ILLINOIS COMMERCE COMMISSION

DOCKET NO. 06-0800

REBUTTAL TESTIMONY

OF

JAMES C. BLESSING

Submitted On Behalf

Of

CENTRAL ILLINOIS LIGHT COMPANY d/b/a AmerenCILCO

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY d/b/a AmerenCIPS

ILLINOIS POWER COMPANY d/b/a AmerenIP

(The Ameren Illinois Utilities)

April 6, 2007

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OF

JAMES C. BLESSING

I INTRODUCTION

Q. Please state your name and business address.

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

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

A. Yes.

Q. What is the purpose of your rebuttal testimony?

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

II SUPPLIER FORWARD CONTRACT (SFC)

Q. What is the purpose of this section of your rebuttal testimony?

A. The purpose of this portion of my rebuttal testimony is to respond to certain non-credit related SFC issues raised by Dynegy witness Mr. Barry Huddleston. Credit related issues raised by interveners are being addressed by Mr. Timothy L Moloney on behalf of the Ameren Illinois Utilities.

Q. What non-credit related issues will you discuss that were raised by Mr. Huddleston?

A. I will address the following issues raised in Mr. Huddleston's direct testimony:

1. Damage provisions contained in Section 5.3.c. (Lines 215-233)
2. Sharing of the impacts of changes in MISO Rules. (Line 251-267)
3. A penalty imposed on the utility if the supplier is unable to supply due to infrastructure problems on the utilities' system. (Lines 269-298)
4. Line of Demarcation for taxes. (Lines 299-308)
5. Procurement of Ancillary Services. (Lines 309-345)
6. Separate SFCs for each of the three Ameren Illinois Utilities. (Lines 346-357)
7. Utility Assignment of SFC. (Lines 233-249)

Q. Please discuss the first Dynegy SFC issue.

A. Mr. Huddleston seeks to include in the SFC damage provisions related to the failure of the Ameren Illinois Utility to accept Basic Generation Service – Fixed Pricing ("BGS-FP") Supply, language which is symmetrical to the damage provisions contained in Section 5.3.b that result of a BGS-FP Supplier default. (DYN Exhibit 1.0 at page 10) After reviewing Mr. Huddleston's testimony and proposed changes to the SFC, the Ameren Illinois Utilities are willing to accept the change in concept and agree to make the following modifications to the SFC in order that Sections 5.3.b and 5.3.c be symmetrical. We believe, on balance, this is a fair compromise.

5.3.c Failure By the Company to Accept BGS-FP Supply Tendered by the BGS-FP Supplier

Damages resulting from the failure of the Company to accept BGS-FP Supply tendered by the BGS-FP Supplier necessary to meet the BGS-FP Supplier Responsibility Share of BGS-FP Load under this Agreement shall consist of the positive difference (if any) between the amounts that would have been payable to the BGS-FP Supplier hereunder had the Company accepted the BGS-FP Supply tendered by the BGS-FP Supplier necessary to meet the BGS-FP Supplier Responsibility Share of BGS-FP Load under this Agreement minus the amount realized by the BGS-FP Supplier in disposing, in a reasonable commercial manner, of the BGS-FP Supply not accepted by the Company; provided, however, that the Company shall not be required to accept quantities of Energy, Capacity or any other component of BGS-FP Supply utilized by Customers on an instantaneous basis as a function of electrical load, in excess of such Customers' instantaneous consumption of such component of BGS-FP Supply. ***Damages include, but are not limited to the following:***

(i) all charges that are assessed by the MISO to the BGS-FP Supplier that, but for the Company's failure to accept delivery, would not have been charged to the BGS-FP Supplier;

(ii) reasonable administrative and legal costs associated with disposing of the BGS-FP Supply for which the Company failed to accept delivery; and

(iii) financial hedging costs reasonably incurred by the BGS-FP Supplier as a result of having to dispose of BGS-FP Supply for which the Company was obligated, but failed, to accept delivery pursuant to this agreement.

Q. Please discuss the second Dynegy SFC issue.

A. Mr. Huddleston proposes that the SFCs be modified to provide for a sharing of the cost of MISO rule changes between suppliers and the Ameren Illinois Utilities. The Ameren Illinois Utilities do not agree with this change. I would first note that Mr. Huddleston's testimony is more than a bit misleading in its description of this issue. When one makes a detailed reading of DYN Ex. 1.1, it

is quite evident the actual language Mr. Huddleston proposes to include in the SFC does not represent a simple sharing of such consequences. Rather, it is clear that he only proposes to share the consequences of such a rule change when they are negative to the supplier – thus continuing to have 100% of any positive consequence accrue to the benefit of the supplier. Intentional or otherwise, this is not an appropriate sharing as Mr. Huddleston's testimony reads. Second, the long list of changes referenced in the language goes far beyond MISO rule changes to include such nebulous terms as MISO "pricing", "market conditions" and "market rules". I am simply unable to determine the limits – if any – of what he is suggesting. As I read this language, any changes in market conditions – e.g., something as simple as the supply and demand balance, the price of crude oil, changes in weather patterns or a change in forward pricing – will now result in a sharing of any negative consequences (as the positive consequences are fully retained by the supplier). Such far-reaching, ambiguous language is clearly unacceptable. Third, I would ask how such "adverse financial consequences" could reasonably be determined. While it may appear easy to determine the consequence of a price change, for example, with specified prices and volumes; attempting to quantify the cost of a change such as what time MISO closes the day-ahead demand bidding, for example, is nearly impossible, and even then purely theoretical. I suggest the adoption of Mr. Huddleston's proposal will result in near-constant litigation over the minutia of each change that any given supplier may divine. The SFCs should not be modified to incorporate such sharing language – particularly language which would force the Ameren Illinois

Utilities to share the cost of negative consequences without being able to enjoy any of the benefit of positive consequences and which is so broad in scope as to be nonsensical. This is especially so when one considers that the consumer bears the ultimate cost of a MISO rule change, whether borne by the supplier and incorporated in its pricing, or shared between such a supplier and the utility, with the latter including such costs within the customer's rate. The customer will only see a savings to the extent that the level of the winning bids at auction is lower than it would be otherwise AND that this reduction is greater than the cost transferred to the utilities and incorporated into rates. Put simply, the intent of the Auction process is not to make the price of the auction products the lowest possible, but rather to end up with the lowest overall cost to the consumer when all things are considered.

Q. As indicated earlier, Mr. Huddleston's proposal regarding this second issue also includes a provision that the Ameren Illinois Utilities' would bear 100% of the negative consequences of any such change which they initiated or proposed. Do you agree with this particular portion of his proposal?

A. No. As detailed above, the entire proposal should be rejected as even the premise behind the proposal is in error. The MISO Stakeholder process involves a wide variety of market participants; including suppliers, generators, LDCs, regulators, municipalities, cooperatives, customer groups and industry consultants. No single participant is able to dictate change. In fact, the voting structure within this process is such that those with common ownership have a single vote. For example, all of the Ameren utilities – both in Illinois and Missouri, Ameren

Services Company, Ameren Energy Marketing, Ameren Energy Resources, etc. – collectively have one vote. Similarly, Dynegy, and all of the associated entities within Dynegy have one vote. The smallest co-op member of MISO has one vote. Change in the Stakeholder process is effected through majority support of the 96 stakeholders who hold a vote and clearly having only one vote for the entire corporate family does not allow the Ameren Illinois Utilities to dictate change. Further, given the voting structure within MISO, I am unclear as to how Mr. Huddleston would determine that one of the Ameren Illinois Utilities had initiated or proposed a change. I foresee even more dispute and litigation over this issue as suppliers may attempt to cast any proposal by any Ameren entity – even one which was itself a BGS Supplier - as initiated by one of the three Ameren Illinois Utilities. Additionally, Mr. Huddleston's proposed language would seemingly attempt to discourage the utilities from proposing changes at MISO, which are beneficial to the overall market, but which may have a negative consequence for certain entities.

Q. Please discuss the third Dynegy SFC issue.

A. Mr. Huddleston proposes that the SFCs be modified "to include language that requires utilities to pay Suppliers damages for instances where the utilities did not follow Prudent Utility Practice resulting in load not being served by Suppliers." The Ameren Illinois Utilities do not agree with this change. My reasoning for initially opposing this proposal was detailed in my Surrebuttal testimony (Ameren Ex. 18) in ICC Dockets Nos. 05-0160/0161/0162 consolidated. Nothing to date would lead me to change my position.

To summarize my opposition, Mr. Huddleston's proposal would change the nature of the SFCs from a full requirements product for the amount of energy actually consumed to a "take or pay". As an example of the impropriety of the Dynegy proposal, every outage on the system could be subject to a potential prudence review and likely result in frequent dispute and possibly litigation between the parties. It would also result in a transition from a regulatory process where prudence review is initiated by customer complaints to review initiated by suppliers. Even if imprudence were determined for a given outage, the payment of damages requires the calculation of the "as if" load and a proof by suppliers of what their actual, even specific damages were – neither of which is an exact science, and would likely lead to further litigation.

The purpose of including damage provisions into a contract is to incent proper behavior, and to provide a remedy when this does not occur. The Ameren Illinois Utilities already have such incentive without including such an unmanageable provision in the SFCs.

Q. What benefit does Mr. Huddleston attribute to this recommendation?

A. The benefit of Mr. Huddleston's "remedy" as reducing cost is dubious. I would challenge the notion that the ultimate price of the SFCs would be appreciably impacted by the inclusion of such a provision. Given that during periods of outage a supplier will either be able to sell what would the be excess supply (if the supplier was long), or avoid the purchase of supply (if the supplier was short), the amount of damages is necessarily dependent upon the available market prices at that time, but, in any case, is substantially less than the simple loss of revenue.

I would note again that the purpose of achieving the lowest overall cost to consumers – not the lowest possible auction price. Even if including this provision in the SFC may result in a slightly lower price for the auction products, that does not necessarily translate into a lower overall cost to consumers, as one must now figure in the potential cost of litigation every time an outage occurs.

Q. Please discuss the fourth Dynegy SFC issue.

A. Mr. Huddleston proposes that the SFCs be modified to clarify that the line of demarcation for taxes is at the delivery point. Mr. Huddleston did not propose any specific language for this issue based on his belief that the utilities would be proposing acceptable SFC modifications as part of their direct testimony in this case. The Ameren Illinois Utilities have indeed proposed SFC modifications in their direct testimony to address this issue. (Ameren Illinois Utilities' Exhibit 2.0, p. 12)

Q. Please discuss the fifth Dynegy SFC issue.

A. Mr. Huddleston discusses the process in which the Ancillary Services required to serve the BGS Load is procured from the market and states that "Ameren should be required to procure ancillary services in a timely manner so that Suppliers will know the cost before the auction."

Q. How do the Ameren Illinois Utilities respond?

A. The Ameren Illinois Utilities' current contracts for Ancillary Services will expire on December 31, 2007. Therefore, it will be necessary for the Ameren Illinois Utilities to procure the required Ancillary Services prior to January 1, 2008. With the next Illinois Auction scheduled for mid-January 2008, this means the

procurement will be complete and the Ameren Illinois Utilities' estimate of the resulting Ancillary Services rates will be posted to the MISO OASIS site prior to the auction. The posting of estimated rates rather than actual rates is necessary due to the nature of the pricing terms included in the ancillary services purchase contracts. The existing ancillary services contracts include a variable pricing structure and it is anticipated that the contracts that result from future procurements of ancillary services will include variable pricing as well.

Q. Please discuss the sixth Dynegy SFC issue.

A. Mr. Huddleston proposes that the Ameren Illinois Utilities should use three separate SFCs, one for each of the three utilities. The modifications that the Ameren Illinois Utilities believe are required to implement this recommendation are already included in Ameren Illinois Utilities Exhibit 2.1, which was filed as part of my direct testimony.

Q. Please discuss the seventh Dynegy SFC issue.

A. Mr. Huddleston proposes to modify Section 15.3 of the Ameren SFC to make this provision symmetrical. After reviewing Mr. Huddleston's testimony and proposed changes to the SFC, the Ameren Illinois Utilities are willing to accept the change as proposed with the exception that the proposed language will be inserted at the end of the third sentence rather than at the end of the second sentence. The following is Section 15.3 of the Ameren SFC with Mr. Huddleston's modification included:

> **15.3 Assignment**
>
> Parties shall not assign any of their rights or obligations under this Agreement without obtaining (a) any necessary regulatory approval(s) and (b) the prior written consent of the non-assigning Party, which consent shall

not be unreasonably withheld or delayed; provided, however, that the Company agrees that it shall grant its consent to a proposed assignment by the BGS-FP Supplier if the proposed assignee meets all of the Company's creditworthiness requirements then in effect under Article 6. No assignment of this Agreement shall relieve the assigning Party of any of its obligations under this Agreement until such obligations have been assumed by the assignee and all necessary consents have been obtained. Any assignment in violation of this Section 15.3 shall be void; provided, however, the Company may assign any or all of its rights and obligations under this Agreement with prior written notice to the BGS-FP Supplier but without the BGS-FP Supplier's consent, to any entity succeeding to all or substantially all of the assets of the Company, if such assignee agrees, in writing, to be bound by all of the terms and conditions and all necessary regulatory approvals are obtained ***and further provided, however, that the proposed assignee meets all of the creditworthiness requirements then in effect under Article 6.*** The BGS-FP Supplier may, with prior written notice to the Company but without obtaining the approval of the Company, assign the accounts, revenues or proceeds under this Agreement to a third party. The Company agrees that, following receipt of such notice of the assignment of accounts, revenues or proceeds and such other documentation that the Company may reasonably request, the Company will pay amounts becoming due to the BGS-FP Supplier under this Agreement directly to the designated assignee; provided, however, that nothing herein shall enlarge or expand the rights of such designated assignee beyond the rights granted to the BGS-FP Supplier and the right of such designated assignee to receive payments shall be subject to all defenses, offsets and claims of the Company arising under this Agreement. The Company further agrees that, in the event necessary regulatory approvals to effectuate an assignment have been sought in good faith but that action by the regulatory body is pending, the Company shall accept the performance of the proposed assignee as a Party to this Agreement, as co-obligor with the BGS-FP Supplier proposing to assign its interest, until such approvals are obtained; provided, however, that, in the event the regulatory body declines to grant its approval, the request for approval of the assignment shall be deemed to have been rejected for good reason.

PRODUCT DESIGN

Q. What is the purpose of this section of your rebuttal testimony?

A. The purpose of this portion of my rebuttal testimony is to respond to certain product design issues raised by Staff and interveners in their direct testimony in this case – in particular, CUB witness Mr. Christopher Thomas, IIEC witness Mr.

Robert Stephens and Dr. Thomas Kennedy and Mr. Richard Zuraski of the Staff of the Illinois Commerce Commission ("Staff").

Q. What product design issue will you discuss that was raised by CUB witness Mr. Thomas?

A. At lines 489-523 of his direct testimony (CUB Exhibit 1.0), Mr. Thomas recommends that the Ameren Illinois Utilities develop a separate auction product for it DS-1 and DS-2 customer classes (customers with demands up to 150 kW). Mr. Thomas makes this recommendation in an attempt to isolate those small customers whose supply options (and thus switching risk) are "extremely limited" at this time so as to reduce the risk premiums associated with volumetric uncertainty.

Q. What is the Ameren Illinois Utilities' position on this issue?

A. The Ameren Illinois Utilities do not object to dividing the Residential and Small Business ("R&SB") customer group into two customer procurement groups: 1) including all residential customer and those non-residential customers with peak demands up to and including 150 kW; and 2) including those non-residential customers with peak demand greater the 150 kW up to including 1,000 kW.

Q. If the Commission were to accept Mr. Thomas' recommendation to divide the R&SB customers into two customer procurement groups, what contract supply periods would the Ameren Illinois Utilities propose for each of these groups?

A. The Ameren Illinois Utilities would propose procuring the residential and non-residential with peak demands up to and including 150 kW with a mix of one-year

and three-year contract supply periods for the reasons discussed at lines 197-223 of my direct testimony (Ameren Illinois Utilities' Exhibit 2.0). For the customer group which includes non-residential customers greater than 150kW and up to and including 1000 kW, the Ameren Illinois Utilities recommend procuring 100% of the supply using one-year contract supply periods.

Q. What product design issue will you discuss that was raised by IIEC witness Mr. Stephens?

A. In his direct testimony (IIEC Exhibit 1.0) Mr. Stephens recommends continuing the use of a prequalification process, but expands the scope of the process – segmenting customers subject to an enrollment window into one of three groups: 1) those willing to pre-commit (prior to the auction) to take the fixed price services; 2) those willing to accept an enrollment window of five days; and 3) those who desire a longer enrollment window. Mr. Stephens then recommends that the next Illinois Auction include separate products for each of these three customer groups.

Q. Do you have any concerns with Mr. Stephens' recommendation to procure three separate products for the customers subject to an enrollment window?

A. Yes, I do. While I tend to agree with Mr. Stephens' opinion that dividing customers based on enrollment requirements may be a good approach, I also believe that we should not include products in the auction that will likely not produce a desirable result.

Q. What are your specific concerns with the products Mr. Stephens is proposing?

A. First, I believe it is highly unlikely that any one customer, much less a sufficient number of customers to even come close to constituting at least one full 50 MW tranche, would be willing to pre-commit, prior to the auction, to take a product not knowing the price that will result from the auction. And second, I am concerned that dividing the load as Mr. Stephens has suggested would likely result in one or more products with very little load in them which then may doom those products to failure.

Q. So what is your recommendation regarding Mr. Stephens' proposal?

A. While, as described above, I do have some concerns, there may be a way to modify the proposal to make it worth further consideration. First of all, I would recommend eliminating the idea of creating a product for customers who may choose to pre-commit. As I stated previously, I find it highly unlikely that customers will be interested in such a risky proposition. Second, I would give the Ameren Illinois Utilities and the Auction Manager the flexibility to procure the entire load using a single product or to divide the load into two products (one product for those customers who elect a seven-day enrollment window in the prequalification process and a second product for those customers who elect a longer enrollment window in the prequalification process) based on the results of the prequalification process.

Q. Please summarize your revised proposal.

A. My revised proposal would then be as follows: The Ameren Illinois Utilities would be required to complete a pre-qualification process for all customers with peak demands greater than 1 megawatt. As part of that survey, each customer

who elects to make its load eligible for the fixed price product would then be asked to check one of two boxes: 1) that they would like their load included in the seven calendar day enrollment window product; or 2) that they would like their load included in the 20 day enrollment window product. This customer survey would need to be completed at least one week prior to the date that the final tranche size data is announced. The Auction Manager, in consultation with the Ameren Illinois Utilities and Staff, would then analyze the results and determine if there is a sufficient amount of load (i.e. at least 50 MW of eligible load) in each of the two products to divide the customers, if feasible, into these two products. If the answer is no, a single product would be procured using the enrollment window indicated by the results of the pre-qualification process.

Q. What product design issues will you discuss that was raised by Staff witnesses Dr. Kennedy and Mr. Zuraski?

A. Staff witnesses Kennedy and Zuraski make two product design recommendations that I will discuss. First, they recommend that the Auction Manager be given the ability to adjust the size of the tranches based on switching statistics, and second, they recommend the use of multiple contract supply periods with a preference for the use of consecutive one-year contracts.

Q. Please discuss the first Staff issue.

A. In their direct testimony, Staff witnesses Kennedy and Zuraski 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." They make this

recommendation in attempt to keep the actual load served under the tranches of the various products roughly equal and thus facilitating competition between the products.

Q. Do the Ameren Illinois Utilities have any concerns with this approach?

A. Yes, the Ameren Illinois Utilities are concerned that this approach may have an unintended negative consequence. To illustrate, consider the BGS-LFP product which only represents approximately 50 MW of load in total, spread across 37 tranches. If the Auction Manager were to use these statistics to redefine the tranche size as recommended by Staff, this would result in only one tranche of the BGS-LFP product in the next Illinois Auction with the winner of the one tranche being responsible for serving 100% of the BGS-LFP load. The concern is that while this single tranche is expected to serve roughly 50 MW of load based on historical switching statistics; the reality is that the supplier who wins this single tranche will be expected to serve 100% of the BGS-LFP actual load up to the full 1850 MW in the albeit extreme case that all customers eligible to take the product choose to do so. While it is unlikely that the full 1850 MW of BGS-LFP load would sign up for the product following the next Illinois Auction, it is possible if not likely that with the adoption of certain modifications to the product design, such as significantly reducing the time between the close of the auction and the end of the enrollment period, the BGS-LFP tariff could become more economic for eligible customers and a significant amount of load could sign up for the product. This may make suppliers reluctant to bid on this product.

Q. So what is your recommendation regarding Staff's proposal?

A. If the Commission should decide to accept Staff's proposal to redefine the size of tranches based on the Auction Manager's analysis of the utilities' switching statistics, an upper limit should be placed on the eligible load that can be included in a tranche. That upper limit, for example, 300 MW of eligible load, would be determined by the Auction Manager in consultation with the Staff and the Ameren Illinois Utilities.

Q. Please discuss the second Staff issue.

A. In their direct testimony, Staff witnesses Kennedy and Zuraski expressed their concern that including only three-year contracts for the R&SB customers in future auctions may have the unintended effect of deterring some suppliers from bidding in future Illinois Auctions. They go on to discuss two possible solutions: 1) using a mix of varying length contracts, such as 12-month, 24-month, and 36-month; and 2) using contracts for one-year delivery periods that cover different time periods. They note that the latter option is their preferred approach.

Q. Do the Ameren Illinois Utilities agree?

A. As I discussed in my direct testimony the Ameren Illinois Utilities are now proposing to procure a mix of one-year and three-year contracts in the next Illinois Auction in an attempt to entice supplier bidding. I also note in my direct testimony that a mix of one-year and three-year contracts appears to by preferred by suppliers based on the survey performed by the Auction Manager (Auction Manager Exhibit 1.8).

Q. Do the Ameren Illinois Utilities have any concerns with the Staff's preferred approach to procure contracts for one-year delivery periods that cover different time periods?

A. Yes, the concern is that some suppliers may not be interested in committing to supply a one-year contract with deliveries beginning more than two years after the close of the auction. Based on this lack of interest, suppliers may choose to reduce their participation in the auction or not participate at all in order to avoid getting stuck serving a product with deliveries beginning more than two years in the future.

Q. Please describe how a supplier would get "stuck" serving this product.

A. Assume for a moment there is a supplier who is only interested in serving the full three year term. When bidding in the auction this supplier would bid equal quantities of each of the three one-year contracts to get to the three-year supply obligation it desires. As long as the average price of the three contracts remains at or above the price at which the supplier is willing to supply for the three-year term, then the supplier is fine. But, if the average price were to drop below the price the supplier is willing to supply, the supplier would want to withdraw some or all of the tranches from all three products. The supplier gets stuck if, because there are other suppliers bidding only on the contracts for year one and/or year two, there is excess supply for the year one contract and excess supply for the year two contract but no excess supply for the year three contract. In this case, the supplier withdrawing some or all of its tranches from all three products would have his withdrawal approved for the year one product and the year two product

but his withdrawal denied for the year three product. And if no tranches are switched to the year three product in subsequent rounds of the auction, that supplier would be stuck serving a product it does not want to serve.

Q. Wouldn't this tend to drive the auction price lower by providing additional incentive to this type of supplier to keep bidding on all three products at lower prices?

A. That may be the result but it is also possible that this type of supplier could choose to reduce his level of participation in the auction or choose not to participate at all, which would likely result in higher final auction prices.

Q. Does this conclude your rebuttal testimony?

A. Yes.

CHI-1582806v1