Direct Testimony

of

Thomas E. Kennedy

Manager

and

Richard J. Zuraski

Senior Economist

Energy Division—Policy Section

Illinois Commerce Commission

Re: ICC Docket Number 06-0800

Central Illinois Light Company

Central Illinois Public Service Company

Commonwealth Edison Company

Illinois Power Company

Investigation of Rider CPP of Commonwealth Edison Company, and Rider MV of Central Illinois Light Company d/b/a AmerenCILCO, of Central Illinois Public Service Company d/b/a AmerenCIPS, and of Illinois Power Company d/b/a AmerenIP, pursuant to Commission Orders regarding the Illinois Auction.

March 15, 2007

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I. Witness Qualifications

A. Thomas E. Kennedy

Q. Please state your name and business address.

A. My name is Thomas E. Kennedy. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

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

A. I am employed by the Illinois Commerce Commission ("Commission") as Manager of the Policy Program of the Energy Division.

Q. Please state your educational background.

A. I graduated from the University of California at Santa Barbara in 1969, receiving a Bachelor of Arts degree in Economics. I obtained a Master of Arts degree in Political Economy from Johns Hopkins University in 1974. I received my doctorate degree in Political Economy from Johns Hopkins University in 1975.

Q. Describe your professional experience.

A. Prior to coming to the Commission in August 1983, I was a member of the economics faculties of Kansas State University, University of Missouri at Columbia, and Northern Illinois University. I taught courses in microeconomics, industrial organization, and regulation. I was active in publishing in academic journals and presenting research at professional meetings.

From August 1983 until March 1985, I was a Senior Economist in the Policy Analysis and Research Division of the Illinois Commerce Commission. I specialized in market structure issues in the electric and natural gas industries. From March 1985 until May 1991, I was Director of the Energy Program. The Program had responsibilities in the areas of gas and electricity. From May 1991 until November 1997, I was Director of the Gas Program and Assistant Manager of the Policy Analysis and Research Division. When the Energy Division was formed in November 1997, I became Manager of its Policy Program.

Q. What are your primary responsibilities and duties as Manager of the Policy Program of the Energy Division?

A. I am responsible for developing and managing the Policy Program. The Program advises the Commission and other Staff on policy issues related to the gas and electric industries. The Program provides testimony on policy issues in Commission proceedings.

Q. Are you a member of any professional organizations?

A. Yes. I am a member and past Chairman of the Natural Gas Staff Subcommittee of the National Association of Regulatory Utility Commissioners. I am also a member of the American Economic Association.

Q. Describe your prior involvement with the Illinois Auction.

A. Following the Commission's orders in ICC Docket No. 05-0159 and in Docket Nos. 05-0160, 05-0161, and 05- 0162 (Consolidated) (collectively the "2005 Procurement Dockets"), in which the Commission approved the filed tariffs, with modifications, that created the "Illinois Auction," I served as a member of ICC Staff teams that oversaw the implementation of the Illinois Auction. More specifically, I was part of the teams that oversaw the completion of the Supplier Forward Contracts and the Auction Rules, participated in review of bidder applications, participated in the testing of auction software, collected bid data during the auction, monitored the activities of the Auction Manager and her team during the auction, and co-authored two Staff Reports following the auction, including the December 6, 2006 "Post-Auction Public Report of the Staff," which was made a part of the record of this proceeding by the Commission's Order Initiating Investigation and filed on e-Docket on December 20, 2006.

B. <u>Richard J. Zuraski</u>

Q. State your name and business address.

A. Richard J. Zuraski, Illinois Commerce Commission, 527 East Capitol Avenue, Springfield, Illinois, 62701.

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

A. I am employed as a Senior Economist in the Illinois Commerce Commission's ("Commission") Energy Division—Policy Program.

Q. What are your responsibilities within the Energy Division—Policy Program?

A. I provide economic analyses and advise the Commission and other staff members on issues involving the gas and electric utility industries. I review tariff filings and make recommendations to the Commission concerning those filings. I provide testimony in Commission proceedings. In selected cases, I sometimes act as an assistant to Commissioners or to administrative law judges.

Q. State your educational background.

A. I graduated from the University of Maryland with a Bachelor of Arts degree in Economics. I obtained a Masters of Arts degree in Economics from Washington University in St. Louis. I completed other work toward a doctorate in economics from Washington University, but did not complete all requirements for that degree.

Q. Describe your professional experience.

A. Since December 1997, I have been a Senior Economist in the Policy Program of the Commission's Energy Division. I held the same position from February 1990 to December 1997, in the Commission's Office of Policy and Planning (prior to its incorporation into the Energy Division). Before that, I held positions in the Commission's Least-Cost Planning Program and Conservation Program. While employed by the Commission, I have testified in numerous docketed proceedings before the Commission. Prior to coming to the Commission in November 1987, I was a graduate student at Washington University, where I taught various courses in economics to undergraduate students in the Washington University night school and summer school.

Q. Describe your prior involvement with the Illinois Auction.

A. I was a witness in ICC Docket No. 05-0159 and in Docket Nos. 05-0160, 05-0161, and 05- 0162 (Consolidated) (collectively the "2005 Procurement Dockets"), in which the Commission approved the filed tariffs, with modifications, that created the "Illinois Auction." Following the Commission's orders in those dockets, I served as a member of ICC Staff teams that oversaw the implementation of the Illinois Auction. More specifically, I was part of the teams that oversaw the completion of the Auction Rules, participated in review of bidder applications, participated in the testing of auction software, collected bid data during the auction, monitored the activities of the Auction Manager and her team during the auction, and co-authored two Staff Reports following the auction, including the December 6, 2006 "Post-Auction Public Report of the Staff," which was made a part of the record of this proceeding by the Commission's Order Initiating Investigation and filed on e-Docket on December 20, 2006.

II. <u>Purpose of Testimony</u>

Q. What is the subject matter of your testimony?

A. Our testimony contains proposals for modifying the tariffs of Commonwealth Edison Company ("ComEd") and the three Ameren electric utilities providing service within Illinois (Central Illinois Light Company d/b/a AmerenCILCO, Central Illinois Public Service Company d/b/a AmerenCIPS, and Illinois Power Company d/b/a AmerenIP; collectively, the "Ameren Illinois Utilities" or "Ameren") with respect to the wholesale procurement and retail provision of electricity supply in Illinois.

Q. Please summarize your conclusions and recommendations?

A. The September 2006 Illinois Action was conducted in a transparent, equitable, and highly professional manner; it was competitive, attracting 21 bidders, 16 of whom were winners; and it resulted in ComEd and the Ameren Illinois Utilities securing commitments (for 17-, 29-, and 41-month terms) at fixed prices for supplying all retail customers that have not been declared competitive. Nevertheless, some issues or areas for improvement have been identified:

(1) The most obvious issue involves the Commission's rejection of the results of the hourly-price section, which the Commission did when it initiated Docket 06-0624 on September 14, 2006. Staff will review specific proposals made by other parties and attempt to determine if such proposals are capable of alleviating the problems noted in the Commission's 06-0624 initiating order with the hourly price section of the auction. Absent development of proposals that significantly address the concerns that led to rejection of the hourly-price section of the auction, we recommend that Ameren and

ComEd continue to use their best efforts to prudently acquire the resources needed to provide hourly price services ***without*** the Illinois Auction.

(2) Another issue is that the prices for auction products utilized for large non-residential customers were considerably higher than the prices for residential and smaller non-residential customers. The observed premiums are most likely due to a greater degree of risk to wholesale suppliers (the winning bidders in the Illinois Auction) associated with large customers switching to or from alternative retail electric suppliers during the life of the wholesale suppliers' contract obligations. To reduce that risk, we recommend changes in customer enrollment and switching rules. While these changes will reduce customer flexibility, they should also reduce the risk faced by wholesale suppliers bidding on the large customer products, which should reduce the auction-clearing prices for these products.

(3) We identify an issue with the size of tranches, and recommend that the Commission authorize the Auction Manager to increase the size of tranches in the next auction to reflect expectations that less than 100% of eligible load will remain on utility electric supply service.

(4) We address the delivery periods to be included in the next auction's supply contracts. According to the current tariffs, in the next auction, the auction will involve a single three-year product for June 2008 through May 2011, for each utility's small to medium sized customer groups. Instead, we recommend that the Commission utilize multiple products for serving small to medium sized customers. The multiple products could consist of a mix of 1-year, 2-year and 3-year products, or, as we would prefer, multiple 1-year products covering separate years in a 3-year supply period. It is our

expectation that this alternative will help sustain a high level of supplier interest in the next Illinois Auction and competition among bidders.

(5) We discuss the issues of combining Ameren's 400 kW to 1 MW customers with the 1 MW and higher load group for the next auction and of separating residential and small non-residential customers from the medium-size non-residential customer group.

(6) We address the timing of the confidential reports that are to be provided to the Commission almost immediately following the completion of the auction. According to the present tariffs, both Staff and the Auction Manager have two business days to prepare their reports. However, Staff believes it should review the Auction Manager's report and comment upon it in its own report to the Commission. Hence, we recommend that Staff be granted one additional business day to prepare its confidential report to the Commission, to permit the Staff to more thoroughly review the Auction Manager's report. Alternative, if the Auction Manager's report can be produced in one business day rather than two business days, then this would also address Staff's concern. That is, if the Auction Manager can produce the Auction Manager report within just one business day, Staff can continue to provide its report within two.

(7) Finally, we recommend certain clarifications to the existing tariffs in the area of the confidential treatment of bidder information gathered by the Staff and the Auction Manager.

For the benefit of the parties and the Administrative Law Judges, we have identified the issues addressed herein, using the relevant issue number from the Issues List jointly developed by the parties and filed on e-Docket on February 22 , 2007.

III. Overview of the September 2006 Auction

Q. Please describe Staff's involvement in the September 2006 auction.

A. Staff and the Commission's Auction Monitor, Boston Pacific Company, Inc., had full access to all elements of the Illinois Auction. Monitoring by Staff and Boston Pacific Company included, among other actions, participation in several trial auctions as well as on-site and electronic monitoring at the secure bid site during all rounds of the actual auction.

Q. What conclusions did Staff reach with respect to the September 2006 auction?

A. Staff found that the auction was conducted in a transparent, equitable, and highly professional manner, consistent with both the Commission orders in the 2005 Procurement Dockets and the auction rules. In the view of both Staff and the Auction Monitor, the auction was competitive. Neither Staff nor the Auction Monitor found evidence of collusive behavior or other anti-competitive actions by bidders. There were 21 registered bidders in the Illinois Auction and 16 of them were winning bidders. More specifically, there were 14 winning bidders for the various ComEd fixed price products and 9 winning bidders for the various Ameren fixed price products. There were 5 winning bidders for ComEd's hourly price product and 4 winning bidders for the Ameren utilities' hourly price products, although the Commission rejected the hourly price results. With the exception of ComEd's hourly-price retail services for all eligible customers and Ameren's hourly-price retail service for customers above 1 MW, the auction has permitted ComEd and Ameren to secure all of their initial supply needs for the post-2006 era.

IV. The Hourly-Price Section (Contested Issue B-1)

Q. In its initiating order for docket 06-0624, how did the Commission describe its reasons for rejecting the hourly-price section of the September 2006 auction?

A. At page 8 of that order, the Commission explained that the Hourly Priced Section "did not generate as much interest as initially thought," and attributed this to "a high level of uncertainty associated with the demand for this product." The Commission concluded that "The hourly prices produced by the auction may make real-time pricing an uneconomic alternative for retail customers."

Q. Since the Commission rejected the hourly-price section of the auction, what have ComEd and Ameren done to secure the resources needed to provide hourly-price retail service?

A. It is our understanding that ComEd has been purchasing capacity from PJM in the PJM capacity auctions to cover their capacity needs through May 2007. It is also our understanding that for service beginning June 2007, ComEd will be acquiring these capacity requirements from PJM in the context of PJM's Reliability Pricing Model ("RPM"). ComEd is also purchasing ancillary services from PJM and energy from the PJM-administered hourly real-time energy market.

It is our understanding that Ameren issued a request for bids for capacity through May 2007 and has chosen to enter into contracts with some of the companies that responded to that request. Additional capacity is being purchased for shorter time periods through May 2007. It is also our understanding that Ameren plans to use a similar approach for the upcoming summer months. Also, Ameren has been purchasing ancillary services from MISO, and energy from MISO in the MISO-administered energy markets.

Q. Have you assessed how well these alternative procurement strategies have worked for ComEd or Ameren?

A. Not yet. However, all such activities are to be subject to an annual reconciliation and prudence review process before the Commission.

Q. For procuring the resources needed to provide hourly-price service during the next procurement cycle (i.e., for wholesale service beginning June 2008), should the utilities rely on the Illinois Auction?

A. Staff will review and respond to specific proposals made by other parties and attempt to determine if such proposals are capable of alleviating the problems noted in the Commission's 06-0624 initiating order with the hourly price section of the auction. Absent development of proposals that significantly address the apparent concerns that led to rejection of the hourly-price section of the auction, we recommend that Ameren and ComEd continue to use their best efforts to prudently acquire the resources needed to provide hourly price services ***without*** the Illinois Auction.

V. The Fixed-Price Section

A. Risk Premiums (Contested Issue E-1)

Q. Please summarize the results of the fixed-price section of the auction.

A. The prices of the eight wholesale products purchased by ComEd and Ameren through the September 2006 Illinois Auction are as follows:

Results of the September 2006 Illinois Auction

Section	Fixed Price							
Round Closed	39							
Customer Group	Small to Medium						Large	
Utility Group	ComEd			Ameren			ComEd	Ameren
Product	B 17	B 29	B 41	FP 17	FP 29	FP 41	A 17	LFP 17
Price ($/MWH)	63.96	64.00	63.33	64.77	64.75	66.05	90.12	84.95

Q. Can you explain why the prices for the six products used to serve small to medium sized customers are significantly less than the prices for the two products used to serve large customers?

A. Generally, the large customer groups possess less variable and less weather-sensitive load and hence higher load factors, and tend to use a smaller portion of their total energy consumption during the on-peak summer hours when market prices tend to be at their highest. Hence, Staff does not believe that the higher auction prices for the large customers groups reflect fundamental differences in the expected costs of the power needed to supply them. Rather, it is our belief that the differences between the prices for the large and for the small-to-medium customer products reflect differences in the perceived risk of the load to be served of winning tranches of these products. It was reasonable to expect that larger customers would be more highly motivated to shop for energy savings. Thus, depending on the relative prices between the utility's standard offer and the offers from alternative retail electric suppliers, large customers would be more prone to switch between utility service and alternative supplier service.

Furthermore, by the conclusion of bidding, wholesale suppliers would have made a commitment to serve the entirety of the utilities' eligible load, whether 100%, 75%, 50%, or 1% of that eligible load actually ended up on the applicable retail service. However, during the period over which customers could decide to switch, the closing auction price would remain the same, but offers from alternative retail suppliers would presumably fluctuate with the larger market. Wholesale suppliers that won tranches in the auction could anticipate that they would be on the losing side of such market swings: losing load when market prices went down and gaining load when market prices went up. It is likely that such considerations made their way into the bidding for the large customer auction products. Such considerations were probably also at play, albeit to a much lower extent, in the bidding for the small and medium customer auction products.

Q. How can such risk premiums be reduced in future auctions?

A. To some extent, the risk premiums embedded in future auctions' prices may decrease naturally, over time, as experience makes clearer the opportunities and propensities of customers to migrate between the utilities and alternative suppliers. However, it is likely that substantial risk premiums will still remain. Nevertheless, such premiums can be reduced by reducing the extent to which customers are free to switch back and forth between a utility's basic generation service (supplied by the winning bidders in the Illinois Auction) and alternative retail electric suppliers. Below, we recommend changes to the companies' tariffs to reduce the length of the enrollment windows for large customers and to eliminate the right of certain large customers to switch to alternative retail suppliers outside of the enrollment window.

Before turning to the specifics of these recommendations, we mention two general points. First, while we believe these proposals can be expected to reduce the size of the risk premium, they are definitely two-edged swords. That is, while still permitting customers to shop, these proposals restrict the time period over which customers are able to compare the utility's fixed-price offer with alternative suppliers' analogous offers.

Second, we have not been able to ***quantify*** an expected reduction in auction prices as a result of taking these proposed actions. Hence, unless other witnesses are able to produce more definitive (and of course credible) testimony with respect to these issues, resolution will necessarily depend on the exercise of judgment.

Q. What changes has Staff already proposed for enrollment windows?

A. As shown in the table below, in broad terms, the Post-Auction Public Report of the Staff recommended that the Commission require an enrollment window for smaller non-residential customers and either require pre-commitment or shorten the enrollment period for large non-residential customers.

Enrollment Windows for FP Service Following the Auction for Bundled Service as summarized in the Post-Auction Public Report of the Staff

	Residential	**Non-Residential**			
		<400 kW	400 kW - 1 MW	1 MW - 3 MW	> 3 MW
Current					
Ameren	None	None	None	45 days	30 days
ComEd	None	None	45 days	45 days	n/a
Proposed					
Ameren	None	< 45 days	Pre-commit to 20 days		
ComEd	None	< 45 days	Pre-commit to 20 days		n/a

If the Commission were to require the "Pre-commit" option, the applicable large customers would only be able to take fixed price service from ComEd or Ameren if they opted-in prior to the auction, and thus prior to finding out the auction-clearing price and the resulting retail price of the service. This is obviously an extreme version of shortening the enrollment window. However, it would enable bidders to bid with fairly certain knowledge of the load that they would be serving if they were to win tranches.

Q. What changes do you now recommend for the enrollment windows?

A. In our view, the Commission should avoid the more extreme option of pre-commitment at this juncture. Given the relatively high prices for the large customer products generated by the September 2006 auction, customers naturally would be wary of pre-committing to the utility's fixed price service before the next auction. Thus, a pre-commitment requirement may result in even fewer customers remaining on the service. If, after the next few auctions, the large customer product prices display significantly smaller premiums, then it may be reasonable to reconsider the pre-commitment approach.

Without the extreme measure of pre-commitment, minimizing the risk premium will require the shortest enrollment periods that are administratively feasible for the utilities, customers, and alternative suppliers. Barring significant and persuasive objections from other parties, we recommend that the enrollment window for customers greater than or equal to 400 kW be reduced to 20 days. Notwithstanding the above table from the Post-Auction Public Report of the Staff, we do not recommend introducing an enrollment window for smaller customers.

Q. How do you propose to eliminate the right of certain large customers to switch to alternative retail suppliers outside of the enrollment window?

A. The existing tariffs possess various rules about switching to and from the various power and energy options, outside of enrollment windows. ComEd's switching rules are somewhat more liberal than Ameren's which could conceivably account for some of the additional premium embedded in ComEd's large customer fixed price product. In particular, ComEd permits relatively large nonresidential customers who automatically renew fixed price power and energy service from ComEd to elect to obtain electric power and energy supply service from an alternative supplier prior to the end of such customer's following May monthly billing period, while Ameren does not permit such flexibility. ComEd's tariff places additional risk on suppliers, since suppliers have no way to determine how many customers will leave throughout the year. Thus, to reduce the premium embedded in the price of ComEd's large customer fixed price supply service, Staff recommends that ComEd's tariff be modified to eliminate this additional flexibility, rendering ComEd's tariff like Ameren's tariffs. The proposed changes are shown in ICC Staff Exhibit 1.1.

B. __Tranche Size__

Q. Have you identified any issues regarding tranche size?

A. Yes. As a preliminary matter, we note that Staff did not include this issue in either the Staff's Public Report on the Auction or in the issues list in this proceeding. However, Staff has filed a motion to add this issue to the issues list for this proceeding.

Q. What is a tranche?

A. In the context of the Illinois Auction, a tranche is a "slice" of the load of a customer group that is served under the auction contracts. It is expressed as a percentage of the total load of the customer group, whatever the load of that customer groups turns out to be in any hour during the life of the contract. Hence, a tranche represents a varying quantity of electricity. Nevertheless, in the 2005 Procurement Dockets, tranches were also described in terms of a number of megawatts of electric power at time of the peak. Specifically, the Commission accepted the position of various parties that the tranches should be sized so that they nominally represent approximately 50 MW at time of peak.

Q. What are your concerns with the 50 MW nominal tranche size?

A. It is now clear that there can be a significant difference between the nominal MW size of tranches and the actual MW size of tranches, once one takes into account load that migrates to alternative suppliers. Furthermore, the extent of the deviations varies by customer group, and seems to be most significant for the large customer groups (CPP-A for ComEd and BGS-LFP for Ameren). For ComEd, the last migration figures provided to Staff indicate that the percent of the actual peak load on CPP-A is about 14% of the eligible peak load. Thus, based on customer migration from CPP-A to alternative suppliers so far, the nominal 50 MW tranche of CPP-A load has turned out to be closer to 7 MW. In contrast, for ComEd's CPP-B group, the percent of actual versus eligible load is about 88%, so the nominal tranche of 50 MW will be closer to 44 MW. In the next auction, we would expect that bidders would anticipate a similar mismatch between the nominal MW size of trances and the effective size after taking into account the expected quantity of eligible load that will be served by alternative suppliers rather than the utility.

Q. Why is this a concern?

A. One of the advantages of a simultaneous auction of a number of products is that it creates inter-product competition among suppliers. The competition to supply the products is increased as suppliers switch between the products as relative prices change. This competition benefits customers. Having products of similar size, increases the willingness for suppliers to switch between the products, further increasing competition.

Q. Do you have a recommendation to modify the way tranche sizes are computed?

A. Yes. So that bidders see more of an apples-to-apples comparison of tranches during the auction, and so that winning bidders are less likely to end up with extremely small actual tranches, we recommend that the Auction Manager be authorized to redefine, by customer group (such as CPP-B versus CPP-A) the size of tranches prior to the finalization of the auction rules, based on her analysis of the utilities' switching statistics. That is, we recommend that the target of 50 MW of load remain in place. However, the number of tranches offered would be adjusted so that the share of load expected to be associated with a tranche would approximate 50 MW of anticipated load. For example, suppose the total eligible load for a product was 5000 MW, but that because of switching and expectations of switching a more reasonable expected load for the product was 500 MW. Under the first auction rules, 100 tranches would be offered for bid and each tranche be expected to serve 5 MW. Under such a situation, suppliers would be hesitant to switch from a product where the tranche size reflected 50 MW of load to one that would serve only 5 MW. By keeping the expected tranche size approximately equal, competition between products would be facilitated. Under the Staff proposal, 10 tranches would be offered for the product and the approximate load to be served would be roughly equal. Staff recommends that the actual tranche size, as a percentage of actual load, be increased to reflect the likelihood of less than 100% retention of eligible customers on the utilities' electricity supply service. We believe such details can be determined by the Auction Manager, just as details like price decrement formulas were determined by the Auction Manager for the September 2006 auction.

Q. What effect do you expect such an adjustment to tranche sizes would have on auction prices?

A. We suspect that the above adjustment will lead to more of a sustained interest in the large customer products, since bidders might be less cautious about switching to such products during the auction at any given level of relative prices. Recalling that bidders may switch between products during the auction, a bidder may be less willing to switch from a product that is expected to be almost fully subscribed by customers to one that is expected to attract very few customers. Notwithstanding the relative price differences that we saw between the large customer products (such as the CPP-A product) and the small to medium size customer products (such as CPP-B products), the revenues to be earned from a single tranche of the former are less than the revenues to be earned by a single tranche of the latter, due to the relative differences in the percent of load that has migrated away from the utility's fixed price services. If the above theory is correct, then it may lead to a reduction in the price spread between the large customer auction products and the small to medium size customer auction products.

C. <u>Contract Length (Contested Issue F-1)</u>

Q. What do the tariffs currently say regarding the length of fixed price contracts for the small to medium sized customers?

A. To accommodate the ultimate plan for rolling three-year contracts, one third of which expire each year, the initial auction held in September 2006 included 17-month, 29-month, and 41-month contracts, each contract type in sum covering one-third of the eligible load. Starting with the next auction, the fixed price contracts would all have three year terms, with one-third of the eligible load available each auction.

Q. Is Staff concerned with buying one-third of the eligible load each auction with tranches of just one three-year contract for the small to medium sized customer groups?

A. Yes. Staff is concerned that it may have the unintended effect of deterring some suppliers from bidding in future Illinois Auctions. It is quite conceivable that some suppliers have a comparative advantage in making shorter-term commitments, while other bidders have a comparative advantage in making longer-term commitments. The use of one three-year contract may deter participation by the supplier who may have a comparative advantage in making shorter-term commitments. On the other hand, moving entirely to one-year contracts for the small to medium sized customer groups may deter participation by the supplier who may have a comparative advantage in making longer-term commitments.

Q. What do you recommend for the small to medium sized customer group products?

A. One approach would be to continue using a mix of varying length contracts, such as 12-month, 24-month, and 36-month. Such an approach would not deter suppliers with a comparative advantage in making commitments of a particular term, since varying contract lengths would be included in the mix.

Another alternative, which we favor, would be to secure contracts of only one-year delivery periods, but they could cover different time periods. For example, to contract three years into the future, three different contracts types could be used in the next auction: June 2008 to May 2009, June 2009 to May 2010, and June 2010 to May 2011. We suspect that this latter approach would generate the greatest degree of competition because it would not exclude bidders that have capacity tied up for the first and/or the second 12 months. Furthermore, bidders that want more than a one-year commitment could bid for multiple contract periods to build the equivalent of a two or a three year contract. Not only would this approach allow each supplier to combine products according to his individual preferences, it would also facilitate direct competition between suppliers. Meanwhile, as under the existing tariffs, ratepayers obtain fixed price contracts covering one-third of their needs for the next three years ahead.

D. <u>Customer Supply Group Definitions (Contested Issues G-1 and G-2)</u>

Q. Should Ameren's 400 kW to 1 MW customers be combined with larger customers? (Contested Issue G-1?)

A. We do not recommend that Ameren's 400 kW to 1 MW customers be combined with customers over 1 MW, for purposes of defining the load groups to be served by the BGS-FP and the BGS-LFP auction products.

Q. Please explain your answer.

A. In the 2005 Procurement Dockets, the Commission accepted recommendations from Staff and other parties to combine ComEd's 400 kW to 1 MW customer group with ComEd's 1 MW to 3 MW customer group. Together, these two groups made up ComEd's CPP-A group, whereas customers below 400 kW comprised ComEd's CPP-B group.

In Ameren's case, due to the lack of hourly metering on all 400 kW to 1 MW customers, the Commission found that the analogous proposal to combine these customers with larger customers would be impractical. However, the Commission agreed with Staff that given the relatively low cost of installing the necessary metering, the Ameren Companies should be required to begin the process of installing such meters, and to complete that process within two years. The Commission further concluded that the proposal to combine the 400 kW to 1 MW customers with the larger customers may appropriately be revisited in subsequent auctions when the necessary data is available by virtue of metering or other means.

If the date of the Commission's Final Order in the 2005 Procurement Dockets is taken as the starting point, the installation of the hourly meters should be complete by the end of January 2008 or sooner. Thus, hourly metering of Ameren's 400 kW to 1 MW customers should be in place in time for the start of the next round of supply contracts, which we presume will remain June 1, 2008 (as currently stated in the tariffs).

However, at this time, Staff's review of switching data indicates that the majority of Ameren's 400 kW to 1 MW have not switched to alternative retail suppliers and remain on the company's fixed price service, whereas the vast majority of customers over 1 MW have switched to alternative suppliers or the company's real-time pricing services. Nevertheless, the 400 kW to 1 MW customers still represent only 6 percent of the total kilowatt-hours on the Company's BGS-FP service (which is for all customers under 1 MW). Hence, while the 400 kW to 1 MW customers could be combined with the above 1 MW customers that currently comprise Ameren's BGS-LFP load group, we simply do not believe it would be necessary to do so in order to protect the remainder of the BGS-FP group from switching risk premiums that could potentially be associated with the 400 kW to 1 MW customers. That is, we believe the extent and impact of those premiums on the BGS-FP are negligible and that the 400 kW to 1 MW customers potentially have more to lose by being grouped with the larger customers than the smaller customers have to gain by such a change.

Q. Should separate auction products be constructed for residential and small non-residential customers in an effort to minimize or avoid switching risk premiums with larger customers that have more competitive alternatives? (Contested Issue G-2)

A. In principle, we do not oppose this concept, particularly for the residential customers, 100% of whom still remain on the utilities' fixed price services. We would only point out two issues surrounding the concept. First, based on the data that Staff has acquired from utilities (which shows no switching to alternative suppliers by residential customers and almost no switching by very small non-residential customers), we would expect that such a bifurcation would lower the prices available to the residential and small non-residential customers and would raise the prices available to the medium-size non-residential customers, although neither result is guaranteed to actually occur. Second, such a bifurcation would raise the same type of measurement concern that was involved in the case of Ameren's 400 kW to 1 MW customers in the last auction. Specifically, for purposes of computing the hourly load served under each of the various auction contracts, we need to have hourly metering on all customers or on all customers except those that fall within one and no more than one of the customer supply groups defined in the supply contracts. Otherwise, we must rely on hourly meter data for representative samples of customers within those groups that do not generally have hourly meters throughout their ranks. Hourly demand meters are generally not installed on residential and small non-residential customers, so the alternative of using representative samples would be necessary.

E. Post-Auction Commission Review of Results (Tentatively Uncontested Issue J-1)

Q. Should Staff have one day to review the Auction Manager's Confidential Report to the Commission prior to submitting the Staff's Confidential Report to the Commission? (Tentatively Uncontested Issue J-1)

A. Yes. The current tariffs provide for both a Staff Report and an Auction Manager Report at the end of two business days following the completion of each auction. The tariffs also call for a Commission decision to approve or reject the results of the auction at the end of an additional three business days. Following the September auction, Staff found its two-day review period to be too restrictive, primarily with respect to the portion of its report that provides an assessment of the Auction Manager Report.

Thus, Staff recommends that Staff be granted one additional business day to prepare its report, during which time it can review the Auction Manager Report. Furthermore, the Commission would presumably also wish an additional business day, so that Staff's additional day does not reduce the amount of time available for the Commission to review Staff's report.

Alternative, if the Auction Manager's Report can be produced in one business day rather than two business days, then this would also address Staff's concern. That is, if the Auction Manager can produce the Auction Manager report within just one business day, Staff can continue to provide its report within two.

F. <u>Confidentiality of Bidder Information (Tentatively Uncontested Issue K-1)</u>

Q. Should the tariffs provide greater detail about confidential treatment of information? (Tentatively Uncontested Issue K-1)

A. We note that both ComEd's Rider CPP and the Ameren Illinois Utilities' Rider MV include the following provision in the description of the Auction Manager's responsibilities:

> 20. Retain confidential bidding data, application forms, and notifications of status to bidders associated with an Illinois Auction Section in a confidential manner for a period of time extending at least two (2) years

> beyond the date of the expiration of the longest term SFC executed in accordance with the results for such Illinois Auction Section.

To clarify the above-quoted provision, we recommend that "confidential bidding data" be defined in these riders to include:

> all bidding data except for: (1) the names of the winning bidders, which shall be revealed to the public when the Auction Manager issues a Declaration of a Successful Auction Result; (2) the precise number of registered bidders, the ranges of excess supply for each section and the going prices for each product reported to bidders during the auction, and the number of tranches of each product won by each of the winning bidders, which shall be reported by the Auction Manager and by the Staff to the public within May of the year in which the auction takes place; and (3) any other information that the Auction Manager and the Staff, to fulfill their respective responsibilities, deem necessary to convey in their public reports on the auction, as described in [the CPP Documents section of the Competitive Procurement Process part of this Rider [for ComEd] or the CPA Documents section of the Competitive Procurement Auction Process part of this Rider [for the Ameren Illinois Utilities]].

Q. Does this conclude your prepared direct testimony?

A. Yes.