their own forecasts and rely upon them if the volumetric risk Mr. Huddleston
276 discusses is of concern.

277 **Q. Should the ICC adopt Mr. Huddleston's proposal?**

278 A. No. Mr. Huddleston's proposal is clearly based upon false premises. The Ameren
279 Companies do not produce such forecasts today and the data to do so will be
280 equally available to the Suppliers, who, it must be noted, have a strong economic
281 incentive to forecast accurately. It is not clear why the ICC should accept that the
282 Ameren Companies would be better able to forecast loads at this level of detail
283 with greater accuracy than any given Supplier who has access to the same data.

284 However, should the ICC determine that the Ameren Companies should
285 provide some form of forecasting services, the Ameren Companies should not be
286 required to provide data in any level of detail greater than that which is produced
287 today. To the extent that a Federal Energy Regulatory Commission ("FERC")
288 issue is not created by doing so, this could be best accomplished by having the
289 Ameren Companies provide the Suppliers the same data that they provide
290 Midwest Independent Transmission System Operator ("MISO"), on the same
291 timetable as such data is provided to MISO. It is also important that the contract
292 language be clear and unambiguous that the Ameren Companies are not liable for
293 any consequences arising from the use of such data by a Supplier; that such data
294 is non-binding and its accuracy is not warranted or guaranteed in any fashion.

295 **Q. Mr. Huddleston states (DYN Exhibit 1.2 at page 6) that the ComEd SFCs are**
296 **"a better starting point than the Ameren [Companies'] versions" and asks**

297 **why the Ameren Companies have not conformed their SFCs more closely to**
298 **the ComEd versions. Please comment.**

299 A. As stated earlier, the Ameren Companies have concluded that the objectives of
300 this proceeding would be advanced if the Ameren Companies sought to
301 harmonize their SFCs with ComEd's, and a substantial effort has been devoted to
302 advancing this objective. See Respondents' Exhibits 18.1 and 18.2.

303 **Q. Mr. Huddleston reiterates (DYN Exhibit 1.2 at page 16) his desire for**
304 **workshops involving potential Suppliers as a means to crafting final SFCs for**
305 **the Ameren Companies and for ComEd. Do you agree with this proposal?**

306 A. No, I do not. As I stated in my rebuttal testimony, the parties have already
307 engaged in a series of discussions on this subject. Any remaining concerns should
308 be addressed at the hearing. In addition, I would like to point out that the Auction
309 timeline does include a period of time for prospective bidders to submit comments
310 regarding the SFCs. The process contemplates that first, should the proposed
311 Auction process be approved in this docket, ComEd and Ameren would file SFCs
312 with the ICC within ten (10) days of the ICC Order. ICC Staff would review the
313 SFCs to ensure that they are fully compliant with the ICC Order, and at that point,
314 the compliant SFCs would then be posted for prospective bidders. Bidders would
315 then be invited to comment -- it being understood that no change could be made
316 that would imperil the SFCs' compliance with the ICC Order. Bidder comments
317 would be submitted to the Auction Manager and reviewed by the Auction
318 Manager, ICC Staff, ComEd and the Ameren Companies. These parties would
319 consult and would collectively consider the comments submitted and respond to

320 prospective bidders. Comments reviewed by the Auction Manager, ICC Staff,
321 ComEd and the Ameren Companies would then be incorporated to the extent that
322 these parties agreed that they improved or clarified the document without
323 jeopardizing compliance with the ICC Order.

324 **III. PRODUCT DESIGN**

325 **Q. The IIEC witnesses continue to argue for additional tariffs (or tariff**
326 **provisions) for interruptible demand or loads which may otherwise qualify**
327 **as Demand Response Resources ("DRR") under the MISO tariff. Would**
328 **you care to comment?**

329 A. Yes. First I would like to address Mr. Stephens' position that the Ameren
330 Companies should offer a greater variety of tariff services and then I will address
331 Mr. Dauphinais' proposals regarding interruptible demand customers and
332 customers whose load may otherwise qualify as DRR under the MISO tariff.

333 **Q. Mr. Stephens takes issue with your statements regarding the primary**
334 **objective of the Ameren Companies' rate design and suggests that it should**
335 **be "more customer focused" (IIEC Exhibit 4.0 at lines 54 - 159). How do you**
336 **respond?**

337 A. As I stated in my rebuttal testimony, the Ameren Companies' primary product
338 design objective is to create a set of products to procure BGS Supply for the
339 Ameren Companies' customers that: (a) provides a default service option for
340 customers not participating in retail choice; and (b) maximizes the efficiency of
341 the proposed auction process. The Ameren Companies do not intend or expect to
342 provide the wide range of retail options that the parties might like to see in the
343 retail market or to replicate their rate books. Our goal is to procure only the

344 electricity commodity at the lowest total cost for the consumer. Similarly, the
345 Ameren Companies expect to behave in a manner consistent with their role as
346 wires companies and not as companies offering a variety of retail generation
347 products to meet specific end use customer needs – e.g., not competing with
348 ARES.

349 **Q. Should the product design be "more customer focused"?**

350 A. The Ameren Companies' product design is customer focused. The product design
351 focuses on providing consumers with a simple, viable default service option at the
352 lowest cost. This default service option provides the customers with the security
353 to know that their power will be provided in a reliable and economic fashion
354 regardless of whether they choose to participate in the retail marketplace. At the
355 same time, the simple default service option will permit the retail market place to
356 develop the products demanded by consumers without the influence of the
357 artificial product designs proposed by the IIEC witnesses in this proceeding. The
358 ARES are in a better position to determine and respond to consumers changing
359 needs and desires with respect to specific products and services than the Ameren
360 Companies ever can be under the default service obligation.

361 Far from sacrificing the customer interests, the Ameren Companies'
362 product design places the responsibility for developing fine tuned retail products
363 in the hands of the competitive retail marketplace where it belongs. If the
364 products identified by Mr. Stephens and Mr. Dauphinais are demanded by
365 consumers then the retail marketplace will respond to the demand for these
366 products. That is the very nature of a competitive market.

367 **Q. Mr. Stephens claims that your comparison of the Ameren Companies'**
368 **product design objectives to those of a gas utility is inaccurate. (IIEC Ex. 4.0**
369 **at lines 98 - 108.) How do you respond?**

370 A. Mr. Stephens states that natural gas and electricity (and their marketplaces) are
371 different. However, he does not explain why these differences are relevant to my
372 conclusion or to his summary rejection of my conclusions, and I submit that they
373 are not.

374 I stand by my conclusion that with respect to the default service
375 obligation, the Ameren Companies are acting much like gas utilities. As I
376 described in my rebuttal testimony, gas utilities buy gas from the wholesale
377 market and pass along those costs to their customers. They do not buy specific
378 products in the wholesale market in order to create customized retail product
379 offerings for individual retail customers. That natural gas may be different from
380 electricity in some way, or that natural gas has been unbundled for a number of
381 years, does not alter the ultimate conclusion. Like a natural gas utility, the
382 Ameren Companies' primary role will be as an energy delivery company. Like a
383 natural gas utility, the Ameren Companies will procure energy for those
384 consumers that do not procure service in the retail marketplace. Like a natural
385 gas utility, the Ameren Companies do not intend to buy specific products in the
386 wholesale market in order to create customized retail product offerings for
387 individual retail customers.

388 **Q. Mr. Stephens claims that inclusion of fixed-price products will not inhibit**
389 **development of the competitive market. (IIEC Ex. 4.0 at lines 109 - 120.) Do**
390 **you wish to comment on Mr. Stephens' claims?**

391 A. Yes. Mr. Stephens' claim is over-simplified. As described above, the Ameren
392 Companies' goal in developing their products was to provide a simple default
393 service that is not intended to compete with or inhibit the competitive
394 marketplace. However, designing a plethora of fine-tuned auction products to
395 meet the desires specific to certain customers or customer groups might indeed
396 inhibit the development of the competitive market. If the Ameren Companies
397 provide these fine-tuned services, ARES may choose to not enter this segment of
398 the marketplace. On the other hand, if customers desire alternatives to the simple
399 default services provided by the Ameren Companies, ARES likely will come to
400 the marketplace to fill these needs. The default service should not be misused as a
401 tool to meet individualized customer needs. Finally on this point, the vast
402 majority of the IIEC members in this docket have been able to take ARES service
403 at one time or the other. To some degree the market has been able to fulfill their
404 specific needs.

405 **Q. In arguing for tariff provisions for customers who would otherwise qualify as**
406 **DRR under the MISO tariff, Mr. Dauphinais (IEEC Ex. 5.0 at lines 92-114)**
407 **states that your claim that loads may not be qualified to participate as DRRs**
408 **as no Supplier would have an exclusive right is incorrect, and as support,**
409 **claims that having multiple Suppliers for the same distinct customer is "no**
410 **different than when an individual generating unit is designated as a Network**
411 **Resource by several Market Participants." Do you agree?**

412 A. No. First, I would note that I do not believe that MISO, which is responsible for
413 administering the tariff, shares Mr. Dauphinais' belief. In discussions with MISO
414 staff on this issue, they expressed specific doubt that such loads could be properly
415 registered and administered. In particular, they stated concern with the ability to
416 properly allocate the DRRs response across multiple market participants.

417 Secondly, I believe that the two scenarios are fundamentally different.
418 Designating a Network Resource and having a contractual right to a predefined
419 portion of the capacity does not necessarily grant a party either a right to dispatch
420 the resource or a right to the actual energy output of that specific unit, nor does it
421 mean that that party has the right to bid the resource into the MISO Energy
422 Market and receive the benefit of its operation or the obligation to suffer the
423 consequences of such unit's failure to perform. The ability to "dispatch" the
424 resource as well as a right to bid the resource in the MISO Energy Market and
425 receive the financial benefit of its performance is fundamental to the very notion
426 of what a DRR is.

427 **Q. In the same paragraph of his rebuttal testimony, Mr. Dauphinais states that**
428 **"those individual Demand Response Resource loads could be monitored and**
429 **any failure by these loads to interrupt could be appropriately passed on to**
430 **each BGS Supplier based on each BGS Supplier's exclusive share of the**
431 **Demand Response Resource." (IIEC Ex. 5.0 at lines 107-110) Does this raise**
432 **any questions on your behalf?**

433 A. Yes. In fact, this is an excellent example of how Mr. Dauphinais' proposal raises
434 considerably more questions than it answers.

435 I am aware of no MISO tariff or Business Plan provisions that would
436 address the problem of how to allocate the DRR's response across multiple
437 participants. Under the SFC, any deviation in a specific customers load, whether
438 as an increase or a decrease, is shared proportionally by each BGS-LFP Supplier.
439 It is highly unlikely that Suppliers will share a bidding strategy or even more
440 unlikely that all bids will be accepted for any given interval. As such, it is
441 reasonable to ask why it would be appropriate to assign such failure to perform to
442 all Suppliers, if all of their bids did not clear.

443 More importantly, it raises the question of why Mr. Dauphinais would
444 believe that the Supplier and not the customer should bear the consequences of
445 such failure. The Supplier, not the customer or the Ameren Companies, will settle
446 with MISO for such DRR activity. However, the customer is the entity which
447 presumably is entitled to the economic benefit of its actions - and which should
448 bear the consequences of its failure to perform as well. The Supplier and the
449 customer do not have a contract, though each has a contract/tariff with the

450 applicable Ameren Company. Additionally, Suppliers are not likely to perform
451 the administrative tasks necessary for DRRs to participate in the MISO markets
452 without compensation. This in turn raises several questions. How will the
453 benefit or consequence applied to the Supplier by MISO ultimately end up with
454 the Customer? How will the Supplier obtain the compensation necessary to
455 perform these additional acts (and then in a manner which does not increase the
456 cost for other non-DRR customers)?

457 To further complicate this matter, I would also note that customer-owned
458 behind the meter generation is one form of DRR. This raises the question of how
459 customer specific data (generation data) is provided to multiple wholesale
460 Suppliers with whom the customer has no contractual agreements.

461 **Q. Does Mr. Dauphinais' proposal indicate how individual customer**
462 **characteristics could be recognized?**

463 A. No. The proposal does not address how individual customer characteristics
464 would be recognized. These individual customer characteristics include: (a) the
465 price at which the customer is willing to curtail; (b) the length of time the
466 customer is able to curtail load; (c) length of notice needed to curtail, and (d) the
467 level of load which can be curtailed. On this last point, it is my understanding
468 that many customers who could otherwise qualify as a DRR may not have the
469 ability to control their load requirements across a continuum, or even in individual
470 discreet load blocks, such as the 100 kW block which is the minimum settlement
471 level used by MISO. Rather, it is more akin to an all-or-nothing approach -- a
472 large compressor motor is either running or it is off. Again, all Suppliers may not

473 be sharing a bid strategy. As such, this situation would raise significant questions
474 of fairness to other Suppliers (and the customer himself), if the customer is
475 instructed to lower his demand by 1 MW, but in order to do so he must in fact
476 lower it 10 MW.

477 **Q. Is there a method to recognize the customer's particular characteristics and**
478 **provide Suppliers with the flexibility needed to optimize value?**

479 A. Yes. ARES supply does exactly this.

480 **Q. Should the ICC adopt Mr. Dauphinais' proposal regarding DRRs?**

481 A. No. Quite simply, I believe that Mr. Dauphinais' proposal is incomplete. It fails
482 to address even the most fundamental questions, such as: (a) how should customer
483 load be allocated when Suppliers may not share bidding strategies; (b) how are
484 the financial benefits and consequences of DRR response transferred from the
485 Supplier to the customer when the two do not have a contractual relationship; (c)
486 how are the Suppliers compensated for its incremental activities in a manner
487 which does not result in increased cost for other BGS-LFP customers; and (d)
488 how customer-specific data can be provided to Suppliers when necessary for the
489 Supplier to meet MISO tariff requirements (such as real time availability of load
490 interruption levels).

491 I simply do not see how it would be possible to implement Mr.
492 Dauphinais' proposal without creating a morass of issues. If the ICC were to
493 disagree and adopt Mr. Dauphinais' proposal, it would be critical that the issues
494 listed above are adequately addressed, and it must be acknowledged that the
495 question of whether MISO will accept such loads for registration does not have a

496 definitive answer. The MISO tariff requires a single Supplier to have the
497 exclusive rights to its entire output. It is simply not clear that MISO agrees with
498 Mr. Dauphinais' argument.

499 **Q. Mr. Dauphinais has made a proposal (IIEC Ex. 5.0 at lines 129 - 141) which**
500 **he terms as the "better alternative" to address interruptible demand under**
501 **Rider RTP-L. Would you care to comment on this proposal?**

502 A. Yes. I continue to maintain that the development of such alternative offerings is
503 best left to alternative suppliers who can work with customers to develop
504 contracts which recognize and incorporate the customer's unique characteristics.
505 Further, Mr. Dauphinais' proposal is not as simple as he may have us believe.
506 First, he would have the Ameren Companies assume a role for customers who
507 may choose this rate, which is not performed for any other customer class – that
508 of MISO market participant. The Ameren Companies would need to have the
509 necessary infrastructure in place to perform this role even though they will not
510 know whether any customers will avail themselves of this offering. This raises
511 the question of how the cost for such infrastructure would be recovered without
512 negatively impacting other customer classes. Additional credit requirements with
513 MISO may also arise from the Ameren Companies assuming this role which
514 would similarly raise issues of recovery.

515 His proposal also is incomplete in its description of what MISO charges
516 the customer should be responsible for. These would include not only the explicit
517 power supply and ancillary service costs he references, but any and all other
518 MISO related charges for such service, including the various uplifts and

519 administrative charges which are assessed. In particular, recovery of Revenue
520 Sufficiency Guarantee charges must be provided for.

521 Should the ICC determine that such a tariff should be offered, I would
522 generally agree with Mr. Dauphanais that his "better alternative" proposal is
523 markedly preferable to one which has interruptible demand would be served via
524 the proposed BGS-LRTP. As noted above however, his proposal is incomplete
525 and additional language would be necessary to ensure proper cost recovery.

526 **Q. Coalition of Energy Suppliers' ("CES") witness O'Connor (CES Ex. 4.0 at**
527 **lines 279 - 650) continues to propose a 1-year product for customers with**
528 **demands between 400 kW and 1 MW. Do you wish to respond?**

529 A. Yes. As I discussed in my rebuttal testimony, one of the factors that the Ameren
530 Companies considered when developing their product design was switching risk.
531 The ability of a customer to switch from BGS Supply to an ARES creates volume
532 uncertainty and risk for BGS Suppliers. The Ameren Companies' proposed
533 product design attempts to place those customers with the greatest propensity to
534 switch in the BGS-LFP customer group.

535 **Q. In his rebuttal testimony (CES Ex. 4.0 at lines 569-636), Dr. O'Connor**
536 **discusses the switching statistics for the 400 kW to 1 MW customer groups of**
537 **Ameren and ComEd. He goes on to develop an index of switching patterns to**
538 **help illustrate the switching propensity of the different customer groups. Do**
539 **these switching statistics support the Ameren Companies proposed product**
540 **design?**

541 A. Yes, they do. As stated previously, the Ameren Companies' product design
542 attempts to place the customers with the greatest propensity to switch in the BGS-
543 LFP customer group. Coalition Table 4(A) (CES Ex. 4.0 at lines 618-621) shows
544 a switching index of 13.75 for the Ameren Companies' 400 kW to 1MW customer
545 group and a switching index of 43.25 for the greater than 1 MW customer group.
546 Dr. O'Connor's own statistics show that the greater than 1 MW customers have
547 roughly three times the propensity to switch as compared to the 400 kW to 1 MW
548 customers. Even if one assumes that the switching index for the Ameren
549 Companies with demands less than 400 kW is something close to zero (Coalition
550 Table 4(A) does not include an index for this customer group), the switching
551 statistics show that the propensity to switch of the 400 kW to 1 MW group of
552 customers in the Ameren Companies' service territories is much closer to the less
553 than 400 kW group as compared to the greater than 1 MW group (13.75 versus
554 zero as compared to 13.75 versus 43.25).

555 **Q. Based on these switching statistics, do you have any concerns with Dr.**
556 **O'Connor's proposal to move the 400 kW to 1 MW customers into the BGS-**
557 **LFP product?**

558 A. Yes, I do. I am concerned that including these customers in the BGS-LFP product
559 will result in higher prices for these customers. It is important to keep in mind
560 that the Suppliers bidding on the BGS-LFP product will likely include a risk
561 premium in their price because of the 30-day open enrollment period in which the
562 greater than 1 MW customers will have the option to sign up for this product. I
563 am concerned that it will be very difficult if not impossible to determine with any
564 degree of accuracy what the magnitude of this risk premium might be and how it
565 compares to the switching risk premium that Suppliers will apply to the 400 kW
566 to 1 MW customers. To the extent that this difference cannot be properly
567 accounted for in the rate prism it is likely that the 400 kW to 1 MW customers
568 could end up with higher prices as a result of moving this customer load into the
569 BGS-LFP product.

570 **Q. Coalition of Energy Suppliers' ("CES") witnesses O'Connor (CES Exhibit**
571 **4.0 at lines 120 - 236), Bohorquez and Bollinger (CES Exhibit 5.0 at lines 39 -**
572 **234), and Domagalski and Spilky (CES Exhibit 6.0 at lines 215 - 307)**
573 **continue to recommend that the open enrollment period for the BGS-LFP**
574 **product be 75 days rather than the 30 days proposed by the Ameren**
575 **Companies. Do you wish to respond?**

576 A. Yes. The Ameren Companies stand by their proposed 30-day open enrollment
577 period. Increasing the open enrollment period from 30 to 75 days would require

578 the BGS-LFP Suppliers to hold their prices open for an additional 45 days. I
579 believe that holding the prices open for this extended period will increase the
580 resulting auction price for the BGS-LFP product. The Ameren Companies
581 believe that the 30-day open enrollment period achieves the appropriate balance
582 between limiting the increased bidder risk and giving customers extra time to
583 weigh their supply options.

584 **Q. These CES witnesses claim that your concerns regarding the 75-day open**
585 **enrollment period are not based on substantive analysis. Do you agree?**

586 A. No. The Ameren Companies believe that increasing the open enrollment period
587 would increase the risks experienced by potential bidders, a position that I note is
588 supported by the testimony of ICC Staff and Supplier witnesses. The Ameren
589 Companies have supported this belief with qualitative, rather than quantitative,
590 analysis -- though I note that Staff witness Dr. Schlaf has provided such
591 quantitative analysis as part of his rebuttal testimony. It seems obvious that
592 holding the price open for an extended period allows customers added optionality.
593 Many Suppliers have expressed their concerns that leaving their bids open for
594 extended periods increases their risks and that the optionality risks must be
595 covered by increased bid prices. They have expressed this concern with respect to
596 the ICC's auction review process and the open enrollment period.

597 Depending on the bidder's hedging strategy, market price movement in
598 either direction during the extended open enrollment period could adversely affect
599 the bidder. For example, if wholesale market prices increase during the open
600 enrollment period, ARES offers may become less competitive relative to the fixed

601 BGS rate. In which case, it is likely that more customers will stay on the BGS
602 service than what the winning BGS-LFP Supplier anticipated during the auction.
603 In this case, the winning BGS-LFP Supplier might be under hedged and might
604 need to acquire additional supplies at the now higher market prices. On the other
605 hand, if wholesale prices fall, ARES offers may be able to undercut the fixed BGS
606 rate and customers would be more likely to reject the BGS service. Now, the
607 winning BGS-LFP Supplier could be over hedged and might need to sell off its
608 excess supplies at the now lower market prices. These risks increase with the
609 amount of time that the market can move before the customer must make a
610 choice. It is likely that if the open enrollment period is extended to 75-days,
611 bidders may feel the need to increase their bids into the auction to offset the risk
612 that market prices may change between the time of the auction and the end of the
613 open enrollment period.

614 **Q. CES witnesses Bohorquez, Bollinger, Domagalski, and Spilky identify**
615 **specific examples of customer RFP processes that they claim would not**
616 **permit the customer to make a meaningful comparison between the BGS-**
617 **LFP product and the market options during a 30-day open enrollment**
618 **period. (CES Exhibit 6.0 at lines 240 - 307). Do these examples offer any**
619 **guidance?**

620 A. No. The Ameren Companies acknowledge that customers may need to compare
621 the BGS-LFP product to the market-priced options. However, these large
622 customers (and their consultants) should be aware of the BGS auction process and
623 the auction calendar used each year. These sophisticated customers have the

624 ability to coordinate their RFPs and analyses to culminate with the identification
625 of final BGS-LFP auction prices. In other words, these customers do not need to
626 wait until they have final auction prices to begin an RFP process or to begin
627 analyzing the market. To illustrate this point, assume for example purposes only,
628 that an auction is scheduled to begin on September 4, 2006. If a customer desires
629 90 days to develop and prosecute an RFP, the customer might, for instance, begin
630 the process on June 15, 2006 and expect to receive final auction prices as part of
631 that process some time shortly after September 4, 2006. These customers can, in
632 this way, take into account their unique processes and procedures and fully
633 evaluate the BGS auction prices within the 30-day open enrollment period.

634 By coordinating its RFP with the prescheduled auction, the customer (and
635 its consultants) can fully evaluate all available options and comply with the 30-
636 day enrollment window proposed by the Ameren Companies. In this manner, the
637 customers can avoid the increased optionality costs included in the bid prices
638 without losing their ability to fully compare options.

639 Calling this option a "plug-and-chug" scenario (as Mr. Domagalski and
640 Spilky do (CES Exhibit 6.0 at line 12)) inappropriately cheapens this process. I
641 am not suggesting that the customers can reduce the evaluation process to a
642 simple spreadsheet that can be resolved in a matter of minutes. Instead, as
643 discussed earlier in this answer, I believe that by coordinating their RFPs with the
644 auction process, these customers are able to fully evaluate their options during the
645 proposed 30-day open-enrollment period without potentially incurring higher
646 costs associated with the increased risks of a 75-day open enrollment period.

647 **IV. DEFAULT SUPPLY SERVICE AVAILABILITY CHARGE ("DSSAC" or**
648 **Rider D)**

649 **Q. Staff witness Dr. Schlaf, IIEC witness Mr. Dauphinais and CES witnesses Dr.**
650 **O'Connor, Mr. Domagalski and Mr. Spilky again takes issue with the**
651 **DSSAC proposed by the Ameren Companies. (IIEC Exhibit 5.0 at lines 175 -**
652 **198.)**

653 A. As described in my rebuttal testimony, the DSSAC serves at least two purposes.
654 First, BGS-LRTP Suppliers experience supply risks associated with customers
655 taking service from ARES. The DSSAC compensates BGS-LRTP Suppliers for
656 this risk. Second, the DSSAC also provides a known revenue stream for the
657 BGS-LTRP Suppliers regardless of the number of customers who elect to take
658 BGS-LRTP service.

659 **Q. In your second point, you state that the DSSAC provides a known revenue**
660 **stream for the BGS-LRTP Suppliers. Why is this important?**

661 A. This is important because this known revenue stream may provide sufficient
662 incentive for potential Suppliers to bid on what otherwise may be viewed as an
663 unattractive product from their perspective. If a sufficient quantity of supply for
664 this product does not show up in the auction, the Ameren Companies will need to
665 stand ready to serve the unfilled tranches of this product directly.

666 **Q. And how would the Ameren Companies go about supplying these unfilled**
667 **tranches?**

668 A. In the case of a less than fully subscribed auction, the Ameren Companies'
669 contingency plan is to procure the required services for the unfilled tranches of
670 BGS-LRTP supply through the MISO-administered spot markets until the next

671 scheduled Illinois Auction. To the extent that the MISO has not yet implemented
672 a market for capacity, the Ameren Companies will procure the required capacity
673 through the bilateral capacity markets.

674 **Q. Is this a simple task for the Ameren Companies?**

675 A. Yes and no. The task of purchasing the required energy from the spot markets is
676 relatively simple and straightforward. The existence of the MISO LMP markets
677 provides a mechanism for the Ameren Companies to purchase this energy in real-
678 time. However, the task of purchasing the required capacity is a little more
679 complex. To illustrate this, let's first assume that at least one tranche of BGS-
680 LRTP Supply goes unfilled in the auction and the Ameren Companies must stand
681 ready to supply the energy and capacity for that tranche(s). Let's also assume that
682 as of the start of the delivery period, no customer has signed up for the BGS-
683 LRTP product. Despite the fact that no customer is currently taking the BGS-
684 LRTP product, the Ameren Companies will still have the need to purchase some
685 amount of capacity to stand ready to serve those customers currently being served
686 by an ARES who have the ability to return to BGS-LRTP Supply on short notice
687 or no notice at all. This capacity will come at a cost and it is unclear to the
688 Ameren Companies how it would be recovered from their customers given the
689 fact that no customer is currently taking BGS-LRTP Supply. It is also uncertain
690 how much capacity the Ameren Companies should procure to stand ready to serve
691 customers returning on short notice.

692 **V. CONTINGENCY PLANS**

693 **Q. In his rebuttal testimony (ICC Staff Exhibit 13.0 at lines 192 - 215), Mr.**
 694 **Schlaf proposes specific language to implement his suggested process for**
 695 **prudence review outside the proposed auctions. Do you agree with the**
 696 **language?**

697 **A. The Ameren Companies agree to utilize the proposed language as part of its Rider**
 698 **MV subject to the following revisions.**

699 In the event that the Company purchases full requirements electric
 700 supply outside of an executed SFC for the BGS-FP Auction, the
 701 BGS-LFP, or BGS-RTP Auction pursuant to the Limitations and
 702 Contingencies part of this rider, the Company will provide to Staff
 703 a report on the circumstances of such purchases that shall include a
 704 description of the events causing the need for those purchases. A
 705 copy of the report will be provided to the Director of the Energy
 706 Division. If such report contains confidential information of any
 707 retail customer, the supplier, or the Company, the Company may
 708 designate the applicable portions of such report as confidential.
 709 Notwithstanding any other provision of this tariff, the ICC may,
 710 upon its own motion or upon complaint, in accordance with its
 711 jurisdiction and authority under applicable law, investigate in
 712 formal proceedings the prudence and reasonableness of any action
 713 or inaction by the Company that contributed to the need for, or the
 714 amount charged to customers for, such purchases. If the ICC in
 715 such proceeding finds that any action or inaction by the Company
 716 contributing to the need for, or the amount charged to customers
 717 for, such purchases was imprudent or unreasonable, then the ICC
 718 may order appropriate relief, including refunds of incremental
 719 amounts, if any, collected by the Company on revenue that would
 720 not have been collected but for such imprudent and unreasonable
 721 action or inaction and are not otherwise owed to the Company.
 722 Notwithstanding the foregoing, nothing herein is intended to
 723 impede, limit or affect the Company's rights under applicable law
 724 to challenge any such order, decision or ruling by the ICC.
 725

726 **VI. PROCUREMENT OF ANCILLARY SERVICES**

727 **Q. Have you reviewed ICC Staff Witness Ogur's rebuttal testimony related to**
 728 **the procurement of ancillary services?**

729 A. Yes.

730 **Q. In his rebuttal testimony, Mr. Ogur continues to recommend that the SFCs**
731 **be modified to allow the Suppliers the option to "self-supply" their shares of**
732 **ancillary services? Please clarify, in your understanding, what entity is**
733 **actually able to self-supply ancillary services under the MISO tariff?**

734 A. The obligation to secure ancillary services rests solely with the transmission
735 service customer – in this case that would be each of the Ameren Companies.
736 They are entitled under the MISO tariff to self-supply certain ancillary services if
737 and only if, acceptable arrangements can be made. Third party arrangements can
738 be used to satisfy this obligation, though the transmission service customer
739 remains financially responsible to MISO for all such arrangements.

740 **Q. Do such arrangements include real-time metering?**

741 A. Yes. It is my understanding that the self-supply of Schedule 3, in particular, is
742 accomplished by the establishment of a psuedo-tie, which requires real-time
743 metering. This was noted in the response to Staff Data Request SO 1.03, which
744 included the following excerpt from the Business Practices Manual for
745 Coordinated Reliability, Dispatch, & Control: Section 5.4 Psuedo-Ties. "*Pseudo-*
746 *Ties are established and have appropriate real-time, tie-line quality metering*
747 *installed at all points at which the Loads and/or Resources are using Pseudo-*
748 *Ties(fn 8)" (FN 8) "In accordance with NERC metering requirements."*

749 **Q. Do you agree with Mr. Ogur's assertion that including such a provision may**
750 **benefit the Ameren Companies' customers?**

751 A. No, I do not. It is my belief that it is unlikely that including provisions for self-
752 supply of ancillary services in the SFCs will result in the benefits for customers
753 that Mr. Ogur seeks to gain with their inclusion. I also believe that his proposal
754 may result in disagreement, ill will, and, possibly, litigation.

755 In order for the inclusion of the self-supply option to lead to a lower
756 auction clearing price the following premises must all hold true: (1) at least one
757 Supplier would have to have the desire and ability to "self-supply" (in a manner
758 acceptable to the Transmission Service Provider and Balancing Authority) at a
759 cost lower than the tariff rates for the service; (2) that Supplier would have to be
760 willing to pass through this cost difference and not seek to keep it for its own
761 profit and (3) that Supplier would have to be the marginal bidder.

762 Given my understanding of the requirements for self-supply, I believe that
763 it is extremely unlikely that acceptable arrangements could be made in the
764 necessary time period (and at a cost that would be acceptable to Suppliers).

765 I would also note that while Mr. Ogur claims that the lack of a centralized
766 MISO ancillary services market "makes it very difficult for Suppliers with such
767 capability to obtain value for these capabilities and thus reflect those in the bids
768 during the auction" (ICC Staff Ex. 19.0 at lines 327-329) he also acknowledges,
769 that ancillary services are "often alternative uses of the same asset." (ICC Staff
770 Ex. 19.0 at line 322). Thus he clearly acknowledges that there is an opportunity
771 cost to such a "self-supply" option. Providing resources to the Ameren
772 Companies to allow them to "self-supply" ancillary services would require a
773 Supplier to hold back capacity and energy that otherwise could be sold into the

774 markets. To the extent that selling this capacity and energy into the markets
775 generates more value to the Supplier than self-supplying ancillary services (or
776 selling such ancillary services through a bi-lateral agreement as they may do
777 today even without a centralized market), it is unlikely that any Supplier will take
778 this option.

779 This may be the reason that despite the considerable exposure that this
780 issue has received in both Mr. Ogur's direct testimony and my rebuttal testimony,
781 potential Suppliers have not stepped forward to express concern with the current
782 provisions. It is reasonable to presume that if Suppliers viewed this as an issue
783 that they would have raised it, as they have not been hesitant to raise other issues
784 in this proceeding.

785 **Q. Mr. Ogur states that "if indeed the Ameren load tranches are not eligible for**
786 **self-supply of ancillary services under the MISO tariff, then this option**
787 **would automatically be void since the language of Ameren's proposed SFCs**
788 **makes Supplier performance subject to MISO rules and procedures" and**
789 **concludes therefore, that "there is no downside to granting this option to the**
790 **Suppliers conditioned on the Suppliers satisfying MISO requirements for**
791 **self-supply of ancillary services." Do you agree with his conclusion?**

792 **A.** No. Most importantly, I believe it is disingenuous of the Ameren Companies to
793 include such an option in the SFCs if it is their belief that the service could not be
794 provided – as would be the case in particular with an option to "self-supply"
795 Schedule 3. This has the significant potential of creating disagreement, ill will,
796 and may well lead to litigation.

797 Further, it must be recognized that it is the Ameren Companies, and not
798 the BGS Suppliers, that are the Transmission Service Customers. As such, they
799 bear the responsibility to make the appropriate arrangements and settle charges
800 with MISO (for both initial arrangements and in the event of Supplier failure to
801 perform) and must seek to collect such charges from the Supplier. The
802 administrative effort and risk exposure incurred by the Ameren Companies in
803 their role as Transmission Customer and Load Serving Entities (as opposed to
804 Transmission Owner, Balancing Authority or Control Area Operator) related to
805 these activities is not necessarily commensurate with that which is related to
806 having the Ameren Companies directly acquire the ancillary services for all
807 supplies and pass through the applicable charges to individual Suppliers.

808 **Q. Mr. Ogur disputes the notion that this issue may be transitional in nature**
809 **given the planned development of the ancillary services market, relying in**
810 **part upon a timeline which has an ancillary service market commencing one**
811 **to two years after a capacity market and an assertion that since MISO is**
812 **"considering abandoning the idea of implementing a capacity market" (ICC**
813 **Staff Ex. 19.0 at lines 262-263) that a similar fate may await the ancillary**
814 **services market. Is such a concern overstated?**

815 **A.** Yes. The process to develop an ancillary services market is completely
816 independent of that to develop a capacity market and it is unsound to try to tie
817 them together. The Ancillary Services Task Force at MISO is actively working
818 on this issue and the MISO's proposed 2006 capital budget which is currently

819 under consideration includes a specific project (0209-06) for market
820 enhancements related to Ancillary Services.

821 **Q. Are the Ameren Companies willing to modify the contract language to**
822 **provide Suppliers with an opportunity to provide the resources necessary to**
823 **allow the Ameren Companies to self-supply ancillary services under the**
824 **MISO tariff?**

825 A. The Ameren Companies continue to assert that such a modification is not
826 warranted. If, however, the ICC were to determine that it would be appropriate
827 to include such a provision in the SFC, it would be critical that such a provision
828 clearly indicate that the provision of such resources must comply with all
829 applicable Transmission Service Provider tariff requirements and the
830 requirements of the applicable Balancing Authority, and that such a contract
831 provision does not infer or otherwise suggest that the Supplier's proposed
832 arrangements will be acceptable to Transmission Service Provider or the
833 Balancing Authority. Further, such arrangements would need to be in place prior
834 to the earlier of commencement of service or such time that the Ameren
835 Companies as the Transmission Service Customer would be required to make an
836 election of the method of procuring ancillary services to MISO. Finally,
837 provisions related to the recovery of MISO charges and other incremental costs
838 incurred by the Ameren Companies to accommodate such an option would need
839 to be included in the SFC, to ensure that the Supplier incurs to the greatest extent
840 possible the full and complete cost of electing such an option.

841 **VII. IDENTIFICATION OF RESOURCES**

842 **Q. The Ameren Companies and Mr. Ogur have a fundamental disagreement**
843 **over the issue of whether Suppliers should be required to identify the specific**
844 **capacity resources. Can you summarize the Ameren Companies' position on**
845 **this matter?**

846 A. Yes. Above all else, the Ameren Companies take their obligation to provide
847 reliable service to their native network customers as paramount. Any proposal
848 that jeopardizes their ability to do so is unacceptable. All other arguments are
849 secondary.

850 **Q. Mr. Ogur suggests that Dr. LaCasse's testimony directly refutes the notion**
851 **that such data is not commercially sensitive. (ICC Staff Exhibit 19.0 at lines**
852 **402 - 443.) Do you agree?**

853 A. No. Mr. Ogur misrepresents Dr. LaCasse's testimony. She was addressing the
854 notion that Suppliers identify contracts which are contingent upon the outcome of
855 the auction and not the identification of resources by winning Suppliers after the
856 conclusion of the auction. More importantly, in his selective quotation of Dr.
857 LaCasse's testimony, Mr. Ogur conveniently left out the following (Resp. Ex.
858 12.0 at lines 1357-1359) "It will be unclear to bidders – as it is to me – what
859 would be done with this information or how it could be effectively used to
860 promote competition in the auction." The Ameren Companies have clearly
861 indicated what would be done with the information and are well aware of the
862 statutes, regulations and contractual provisions which prohibit sharing such data
863 with affiliates or others and presume that Suppliers are as well.

864 **Q. Is such information considered to be commercially sensitive by Suppliers?**

865 A. The more important question is whether, even if they do consider the information
866 commercially sensitive, are Suppliers comfortable with providing this data to the
867 Ameren Companies in the specific context of their contractual supply obligation
868 and with the knowledge that there are existing statutory and regulatory provisions
869 which prohibit sharing such data with their affiliates.

870 It is my actual, not hypothetical, experience that Suppliers have been
871 willing to provide such data to the Ameren Companies in connection with
872 purchased power agreements, as noted in my rebuttal testimony. (Resp. Exhibit
873 11.0 at lines 1102 - 1107.) Furthermore, it is quite telling that despite the
874 considerable exposure that this issue has received in both Mr. Ogur's direct
875 testimony and my rebuttal testimony, potential Suppliers have not stepped
876 forward to express concern with the current provisions.

877 **Q. Mr. Ogur makes repeated references to ComEd's proposal in his argument**
878 **on this issue. Do you care to comment?**

879 A. Yes. I do not believe these are as relevant as Mr. Ogur appears to want the ICC to
880 believe. While I am not in a position to speak for ComEd or comment on why
881 they do or do not have a specific requirement, I would note the simple fact that
882 they are operating in a distinctly separate RTO which has its own rules and
883 markets.

884 **Q. Should the ICC accept Mr. Ogur's proposals related to this issue of resource**
885 **identification?**

886 A. The Ameren Companies do not believe that such changes are prudent, given the
887 current environment and market structure. Should the ICC order the Ameren
888 Companies to accept Mr. Ogur's suggested changes, they will obviously endeavor
889 to comply, however it must be acknowledged that the provisions within the BGS
890 contract cannot compel MISO, Mid-America Interconnected Network, Inc.
891 ("MAIN"), or any other regional reliability organization ("RRO") to modify their
892 business practices and administrative systems and that such business practices and
893 system access may well conflict with the purpose of such change. Such an ICC
894 order should, therefore, condition such an obligation on the Ameren Companies'
895 ability to comply without violating standards of or obligations to MISO, MAIN,
896 or any other RRO and without violating any applicable law or regulation.

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

898 A. Yes, it does.