

REBUTTAL TESTIMONY

of

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Illinois Commerce Commission**

**Central Illinois Light Company d/b/a AmerenCILCO
Central Illinois Public Service Company d/b/a AmerenCIPS
Illinois Power Company d/b/a AmerenIP**

Proposed General Increase in Rates for Delivery Service

**Docket Nos. 06-0070/06-0071/06-0072
(Consolidated)**

June 27, 2006

Table of Contents

I.	Introduction and Summary	1
II.	Residential Real-time Metering.....	3
III.	Retail Electric Supplier Issues	11
	A. General Account Agency	11
	B. Electronic Data Interchange.....	13
IV.	Response to Commissioner’s Questions	16

1 **I. Introduction and Summary**

2

3 **Q. Please state your name and business address.**

4 **A.** My name is Eric P. Schlaf. My business address is 527 East Capitol
5 Avenue, Springfield, Illinois, 62701.

6

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

8 **A.** I am employed by the Illinois Commerce Commission ("Commission") as a
9 Senior Economic Analyst in the Energy Division.

10

11 **Q. Please state your educational background and professional experience.**

12 **A.** I obtained a B.A. in 1982 from the University of Illinois at Champaign-
13 Urbana. I received an M.A. in Economics in August 1984 and a Ph.D. in
14 Economics in June 1991 from the University of Illinois at Chicago.

15 I joined the Commission in March 1990, serving in the Least-Cost Energy
16 Program. In March 1992, I moved within the Commission to the Office of Policy
17 and Planning. The Office of Policy and Planning was subsequently merged into
18 the Energy Division. I have also taught numerous courses in economics and
19 statistics at the University of Illinois at Chicago, Roosevelt University, and the
20 University of Illinois at Springfield (formerly Sangamon State University).

21

22

23

24 **Q. Have you previously testified before the Commission?**

25 **A.** Yes, many times, most recently in the Commonwealth Edison Company
26 delivery services tariff proceeding (Docket No. 05-0597).

27

28 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

29 **A.** I am responding to the following:

- 30 • The residential real-time metering proposal advanced by Citizens Utility
31 Board (“CUB”) witness Christopher Thomas;
- 32 • The various proposals offered by Constellation New Energy and Peoples
33 Energy Services (“CNE/PES”);
- 34 • The questions from Commissioner Robert Lieberman and Commissioner
35 Lula Ford (“Commissioners’ Questions”).

36

37 **Q. Please summarize the conclusions you offer in this testimony.**

- 38 **A.** 1. The CUB proposal is very similar to the type of tariffs that the Central
39 Illinois Light Company d/b/a AmerenCILCO (“AmerenCILCO”), Central
40 Illinois Public Service Company d/b/a AmerenCIPS (“AmerenCIPS”) and
41 Illinois Power Company d/b/a AmerenIP (“AmerenIP”) (collectively the
42 “Ameren Companies” or “Ameren”) would have to file with the Commission
43 if Senate Bill 1705 (“S.B. 1705”) becomes law. S.B. 1705 was
44 unanimously passed by the Illinois General Assembly on April 6, 2006 and
45 would require electric utilities to file residential real-time pricing tariffs.
46 Based on the evidence that has been presented in this proceeding, I do
47 not believe that the CUB proposal would satisfy the requirements of S.B.
48 1705.
- 49
- 50 2. If S.B. 1705 becomes law, Ameren should file tariffs that meet the
51 requirements of S.B. 1705.

52

53

54

55 3. If S.B. 1705 does not become law, I would not recommend that the
56 Commission approve the CUB proposal. The Commission should instead
57 approve Ameren's proposal to charge a \$5 monthly incremental fee to
58 each residential customer that chooses real-time pricing.

59
60 4. Ameren should provide an estimate of the costs involved in splitting
61 natural gas bills from electric bills. The Commission should encourage
62 Ameren and interested parties to discuss Electronic Data Interchange
63 issues informally. After January 2, 2007, Ameren should eliminate the
64 charge for providing 24 months of customer data to Retail Electric
65 Suppliers.
66

67 **II. Residential Real-time Metering**

68
69 **Q. Please describe CUB witness Thomas' residential metering proposal and**
70 **Ameren's response to that proposal.**

71 **A.** Mr. Thomas recommends that the Commission require the Ameren
72 Companies to provide an Interval Demand Register ("IDR") Meter to every
73 residential customer that wants to participate in a Real Time Pricing ("RTP")
74 program without charging the extra fees that normally would accompany a
75 customer's switch from a watt-hour meter to an IDR meter. Further, Mr. Thomas
76 recommends that any additional metering costs be spread among all residential
77 customers rather than charged to the customer that wishes to obtain the IDR
78 meter for the purpose of taking a real-time pricing rate. (CUB Exhibit 2.0, p. 31,
79 lines 732-734)

80 In rebuttal testimony, Ameren discusses the CUB proposal, but it does not
81 appear that Ameren has taken a position with respect to it. Ameren witness
82 Jones states that Ameren and CUB have held discussions about the proposal,
83 and expect to continue those discussions. (Respondents' Exhibit 20.0, p. 22,

84 lines 485-489)

85

86 **Q. Please comment on the CUB RTP proposal.**

87 **A.** RTP programs are a form of demand response (“DR”), a category that
88 includes energy efficiency, load reduction, and non-standard utility pricing
89 structures that are designed to encourage customers to use electricity more
90 efficiently by shifting usage during periods when electricity prices are expected to
91 be relatively high. DR programs have been instituted in various forms by
92 different utilities for at least two decades, but have received increased attention
93 recently with the increase of energy prices and the enactment of the Federal
94 Energy Policy Act of 2005 (“EPAAct”), which addresses the topics of “smart
95 metering,” time-based rates (including RTP), and DR. Among the potential
96 societal benefits of DR programs are a reduction in price volatility, improved
97 reliability, and improvements in the environment.¹ Individual customers that shift
98 their consumption to lower-cost hours can benefit by taking an RTP rate.

99 These benefits can only be achieved if a sufficient number of customers
100 are able to react in real-time to wholesale market prices by altering their usage
101 during higher-priced periods. Customer response requires the widespread use of
102 IDR meters, which can record a customer’s usage on an hourly or even more
103 frequent basis, so as to match the real-time price with the amount of
104 consumption during a particular hour. However, the prevalence of such meters

¹ For a discussion of DR, see, for example, “Demand Responsiveness in Electric Markets,” Federal Energy Regulatory Commission, Office of Markets, Tariffs and Rates,” Revision Date, January 15, 2001.

105 among the customers with the lowest amount usage is very small. The CUB
106 proposal can be seen as a way to begin the process of disseminating IDR meters
107 among smaller customers.

108

109 **Q. How does the CUB proposal compare to the residential real-time proposal**
110 **Ameren offered in its direct testimony?**

111 **A.** The proposals are largely the same. Under both proposals, all residential
112 customers are eligible for real-time pricing. The key difference between the two
113 proposals is that Ameren proposed to assess incremental fees (primarily
114 metering fees) to the RTP customer, whereas CUB proposes to spread
115 incremental fees among all residential customers. A potential second difference
116 is that Ameren proposes to require residential RTP customers to remain on the
117 BGS-RTP for 12 months. Apparently, CUB has not yet taken a position on this
118 issue.²

119

120 **Q. What fees would Ameren charged to a customer that takes RTP?**

121 **A.** Ameren calculates that incremental metering cost for the type of meters
122 that residential customers would require is \$10.47 per month. (Respondents'
123 Exhibit 20.0, Schedule 20.8) However, Ameren proposes to charge only a \$5
124 monthly incremental metering fee. (AmerenCILCO Exhibit 10.0, p. 28, lines 626-

² CUB's response to Ameren Data Request 4.07 states that, "Mr. Thomas has made no such specific proposal, however in the instant proceeding CUB is open to mechanisms that address the Ameren Companies' cost recovery concerns."

125 627; AmerenCIPS Exhibit 10.0, p. 28, lines 625-626 and AmerenIP Exhibit 10.0,
126 p. 28, lines 626-627) Thus, yearly incremental metering charges would be \$60.

127 To put the \$60 yearly charge into perspective, an average annual Ameren
128 residential customer bill is only about \$850.³ Thus, a customer considering
129 taking RTP would have to expect that it would save at least \$60, or about 7% of
130 its annual bill, to justify switching to RTP.

131

132 **Q. What are some of the potential benefits of real-time pricing?**

133 **A.** The customers that switch to RTP will receive benefits by transferring to a
134 rate that better matches their usage pattern, which should, over time, lower their
135 electric costs. An additional benefit is the possibility that alternative retail electric
136 suppliers might also offer a variety of rates containing RTP components that can
137 only be used by customers with IDR meters.

138 The benefits to non-RTP customers are more indirect, but there are
139 several potential benefits. First, under the program, all customers up to the
140 program limit have the opportunity to switch to an IDR meter and take an RTP
141 rate. Second, it is possible that a potential outcome of DR program facilitated by
142 the introduction of IDR meters would be a reduction of system peak demand
143 during critical periods, as RTP customers respond to peak price signals by
144 shifting demand to off-peak periods. If the demand reduction is large enough,
145 the wholesale electricity price could also drop, and thus enable suppliers to fulfill

³ Illinois Commerce Commission, "Comparison of Electrical Sales Statistics For Calendar Years 2004 and 2003," Table 7, Revised December 12, 2005, available at <http://www.icc.illinois.gov/en/salesstats.aspx>.

146 their supply obligations at a lower cost. Ultimately, all customers served by
147 Ameren through the auction would benefit if suppliers believe that, due to their
148 price/demand response, RTP customers could dampen price spikes resulting
149 from system demand spikes. Suppliers would take the price-responsive behavior
150 into account when formulating their bids for the next auction. Third, demand
151 response by RTP customers might lessen the strain on parts of Ameren's
152 distribution system, which could result in a deferral of system upgrades and new
153 construction. The key to these benefits, however, is the expectation that
154 customers will shift their consumption after being given IDR meters and being
155 placed on an RTP rate.

156

157 **Q. Do you support the CUB proposal?**

158 **A.** Not at this time. I am reluctant to advocate a program that all residential
159 customers would pay for, but from which only a limited number of customers
160 would benefit, at least in the short run. There simply is no evidence that has
161 been presented that enough systemwide benefits would be gained to justify the
162 proposed subsidy of 20,000 customers (if CUB's forecast of the demand for RTP
163 is accurate) by the approximately 1,000,000 Ameren residential customers.⁴
164 That is, under CUB's proposal, for every 100 residential customers, 98
165 customers would be paying for the ability of 2 customers to take RTP.

166

⁴ Id.

167 **Q. Please comment on the studies of demand response cited by CUB witness**
168 **Thomas that appear to conclude that demand response programs have the**
169 **potential to provide benefits to a utility's entire service area.**

170 **A.** The studies conclude that actions taken by the largest customers, typically
171 the very largest customers, could potentially provide benefits to a utility's system.
172 The benefits can be obtained because the actions of a group of large customers
173 can have a noticeable effect on wholesale prices. However, the studies should
174 not be used as support for a residential RTP proposal.

175 The International Energy Policy ("IEA") report, "DRR Valuation and Market
176 Analysis," provides the results of various simulation models that show the
177 potential benefits and costs of adding various types of demand response
178 programs to utility resource portfolios. Since utilities are no longer are required
179 to conduct least-cost planning activities, the relevance of the IEA analysis is
180 minimal at best.⁵

181 There is only a cursory discussion of residential RTP programs in the
182 DOE's report. The following bullet points show the list of studies of time-varying
183 demand response programs that DOE reviewed in its report:

- 184 • several existing RTP programs available to larger industrial and
 - 185 • commercial customers that have been operating for many years;
 - 186 • an ongoing residential real-time-pricing (RTP) pilot;⁶
 - 187 • the California CPP pilot conducted in 2003-4; and
 - 188 • pooled results of five residential TOU pilots conducted in the late 1970s.⁷
- 189

⁵ "DRR Valuation and Market Analysis, Volume 1: Overview," p. 44.

⁶ The reference is to the pilot program administered by the Center for Neighborhood Technologies.

⁷ "Benefits of Demand Response in Electricity Markets and Recommendations for Achieving Them, A Report to the United States Congress Pursuant to Section 1252 of the Energy Policy Act of 2005" February 2006, p. 32.

190 I would also note that, in its list of recommendations for “Fostering Price-
191 Based Demand Response,” the DOE Report identified Critical Peak Pricing and
192 Time-of-Use rates, not RTP rates, as the types of rates that States should
193 evaluate.⁸

194

195 **Q. Do you think that implementation of residential RTP would provide benefits**
196 **to non-participating customers that are at least equal to the costs paid by**
197 **those customers?**

198 **A.** It is doubtful that implementation of residential RTP in the Ameren service
199 could provide net benefits – that is, benefits in excess of costs – to non-
200 participating customers unless a very high percentage of residential customers
201 took RTP and switched their usage from peak periods to off-peak periods,
202 especially in the context of Ameren’s membership in the Midwest Independent
203 Transmission System Operator (“MISO”). In comparison to the Ameren service
204 territory, the MISO market is huge, consisting of utilities in 15 states and one
205 Canadian province, with a peak load of about 112,000 MW, compared to
206 Ameren’s peak demand of some 7,500 MW,⁹ or about 6% of the MISO market.
207 There is very little potential that the 20,000 residential customers that CUB
208 forecasts will switch to RTP service to affect energy prices in the MISO market to
209 a sufficient degree so as to justify the proposed cross-subsidies that are at the
210 heart of the CUB proposal.

⁸ Id., pp. 54-55.

⁹ Docket No. 06-0448, Central Illinois Light Company, Central Illinois Public Service Company and Illinois Power Company, “Petition requesting approval of deferral and securitization of power costs,” p. 2.

211

212 **Q. Would there be other benefits from the introduction of real-time pricing in**
213 **the Ameren service areas that would help to justify spreading the**
214 **incremental costs among all customers?**

215 **A.** At the very low level of participation that CUB expects over the next three
216 years, it is doubtful that the other potential benefits that I listed above, including
217 reliability and environmental benefits, would have more than a negligible impact
218 on the Ameren system.

219

220 **Q. What is your recommendation with respect to the CUB proposal?**

221 **A.** The Illinois General Assembly unanimously passed S.B. 1705, legislation
222 that is directly related to the CUB proposal. My understanding is that Governor
223 Blagojevich has until about July 5, 2006, to act on the bill. My understanding of
224 S.B. 1705 is that the bill requires electric utilities to file real-time pricing tariffs for
225 approval with the Commission, and that the Commission is to review the
226 proposed tariffs from a “net economic benefits” standpoint. Thus, whether the bill
227 becomes law will be known well before the Commission issues an order in this
228 proceeding.

229 If S.B. 1705 becomes law, due to the absence of evidence about net
230 benefits, the Commission should conclude that CUB’s proposal is not responsive
231 to S.B. 1705 and the Commission should direct the Ameren Companies to file
232 tariffs as required by the new legislation for the purpose of determining whether
233 those tariffs meet the requirements of the legislation.

234 If S.B. 1705 does not become law, I would recommend that the
235 Commission not adopt the CUB proposal. Further, I would recommend that the
236 Commission approve Ameren's filed tariff that would charge each residential RTP
237 customer a monthly \$5 incremental metering fee.

238

239 **Q. Do you have any other concerns about the CUB proposal?**

240 **A.** Yes. Under the CUB proposal, a portion of the charges assessed to all
241 customers would be designated for an entity that would perform that presumably
242 could include promotion of and education about Ameren's RTP offering. It is
243 unclear to me why Ameren would be permitted under 83 Illinois Administrative
244 Code Part 452 to pay a third-party to promote its service offerings.

245

246 **III. Retail Electric Supplier Issues**

247

248 **A. General Account Agency**

249

250 **Q. Please summarize your understanding of the CNE/PES recommendations**
251 **regarding General Account Agency ("GAA") and Ameren's response to the**
252 **recommendations.**

253 **A.** CNE/PES witness Witt recommends that Ameren should be required to
254 split customers' bills between gas service and electric upon request, as other
255 dual-fuel utilities, such as MidAmerican Energy Company. (CNE/PES Ex.2.0
256 (Revised), p. 8, lines 183-186) Ameren's policy is to separate bills for electric
257 customers that take natural gas transportation service, but not for bundled

258 electric customers that are not natural gas transportation customers. (*Id.*, p. 6,
259 lines 157-159)

260 Ameren witness Hock responded by first noting that Ameren, does, in fact,
261 create separate invoices for electric and gas service, upon a customer's request.
262 (Respondents' Exhibit 27.0, p. 2, lines 32-33) Mr. Hock notes that Ms. Witt's
263 comments concerning GAA activities tend to blur the distinction between a Retail
264 Electric Supplier ("RES") that is providing power and energy to a retail customer,
265 and when the RES is merely acting as an agent for a customer and is authorized
266 to act on the customer's behalf with respect to Ameren service, but is not actually
267 providing power and energy. In the former situation, RESs can obtain electric
268 customer account data regardless of whether the customer is taking natural gas
269 transportation service through the single billing option ("SBO"). Apparently,
270 Ameren will not provide electric account data to non-natural gas transportation
271 customers to RESs that are acting as agents, or presumably, to agents that are
272 not RESs.

273 I would first note that this recommendation has been offered but not
274 adopted by the Commission in at least one previous proceeding.¹⁰ I think that
275 most parties acknowledge that the activities of agents, whether or not they are
276 RESs, have stimulated customer interest in customer choice, primarily by making
277 marketing offers that guarantee that customers would lower their electric costs by
278 contracting with the agent. To a large extent, an agent's profit is derived from
279 enrolling a customer in Power Purchase Option ("PPO") service, which provides

280 a discount from the bundled rate, paying the customer's bill, and receiving
281 payment from the customer in an amount that is less than the bundled rate, but
282 higher than the PPO rate. These agents, of course, have little interest in
283 receiving and paying a customer's gas delivery bill, and, primarily due to the cost
284 of modifying their billing systems, the Ameren Companies apparently have had a
285 policy of not splitting gas and electric bills. This policy has frustrated
286 RESs/agents, and possibly has inhibited customer choice, at least in the service
287 areas where the PPO is offered.

288 In 2007, however, the PPO may not be available to all customers, and will
289 likely only be available at the bundled price. If so, this would curtail an agent's
290 primary marketing offer. I would also note that interest in customer choice seems
291 to be at a low level, and, while interest may increase after 2007, there is not
292 guarantee that it will pick up.

293 My recommendation is for Ameren to provide in its surrebuttal testimony
294 an estimate of the costs involved in satisfying the CNE/PES recommendation. If
295 these costs are significant, it would be preferable to discuss the issue in the
296 ongoing Retail Competition workshops.

297

298 **B. Electronic Data Interchange**

299

300 **Q. Please discuss the CES/PES proposal with respect to Electronic Data**
301 **Interchange ("EDI").**

¹⁰ See, for example, the Illinois Power delivery services tariff proceeding, Docket No. 01-0432, pp. 131-132.

302 **A.** As Ms. Witt explains, EDI is the primary means through utilities and RESs
303 send electronic information to each other on a daily basis. The types of customer
304 information that is sent via EDI include customer enrollment, drops, and meter
305 changes. (CNE/PES Ex. 2.0 (Revised), pp. 8-9, lines 197-210) CNE/PES
306 believes that improvements should be made to EDI methodologies to
307 accommodate the new tariffs that will be applicable after 2006. Among other
308 things, Ms. Witt suggests that Ameren should use the EDI process to enroll
309 customers on Ameren's bundled services.

310

311 **Q. Please comment on the CNE/PES recommendation.**

312 **A.** I believe that the Commission has generally viewed the technical details of
313 EDI transactions as matters that utilities and RESs should attempt to resolve
314 informally, without Commission involvement. My understanding is that the
315 utilities and RESs have established working groups to discuss EDI issues.
316 However, I am not certain as to whether the working groups still exist. My
317 recommendation is that the Commission should encourage interested parties to
318 re-form the working groups if they are not presently meeting on a regular basis.
319 As for the recommendation that Ameren use EDI to enroll its bundled customers,
320 whether that recommendation makes operational sense for Ameren is a matter
321 that is best left to Ameren.

322

323 **Q. Please comment on Ms. Witt's suggestion that Ameren provide 24 months**
324 **of historical data, free of charge (CNE/PES 2.0 (Revised), p. 19, lines 451-**
325 **452).**

326 **A.** Ameren witness Straughn notes that while Ameren must currently
327 occasionally use a manual process to retrieve 24 months of data, over time the
328 data retrieval process will generally be available in Ameren's billing system.
329 (Respondents' Exhibit 28.0, p. 7, lines 146-158) Thus, my recommendation is
330 that the current charge for the retrieval of 24 months of historical data be
331 eliminated after January 2, 2007.

332
333 **Q. Please comment on CES/PES witness Domagalski's recommendation that**
334 **Ameren modify or clarify the tariffs that were recently approved by the**
335 **Commission in Docket Nos. 05-0160/05-0161/05-0162 (CNE/PES Ex. 3.0**
336 **(Revised), p. 5, lines 114-115)**

337 **A.** I sympathize with Mr. Domagalski's comments. Not only do the tariffs
338 have unfamiliar names, eligibility requirements for certain tariffs have changed,
339 tariff terms and conditions have been modified, and some current tariffs will not
340 even exist after 2006.

341 I would not recommend that the Commission require Ameren to modify the
342 new tariffs, however. Undoubtedly, over time, the new tariffs will become more
343 familiar to RESs and customers. Ameren should commit to making its non-tariff
344 documents that explain customer switching rules, such as RES Handbooks and
345 Customer Handbooks, easily accessible to RESs and customers.

346

347 **IV. Response to Commissioner's Questions**

348

349 **Q. How is this section of your testimony organized?**

350 **A.** I will first list the Commissioners' question and/or statement, followed by
351 my response to the question and/or statement.

352

353 **Q. Please list the first statement to which you will respond, and the**
354 **Commissioner's questions with respect to the statement.**

355 **A.** The Chairman of the Federal Energy Regulatory Commission, Joseph
356 Kelliher, stated as follows:

357 " . . . One of the acknowledged weaknesses of electricity markets, is lack of
358 effective demand response. That has implications for wholesale markets,
359 leads to great price volatility in wholesale markets, but, ultimately a
360 demand response program revolves around and is centered on the retail
361 consumer. . . "

362

- 363 • **Please state whether you agree, or disagree, with Chairman**
- 364 **Kelliher's statement.**
- 365 • **If you agree, what are the policy implications for the ICC?**
- 366 • **If you agree, what role, if any, should a distribution company take in**
- 367 **promoting demand response programs to its retail customers?**
- 368 **Please elaborate on your responses.**
- 369 • **If you disagree, why?**

370

371

372 **Q. Please provide your response to the questions listed above.**

373 **A.** I agree with Chairman Kelliher's statement. The success of any particular
374 demand response program will depend to a great extent on the actions of retail
375 customers in response to market prices.

376 In response to the question regarding the policy implications of Chairman
377 Kelliher's statement, my expectation is that the Commission's policies with
378 respect to demand response will be developed in the demand response
379 rulemaking proceeding. With respect to the question regarding a distribution
380 company's role in promoting demand response, I would note my understanding
381 that 83 Illinois Administrative Code Part 452 may limit an electric utility's ability to
382 promote demand response programs.

383

384 **Q. Please list the next statements to which you will respond, and the**
385 **Commissioners' questions with respect to the statement**

386 **A.** The Commissioners' questions refer to the report concerning demand
387 response that was completed by the Department of Energy ("DOE") and
388 submitted to the Congress. Based upon the DOE report, the Commissioners ask
389 the following questions:

- 390 • **Please comment on this report and elaborate on the overall system**
391 **benefits that would result from promoting demand response**
392 **activities.**
393 • **What steps should the ICC take to promote demand response**
394 **programs? How should the benefits from demand response**
395 **programs be captured?**
396

397 **Q. Please respond to the Commissioners' first question regarding the DOE**
398 **Report.**

399 **A.** The DOE Report identifies several potential systemwide benefits of
400 demand response programs, including "market-wide financial benefits," "reliability
401 benefits" and "market performance benefits." (DOE Report, p. vi)

402

403 **Q. Please respond to the Commissioners' second question regarding the DOE**
404 **Report.**

405 **A.** The subject of how or whether the Commission should promote demand
406 response programs and how the potential benefit of demand response programs
407 could be captured is likely a subject for the demand response rulemaking
408 proceeding.

409

410 **Q. Please list the next statements to which you will respond, and the**
411 **Commissioner's questions with respect to the statement.**

412 **A.** The Commissioners' questions refer to the following quote from the DOE
413 Report:

414 While the cost of electric power varies on very short time scales (e.g.,
415 every 15 minutes, hourly), most consumers face electricity rates that are
416 fixed for months or years at a time, representing average electricity
417 production (and transmission and distribution) costs. This disconnect
418 between short-term marginal electricity production costs and retail rates
419 paid by consumers leads to an inefficient use of resources. Because
420 customers don't see the underlying short-term cost of supplying electricity,
421 they have little or no incentive to adjust their demand to supplyside
422 conditions. Thus flat electricity prices encourage customers to
423 overconsume – relative to an optimally efficient system in hours when
424 electricity prices are higher than the average rates, and under-consume in
425 hours when the cost of producing electricity is lower than the average
426 rates. As a result, electricity costs may be higher than they would
427 otherwise be because high cost generation must sometimes run to meet
428 the non-price responsive demands of consumers. The lack of price-
429 responsive demand also gives generators the opportunity to raise prices
430 above competitive levels and exercise "market power" in certain situations.
431 (Pages 7-8)

432

433 Based upon this quote, the Commissioners asked the following questions:

434

435 • **Please state whether you agree, or disagree, with the statement.**

- 436 • **If you agree, what are the policy implications for the ICC?**
- 437 • **If sending the appropriate price signals results in customers**
- 438 **changing their consumption patterns (i.e., flattening the overall load**
- 439 **shape), what impact and resulting benefits, if any, will it have on the**
- 440 **wholesale market, price volatility, operation of the transmission grid,**
- 441 **reliability of the distribution system, etc.?**
- 442 • **If you disagree, why?**
- 443
- 444

445 **Q. Please provide your response to these questions.**

446 **A.** I agree that historically utility customers have faced fixed rates and thus
447 do not respond to market prices. There is a good reason for this ratemaking
448 practice, namely, that customer demand for rates that are not fixed is extremely
449 low. Very few customers are willing to trade the possible benefits of receiving
450 wholesale prices, which might be lower over the course of the year than average
451 prices for the cost associated with constantly monitoring market prices in order to
452 determine when the most appropriate time to consume electricity might be on
453 any given day. The result of average cost ratemaking is that customers might
454 consume more than would be economically efficient on days when market prices
455 are relatively high, and underconsume on other days. I would also agree that the
456 lack of price response in retail markets might contribute to concerns about
457 market power in wholesale markets.

458 Given my agreement with the general proposition that retail customers do
459 not respond to market prices, I would simply note that the pricing structure
460 applicable to Ameren customers after 2007 was set in the procurement
461 proceedings (Docket Nos. 05-0160/05-0161/05-0162 (Cons.)). For the vast

462 majority of Ameren customers, rates will be based on traditional ratemaking
463 methods, and will not vary over time, expect perhaps on a seasonal basis.

464
465
466

**Q. Please list the next statements to which you will respond, and the
Commissioners' questions with respect to the statement.**

467

468 **A.** The Energy Policy Act of 2005 states in part:

469

470 It is the policy of the United States that time-based pricing and other forms
471 of demand response, whereby electricity customers are provided with
472 electricity price signals and the ability to benefit by responding to them,
473 shall be encouraged, the deployment of such technology and devices that
474 enable electricity customers to participate in such pricing and demand
475 response systems shall be facilitated, and unnecessary barriers to
476 demand response participation in energy, capacity and ancillary service
477 markets shall be eliminated. It is further policy of the United States that the
478 benefits of such demand response that accrue to those not deploying such
479 technology and devices, but who are part of the same regional electricity
480 entity, shall be recognized. [Section 1252 (f)]

481

- 482 • **The Ameren Companies are offering a real-time price option for all**
483 **retail customers in its service territories.**
 - 484 ○ **Please describe how these programs would work. Does**
485 **Ameren plan to actively promote these programs? Why or why**
486 **not?**
 - 487 ○ **Should Ameren promote demand response programs? Why or**
488 **why not?**
 - 489 ○ **Please comment on how Illinois should recognize and value**
490 **the benefits to non-participants and described in this section.**

491

492

493 **Q. Please provide your response to these questions.**

494 **A.** The first question is directed at Ameren, and I will not provide a response
495 to it. Regarding the second question, I would note my understanding that
496 Commission rules restrict the ability of utilities to promote their services; thus,
497 any proposed demand response program would have to be reviewed with those

498 rules in mind. Additionally, I would note my understanding that utilities cannot be
499 compelled to offer any services that were not being offered when the Customer
500 Choice Law was enacted in December 1997. As for the third question, many
501 studies have noted the difficulty in valuing the benefits of demand response
502 programs. (See, for example, the DOE Report, at p. xvii) Staff would
503 recommend that the demand response rulemaking address this issue.

504

505 **Q. Please list the next statements to which you will respond, and the**

506 **Commissioners' questions with respect to the statement.**

507 **A.** As part of their questions, the Commissioners list several studies of

508 demand response, and ask the following questions about the studies:

509

510 • **These studies talk about the system wide benefits that can be**
511 **realized from demand response programs. Do you agree or disagree**
512 **that there are benefits that can come from demand response**
513 **programs?**

514 ○ **If you agree, what type of benefits should these programs**
515 **produce?**

516 ○ **If you disagree, why?**

517 • **From a demand response perspective does the pricing of**
518 **distribution services impact the consumption of energy? For**
519 **example, if the distribution company offers pricing plans that**
520 **encourage the use of off-peak consumption, will that impact the cost**
521 **of energy? Please explain your answer.**

522

523 **Q. Please provide your response to these questions.**

524 **A.** I would agree that there potential systemwide benefits that could be

525 realized from some demand response programs. As noted above, these benefits

526 could include a reduction in wholesale price volatility, improved reliability, and

527 improvements in the environment. The benefits are more likely to be realized if

528 there is significant participation among a utility's largest customers, the
529 customers that have the greatest potential to affect market prices through their
530 combined actions in response to market prices.

531

532 **Q. Please list the next statements to which you will respond, and the**
533 **Commissioners' questions with respect to the statement.**

534 **A.** As part of their questions, the Commissioners state:

535 Markets work best if customers have appropriate price information.
536 Currently retail electricity customers have meters that reflect overall
537 consumption, but not on an interval basis. As a result, customers do not
538 have a good understanding of when they consume electricity, and what
539 cost is associated with using electricity during various times of the day.
540 This lack of real-time information appears to be a barrier to customers to
541 participate in the real-time market. Have the Ameren Companies
542 undertaken any analysis as to the meter costs applicable to residential
543 RTP. Is the pricing scheme proposed in the Ameren testimony the most
544 effective way to price interval meters?

545

546 The questions applicable to this paragraph are the following:

547

- 548 • **What sources did Ameren use to develop these costs?**
- 549 • **What was the base year for the study?**
- 550 • **What metering options did Ameren explore? Did Ameren find the**
551 **lowest-cost meters that could provide the measurement of energy as**
552 **needed for an hourly energy pricing program for residential**
553 **customers?**
- 554 • **What studies did Ameren perform to determine how the reliability**
555 **and useful life of electronic meters has changed over the past**
556 **decade?**
557 **What evidence, if any, demonstrates that the useful life of meters is**
558 **increasing, and that the ten-year standard is obsolete?**
- 559 • **How do the costs of interval meters compare to the costs of standard**
560 **residential watt-hour meters?**

561

562 **Q. Please provide your response to the questions.**

563 **A.** These questions are directed to Ameren.

564

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

566 **A. Yes, it does.**

567