

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 06-0800

DIRECT TESTIMONY

OF

CRAIG D. NELSON

Submitted On Behalf

Of

**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
(The Ameren Illinois Utilities)**

MARCH 15, 2007

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CRAIG D. NELSON

Q. Please state your name and business address.

A. My name is Craig D. Nelson. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. Please describe your education and work experience.

A. I am Vice President - Strategic Initiatives of Ameren Services Company ("Ameren Services") and Vice President – Power Supply Acquisition of 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 (the "Ameren Illinois Utilities"). I earned a bachelor's degree in accounting in 1977, graduating with highest honors and a master's degree in business administration in 1984. Both degrees were awarded by Southern Illinois University – Edwardsville. I am a Certified Public Accountant. I worked for Arthur Andersen & Co. from 1977 to 1979, when I joined Central Illinois Pubic Service Company as a Tax Accountant. In 1979, I was promoted to Income Tax Supervisor. I served in various tax and accounting positions until 1985 when I was appointed Assistant Treasurer. In 1989, I became Treasurer and Assistant Secretary, a position I held for seven years. In 1996, I was elected Vice President of Corporate Services. After Union Electric and CIPSCO Incorporated merged, I was named Vice President, Merger Coordination for

24 Ameren Services effective December 31, 1997. In 1998, I assumed the additional
25 responsibility of Vice President of Regulatory Planning. Effective June 1, 1999, I
26 was appointed Vice President, Corporate Planning. Effective October 15, 2004, I was
27 appointed Vice President- Strategic Initiatives. Most recently, effective September 1,
28 2006, I was also appointed Vice President – Power Supply Acquisition for
29 AmerenCILCO, AmerenCIPS and AmerenIP. My duties and responsibilities include
30 Ameren's business and corporate services initiative and power supply acquisition for
31 the Ameren Illinois Utilities.

32 **Q. What is the purpose of your direct testimony in this proceeding?**

33 A. My direct testimony recommends changes in the auction process that would serve to
34 improve the auction process and/or reduce certain risks to power suppliers, thereby
35 creating the potential to reduce the overall cost of power and energy for customers of
36 the Ameren Illinois Utilities. My testimony also recommends a change in the
37 Supplier Forward Contracts (“SFCs”) which would enhance the reliability of power
38 supply for customers.

39 **Q. Beyond these changes are there other auction improvements and contract
40 changes being offered by the Ameren Illinois Utilities?**

41 A. Yes. Mr. Jim Blessing, in his direct testimony, will be detailing several other changes
42 which serve to reduce risk to suppliers (and thus are expected to result in a lower
43 price).

44 **Q. What improvements to the auction process are you recommending?**

45 A. My first recommendation is to reduce the number of days between the end of bidding
46 and the end of any applicable enrollment window. This can be accomplished by
47 implementing two specific changes:

48 1. Reduce the number of days the Ameren Illinois Utilities have to submit the
49 Retail Supply Charge Informational filing from nine to two business days
50 from the declaration of a successful result.

51 2. Shorten the enrollment window for all BGS-LFP Customers to 20 days.

52 Also, I recommend that suppliers be provided more frequent and timely updates of
53 customer switching activity during the enrollment period.

54 **Q. Why do you recommend a reduction in the number of days between the end of**
55 **bidding in the auction and the end of the applicable enrollment window?**

56 A. Simply put, reducing this timeline is expected to result in a lower cost to customers
57 served with BGS-LFP supply.

58 **Q. Why would you expect this to result in a lower cost to these customers?**

59 A. BGS-LFP suppliers face an uncertain load obligation until such time as the
60 enrollment window closes. When the enrollment window closes, they must serve the
61 resulting load obligation at the price determined in the auction. The closer that these
62 two events occur (the end of the auction and the end of the enrollment window), the
63 less risk these suppliers face. Conversely, the further apart these two events occur,
64 the more risk these suppliers face. This risk exists regardless of whether the supplier
65 commits supply resources for its maximum potential obligation and then disposes of
66 any excess once the obligation is known, or waits until the obligation is known and
67 then commits the needed supply resources.

68 This uncertain load obligation and the risk that the price of electricity may change
69 during this period, to the detriment of the supplier, is reasonably expected to be
70 factored into a supplier's willingness to serve this load at a given price. And, the
71 greater the risk, the greater the premium one would expect a supplier to include in its
72 calculations.

73 **Q. What would suggest to you that such a risk premium would be included by**
74 **suppliers?**

75 A. The significant difference between the final auction price for BGS-FP Supply and
76 BGS-LFP Supply is a strong indication that such a premium was applied. Given that
77 (1) there is no switching uncertainty after the window closes (as opposed to the BGS-
78 FP where such switching could continue throughout the term of the contract), (2) the
79 load shape of the BGS-LFP eligible load has had a higher load factor in every month
80 since June 2003 and (3) the SFC for BGS-LFP was virtually identical to that of BGS-
81 FP, that seemingly leaves the great uncertainty regarding the ultimate load obligation
82 and the price volatility risk during the window as the driving force for the price
83 disparity.

84 **Q. If the length of time between the end of bidding in the auction and the end of the**
85 **enrollment window is the cause of this premium, why wouldn't you expect an**
86 **even larger premium in the BGS-FP class, where the customers are not locked**
87 **in, but rather can switch throughout the contract term?**

88 A. If these customers were expected by suppliers to have the same propensity to switch
89 as the BGS-LFP customers, I would expect there to be an even larger premium
90 associated with the BGS-FP Supply than with the BGS-LFP Supply. However,

91 nothing in my experience would suggest that this is the case. To the contrary, my
92 experience indicates a much higher propensity to switch by BGS-LFP customers.
93 The existence of the enrollment window itself was an acknowledgement of the BGS-
94 LFP group's propensity to switch.

95 **Q. You suggest that the first step in reducing this timeline is to reduce the number**
96 **of days the Ameren Illinois Utilities have to submit the Retail Supply Charge**
97 **Informational filing from nine to two business days. Is this realistic?**

98 A. Yes. As will be further detailed by Mr. Lenny Jones there are no significant hurdles
99 to this being accomplished. In fact, in the first auction, this data was provided in five
100 business days.

101 **Q. Your second recommendation dealt with shortening the customer enrollment**
102 **window. Wasn't this an issue in the prior docket?**

103 A. Yes. The length of the window was the subject of considerable debate in the prior
104 docket – one which attempted to balance providing customers with sufficient time to
105 analyze competing offers and the price premium associated with the load uncertainty
106 created by the enrollment window.

107 **Q. In its Final Order in Dockets 05-0160/0161/0162 Cons. (p. 213), the Commission**
108 **stated its belief that “the duration of the enrollment window will have a direct,**
109 **significant and immediate impact on the development of the Illinois retail**
110 **electricity market.” Did the enrollment window in fact have such an impact in**
111 **your opinion?**

112 A. Absolutely. I believe that the length of the enrollment window for BGS-LFP
113 suppliers contributed to a substantial price premium for the BGS-LFP product and

114 that this created substantial headroom for ARES. In the face of BGS-LFP prices
115 which included this premium only 28 out of the 540 customers (5.2%) eligible to take
116 BGS-LFP Service did so (the 28 customers represent only 50 of 1853 MW's of peak
117 demand (2.7%)). Customer switching activity has been extremely robust since the
118 close of the enrollment window.

119 **Q. Are you suggesting that customer switching is not desirable?**

120 A. Absolutely not. The Ameren Illinois Utilities are indifferent as to whether customers
121 purchase their power and energy supply from ARES or the Utilities. However, it was
122 not my understanding that it was the intent of the Commission to turn the Utilities'
123 fixed price rate offering into a non-economical alternative for customers, in effect
124 forcing them off of the service. Instead, the intent should be to offer economical
125 choices to customers.

126 **Q. Are there other actions that the Ameren Illinois Utilities could take during the**
127 **enrollment window to reduce uncertainty for BGS-LFP Suppliers?**

128 A. Yes. I am recommending that BGS-LFP Suppliers be provided with frequent updates
129 of customer activity during the enrollment period. Specifically, postings on
130 enrollment statistics would be provided to Suppliers. As shown in the table below
131 notices were received by the Ameren Illinois Utilities throughout the enrollment
132 period. Providing updates on this data during the enrollment period could provide
133 suppliers with indications of enrollment behavior.

134

Notices Received/Numbers Enrolled

135

136

137

138

139

Day	> 3	1-	Enrolled
	MW	3MW	
1-10	19	14	1
11-20	53	50	0
21-30	98	71	2
31-40		39	0
41-50		184	13
	170	358	16

140

Updates would be provided throughout the enrollment period no later than the close

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of business of each Monday, for responses received during the prior week.

142

Q. Are there other factors to consider in this second auction regarding the

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enrollment period?

144

A. Yes. In the first auction, most BGS-LFP eligible load was already on utility supply

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(including PPO) and had to opt-out of the BGS-LFP group. In this coming auction,

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the opposite is the case – the vast majority of BGS-LFP eligible load is being served

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by ARES, and as such, must opt-in.

148

Additionally, it must be recognized that during the enrollment period there was

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considerable debate in the Illinois General Assembly related to a potential extension

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of the rate freeze.

151

Q. Why would these two issues matter?

152

A. In the first auction, this large majority all had to make an enrollment decision at the

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same time, and if they enrolled or took no action they lost access to all other supply

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alternatives for a full year. Now, with the tables turned, the availability of BGS-LFP

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at a point in time is just one of the options available to them. If they fail to act during

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that window, they still have multiple alternatives available to them. Additionally,

157 they may have no need to act during this time, as they may have entered into longer
158 term agreements with alternate suppliers, and thus would not view BGS-LFP as an
159 available option anyway. Also, given the high level of switching that has already
160 occurred, it is reasonable to assume that much of the marketing groundwork has
161 already been laid. Customer contact has been made, relationships developed and
162 customers have experience under their belt. This should facilitate the process when
163 the next BGS-LFP enrollment is available.

164 The debate in the General Assembly introduced uncertainty for customers, effectively
165 holding out the possibility of another rate option for them. It is reasonable to assume
166 that customers may have held back from making definitive elections regarding their
167 power supply while they waited to see what happened on this issue.

168 **Q. Are you proposing that the enrollment window for all BGS-LFP customers be**
169 **reduced to 20 days?**

170 A. Yes.

171 **Q. Why is 20 days appropriate?**

172 A. I believe 20 days strikes the appropriate balance between providing customers with
173 sufficient time to compare the outcome of the auction and the desire to limit the price
174 premium associated with the length of time between the end of bidding and the close
175 of the enrollment window. A significant portion of customers have already
176 demonstrated the ability to take action within this time period. As demonstrated in
177 the chart above, I would note that 42% of the over 3 MW and 18% of the 1-3 MW
178 responses received during the enrollment period came in during the first 20 days. Of
179 the remainder, 40% (49% of the > 3 MW and 35% of the 1-3 MW) were received on

180 the final three business days of the applicable enrollment window. This suggests that
 181 it is reasonable to believe that whether the period is 20, 30 or 50 days there is a
 182 significant group of respondents that will wait until the last day to provide such a
 183 notice to eliminate a supply option.

184 Reducing the window to 20 days, when combined with the reduction in the amount of
 185 time provided to make the Retail Charge Informational Charge filing will
 186 significantly reduce the lag between the close of the auction – the point at which the
 187 suppliers potential obligation is truly created – and the end of the enrollment window
 188 – the point at which the obligation is known with reasonable certainty. To illustrate
 189 this reduction, the following chart compares the timeline using the current deadlines
 190 with that using our proposed changes for a January 2008 Auction where bidding
 191 would end on January 18, 2008. (Please note that this date is for illustration purposes
 192 only and is should not be viewed as a recommendation for when the auction should
 193 be held.) As you can see our proposal would reduce the time lag between the close of
 194 bidding and the end of the auction by more than 50%.

<u>Current Timeline</u>		<u>Proposed Timeline</u>	
Fri 1/18	Close of Bidding	Fri 1/18	Close of Bidding
Mon 1/28	Declaration of Successful Result	Mon 1/28	Declaration of Successful Result
Fri 2/8	Informational Filing/Supply Charge	Wed 1/30	Informational Filing/Supply Charge
Sat 2/9	Start of Enrollment Period	Thurs 1/31	Start of Enrollment Period
Mon 3/10	End of 30 Day Enrollment Period	Tues 2/19	End of 20 Day Enrollment Period
Tues 3/25	End Of 45 Day Enrollment Period		
<u>67</u>	<u>Total Days From Close of Bidding</u>	<u>32</u>	<u>Total Days From Close of Bidding</u>

195

196 **Q. Are there other potential benefits with reducing this timeline?**

197 A. Yes. Reducing this timeline would provide greater flexibility around potential start
 198 dates for the auction.

199 Q. **In your purpose statement above, in addition to the auction process changes**
200 **discussed above to reduce the timeline between the close of the bidding and the**
201 **end of the enrollment period, you mentioned a change in the Supplier Forward**
202 **Contracts that will enhance the reliability of power supply for customers. What**
203 **is that change?**

204 A. The current SFC requires suppliers to identify to the Ameren Illinois Utilities the
205 resources that they will use to provide capacity to the Utilities to meet their resource
206 adequacy requirements. However, it also contains a provision to allow a supplier to
207 provide notice to the Ameren Illinois Utilities that it believes such information is
208 commercially sensitive and thus not provide the information. I am proposing the
209 removal of this provision.

210 Q. **How will removing this provision enhance the reliability of power supply?**

211 A. The statutory obligation for providing power and energy to customers rests with the
212 Ameren Illinois Utilities themselves. Not allowing the Utilities themselves access to
213 the very information that confirms that this obligation is met places the Ameren
214 Illinois Utilities in an untenable situation. Removing this provision will provide the
215 Utilities with timely access to the information necessary to verify that this obligation
216 and related resource adequacy obligations are met and to allow them to take action to
217 remedy the deficiency if they are not.

218 Q. **Doesn't the SFC make the Supplier and not the Ameren Illinois Utilities**
219 **responsible for reliability and resource adequacy?**

220 A. As noted above, the ultimate obligations rest not with the supplier but with the
221 Ameren Illinois Utilities. The Utilities, and not the suppliers, are the Load Serving

222 Entities (“LSEs”) for the loads. The resource adequacy obligation is imposed upon
223 the LSEs. Our ability to meet this obligation for the BGS Load is secured through the
224 auction and the resulting SFCs. Should a supplier fail to provide sufficient resources
225 to allow the Ameren Illinois Utilities to meet these obligations, the Utilities are
226 obligated to take action to remedy the deficiency.

227 **Q. What are the consequences if an LSE has failed to meet its resource adequacy**
228 **obligation?**

229 A. Ultimately, there is a risk of being directed by the MISO to shed load. Prior to such
230 an event however, the LSE would not be in compliance with the MISO Tariff (a
231 FERC-approved tariff), applicable RRO requirements and obligations of any planned
232 reserve sharing group of which it may be a member. While there are no specific
233 financial penalties at this time for such non-compliance, there is considerable
234 discussion of such penalties in the future. Additionally, should an LSE’s membership
235 in a planned reserve sharing group be revoked as a result of such non-compliance, it
236 is possible that its reserve requirement would be increased.

237 **Q. Why would the LSE be at risk of targeted load shedding?**

238 A. MISO’s day-ahead and real-time resource sufficiency reports are intended to identify
239 LSEs who are capacity deficient. Those entities who do not resolve such deficiencies
240 increase their potential for being directed by MISO to shed load when there is a
241 capacity deficiency in MISO.

242 **Q. Does this raise any specific issues in the case of BGS Load?**

243 A. Yes. A BGS Supplier’s supply obligation is not defined by a discrete group of
244 customers out of the larger class of BGS Customers, but rather they serve a

245 percentage of the overall obligation. Further, virtually none of the Ameren Illinois
246 Utilities' retail distribution customers have supervisory controls in place on their
247 loads to allow that only they and no one else is disconnected. What this means is that
248 when, e.g., AmerenCILCO is ordered to shed load it is not possible to only shed
249 BGS-LFP customer load associated with marketer X. It is not even possible to only
250 shed BGS-LFP load. In fact, if such a targeted load shed were to occur, the load shed
251 would likely include BGS-FP, BGS-LFP, RTP-L and ARES loads.

252 **Q. Since the Final Order was issued in the prior docket have the Ameren Illinois**
253 **Utilities had experience related to this issue which is pertinent here?**

254 A. Yes. I would note three specific items here:

- 255 • only one of the nine BGS Suppliers invoked this provision of the SFC and did
256 not provide this information directly to the Ameren Illinois Utilities;
- 257 • as we noted in the prior docket, this information is made available to
258 Ameren's Transmission Services function by the MISO; and
- 259 • the Utilities have had significant experience purchasing capacity to meet their
260 RTP-L load obligation.

261 **Q. What is the significance of the first item?**

262 A. I believe it strongly supports the argument against the notion that providing such
263 information to the buyer is harmful to the process. The one supplier who invoked this
264 provision had a capacity obligation of only 0.2% of the total BGS-Load capacity
265 obligation. Suppliers representing 99.98% of the obligation provided the data
266 directly.

267 **Q. What is the significance of the second item?**

268 A. If the argument against providing the information is that it is commercially sensitive,
269 surely the fact that the information is available anyway directly refutes this argument.
270 The specific resource data that is the subject of the SFC's provisions was made
271 available to Ameren's Transmission Services function in the course of the Network
272 and Commercial Model review process. Furthermore, the development within MISO
273 of a day-ahead and real time resource sufficiency report creates an obligation to
274 communicate unit specific data to the balancing authority – which in this case is
275 Ameren's Transmission Services group.

276 **Q. What is the significance of your third item?**

277 A. When the Commission opened an investigation of the BGS-LRTP results, the supply
278 obligation for this load remained with the Ameren Illinois Utilities themselves. In
279 order to meet this obligation they have been purchasing capacity from the market. As
280 part of each transaction, the supplier is required to identify a specific MISO
281 deliverable resource providing said capacity. In the initial RFP for such capacity the
282 Ameren Illinois Utilities solicited bids for up to 2150 MWs of capacity and received
283 offers totaling 5054 MWs. This is a strong indication that the inclusion of this
284 requirement was not an impediment to obtaining a competitive result.

285 **Q. What do you believe that your experience since the last auction, as illustrated by**
286 **these three items, suggests in the context of this discussion?**

287 A. It demonstrates that the argument regarding identifying resources suppliers will use to
288 fulfill their obligations under this contract to the buyers – the Ameren Illinois Utilities
289 – will somehow result in higher prices is more of an academic exercise than a
290 practical reality.

291 Continuing to include a provision in the SFCs that permits a supplier to not supply
292 this information directly only serves to complicate the administration of the
293 agreement – it certainly does not protect any supposed commercial sensitivity of the
294 data itself.

295 **Q. Are there any other points you would like to make on this issue?**

296 A. Yes. I don't believe that it is an over-simplification of the matter to state that it is
297 only common sense to expect that the buyer of something should be able to confirm
298 that it receives what it purchases. The SFC specifies that capacity is being sold by the
299 supplier. Verification of receipt is a fundamental concept in any transaction. The
300 Ameren Illinois Utilities clearly should be permitted to verify on a timely basis, for
301 themselves and their customers, that they are receiving what they are paying for.

302 **Q. In summary, what is the expected result should your proposals be adopted?**

303 A. Lower cost and enhanced reliability. These recommendations and those of the other
304 Ameren witnesses serve to reduce uncertainty within the process and thus reduce risk
305 to the suppliers. Risk of load uncertainty related to customer switching is addressed
306 by my recommendations to reduce the time lag between the close of the auction and
307 the end of the enrollment period. Uncertainty relating to interpretation of the SFCs
308 and various credit-related issues are addressed by the recommendations proposed by
309 Mr. Jim Blessing in his testimony. In summary, our recommendations are expected
310 to result in lower costs for customers.

311 **Q. Does this conclude your direct testimony?**

312 A. Yes.