Rebuttal Testimony

of

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Manager

and

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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.

April 13, 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. Are you the same Thomas E. Kennedy who provided direct testimony on behalf of the Staff of the Illinois Commerce Commission ("Staff") in this docket?

A. Yes.

B. Richard J. Zuraski

Q. State your name and business address.

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

Q. Are you the same Richard J. Zuraski who provided direct testimony on behalf of the Staff of the Illinois Commerce Commission in this docket?

A. Yes.

II. Purpose of Testimony

Q. What is the subject matter of your rebuttal testimony?

A. The purpose of our rebuttal testimony is to address various issues raised by the direct testimony of most of the other witnesses in this docket. Failure on our part to address arguments raised or positions taken by any witness should not be construed as acceptance of those arguments or positions on our part or the part of the Staff.

III. Response to Coalition of Energy Suppliers ("CES") Witnesses Katie Papadimitriu and John Domagalski

Q. The CES witnesses indicate that they would oppose a shortened enrollment window or replacement of the enrollment window with a pre-enrollment procedure for large customers served on the Commonwealth Edison Company ("ComEd") and the Ameren Illinois Utilities ("Ameren") Annual Products (BES-NRA and BGS-FP, respectively). (CES Ex. 1.0, pp. 15-18). Has their testimony led you to reconsider your proposals in this regard?

A. No. The CES witnesses only argue that the Illinois Commerce Commission ("Commission") "should be wary of modifying the Illinois Auction in a manner that further restricts customers' ability to choose RES service." (CES Ex. 1.0, p. 18). We agree with this sentiment, and in making our recommendations, we have been cautious about restricting customers' ability to choose alternative retail suppliers. However, the CES witnesses neither contradict nor question that this issue involves a balancing of the trade-off between tighter switching rules and lower auction prices versus looser switching rules and higher auction prices. Furthermore, the CES witnesses have not demonstrated that our proposed rebalancing of competing goals--favoring tighter switching rules and lower auction prices--is unwarranted.

IV. Response to Dynegy, Inc. ("Dynegy") Witness Barry Huddleston

Q. On pages 12 to 14 of his direct testimony (DYN Ex. 1.0), Mr. Huddleston recommends that Ameren share some of the supplier's risk of Midwest Independent Transmission System Operator ("MISO") market rule changes. How do you respond to this proposal?

A. We believe that Mr. Huddleston's proposal would likely generate future controversy over what constitutes a "market rule change" and even more controversy over computing the level of financial consequences brought about by those changes. The Commission Staff would likely be an indirect cause of such disputes, since Ameren might reasonably anticipate that, to protect ratepayers, the Staff would use annual prudence reviews to dissect each instance where market rule changes led to utility payments to suppliers (assuming of course that Ameren would seek reimbursement of such costs through one or more of its retail rate riders). Thus, in our view, this proposal should be rejected.

Q. On pages 14 to 16, lines 309 to345 of his direct testimony (DYN Ex. 1.0), Mr. Huddleston describes several contingencies related to MISO's eventual treatment of ancillary services and, based on which contingency prevails during the life of the supplier forward contracts ("SFCs"), he recommends various alternative processes related to the purchase of ancillary services and the recovery of the costs for such purchases. Do you have a position with respect to Mr. Huddleston's recommendation?

A. From reading Mr. Huddleston's testimony, it would seem impossible or at least unwieldy to unambiguously write his contingencies into the SFCs. In fact, we note, while Mr. Huddleston provided numerous changes to the SFCs reflecting some of his other recommendations, he did not do so for this particular recommendation. Thus, this proposal would likely lead to the same kind of disputes described in the previous question and answer, and we again recommend rejection.

V. <u>Response to Illinois Attorney General ("AG") Witness Kenneth Rose</u>

Q. At lines 194 to 197 of his direct testimony (AG Exhibit 1.0), Dr. Rose is asked whether changing the length of contracts offered through the auction would reduce future auction prices, and he responds that the results from the Illinois auction suggests that there is not a considerable difference in the price outcome for the different contract lengths. Do you concur?

A. We concur that there were not considerable differences in the prices across contract length. However, we would also note that prices for electricity futures at the time of the auction displayed a downward sloping forward curve (i.e., later delivery periods were priced below earlier delivery periods). Hence, all else equal, the longer term contracts seemed to trade at a higher premium than the shorter term contracts (see page 17 of the "Post-Auction Public Report of the Staff").

Q. At lines 206 to 209 of his direct testimony (AG Exhibit 1.0), Dr. Rose states, "The frequency of the auction may not change the outcome significantly, but allowing for changes in the timing, or when the auction is held, could help reduce prices." How do you respond to this testimony?

A. Dr. Rose does not specify what changes in timing or what alternative dates for the auction he has in mind. Furthermore, he does not offer any predictions about the extent to which such hypothetical changes would reduce prices. Hence, his testimony does not appear to have any practical application for improving the auction.

Q. At lines 213 to 216 of his direct testimony (AG Exhibit 1.0), Dr. Rose states:

> **The ICC may consider a reserve price based on the wholesale market price. This would indicate that, if the auction is unable to secure sufficient supply at that price, the distribution company or some other entity could purchase power on the wholesale market, at least for short**

term purchases.

What is your reaction to this testimony?

A. We see several problems with Dr. Rose's suggestions. First, he suggests adopting a "reserve price based on the wholesale market price." However, he does not specify which "wholesale market price" would form the basis for his proposed reserve price. Based on other portions of his testimony (AG Exhibit 1.0, pp. 3-5), it seems that he might be partial to using an historical average of hourly spot market energy prices from PJM and/or MISO, although one might wonder why he would not utilize forward market prices as a more natural analogue to the auction for the various forward market contracts bought through the Illinois Auction. Also, he might consider adjusting those spot market energy prices with some measure of historical or expected capacity and ancillary service costs, although it is not clear from where these would be derived (AG Exhibit 1.0, p. 9). He might also wish to weight them with some kind of load profile (AG Exhibit 1.0, p. 9). He also does not specify how the reserve price would be "based on" the wholesale market price. That is, would the reserve price equal the historical average of spot prices (after such adjustments as described above)? Would it be some multiple of that average?

Second, and more fundamentally, Dr. Rose's suggestions implicitly assume that the auction is separate and distinct from "the wholesale market." However, we believe that the Illinois Auction is simply a component of the wholesale market--a subset of that market within which a particular type of wholesale contract is traded. Indeed, the products of the Illinois Auction are premium products that can be expected to exact premium prices. Not only are they load-following full requirements long-term forward contracts (which can be expected to carry a premium above fixed block long-term forward contracts), they are load-following full requirements contracts in retail open-access service territories (which, due to the risk of customers switching between utility supply and alternative supply, would add additional premium to the price). In the September 2006 auction, the supply contracts also included one-sided mark-to-market protection for ratepayers, which presumably added a further premium to the price. [1]

Thus, when Dr. Rose states, "if the auction is unable to secure sufficient supply at that price, the distribution company or some other entity could purchase power on the wholesale market, at least for short term purchases," this is simply another way of saying that when the auction price for these premium products inevitably turns out to be above the price of lower-grade products, the utility will have to purchase these alternatives through some kind of alternative procurement method. It is somewhat surprising that Dr, Rose does not more precisely describe the alternative products and the alternative procurement method that he has in mind. However, since his benchmark seems destined to reject the premium products of the Illinois Auction, we believe it is prudent to know what the inevitable alternatives are going to entail.

VI. Response to Citizen Utility Board ("CUB") Witness Geoffrey C. Crandall

Q. Mr. Crandall testifies that energy efficiency and demand response should be more heavily relied upon by ComEd and Ameren. (CUB Exhibit 2.0, pp. 4- 7) How do you respond to Mr. Crandall's suggestion?

A. At this point, we do not have a position with respect to whether utilities should commit greater dollars and rely more heavily upon energy efficiency and demand

[1] We note that one of the issues presented in the instant proceeding is "[s]hould the credit provisions in the SFCs be made bilateral" (Issues List filed February 22, 2007), and that Staff witness Phipps supports application of the SFC

response. Because Mr. Crandall's proposals are general in nature and contain very little detail, they are difficult to evaluate and they would be difficult to implement without considerably more elaboration and specificity. Thus, to the extent they deserve further study, Mr. Crandall's proposals would be better-suited to a docket that would be devoted to the analysis of the potential of energy efficiency and demand response programs and resources to lower electricity bills. Indeed, Mr. Crandall seems to recognize this point, and acknowledges that there may not be sufficient time until the next auction for the Commission to incorporate his proposals. (CUB Exhibit. 2.0, p. 4, lines 70-75).

On the other hand, we note that the Commission fairly recently opened rulemaking dockets to examine energy efficiency and demand response issues (Docket Nos. 06-0388 and 06-0389, respectively), but terminated those dockets on October 12, 2006. We would also note that the Commission Staff's infrastructure for evaluating energy plans and conservation programs was eliminated shortly after the 1997 repeal of Sections 8-402 and 8-404 of the Illinois Public Utilities Act ("PUA").

Section 8-402 required utilities to provide 20-year energy plans, and to include in those plans, among other things, "a demonstration that the plan fully considers and utilizes all available, practical and economical conservation, renewable resources, cogeneration and improvements in energy efficiency." Section 8-402(e) required the Commission to hold hearings on the plans, and Section 8-402(f) allowed the Commission to choose a plan that would "result in the greatest likelihood of providing adequate, efficient, reliable and environmentally safe energy services at the least cost to consumers… ."

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credit provisions to the utilities if and when their credit rating falls below investment grade. (ICC Staff Exhibit 3.0)

Similarly, Section 8-404 stated:

> Irrespective of any energy plan submitted or adopted pursuant to the provisions of Section 8-402, the Commission is also authorized to require any public utility to implement energy conservation, demand control, or alternative supply programs, including but not limited to, programs promoting energy efficient light bulbs and motors, whenever the Commission determines after hearing, that such programs are likely to be cost-effective. The Commission is also herein authorized to require the implementation of such programs on an experimental basis for the purpose of determining their cost effectiveness. (Amended by P.A. 87-812, effective July 1, 1992; repealed by P.A. 90-561, effective 12-16-97)

While we are not attorneys and are not offering a legal opinion, it is our understanding that changes to the PUA such as the repeal of Sections 8-402 and 8-404 raise issues regarding the current scope of the Commission's authority with respect to its oversight of utility-funded demand-side management programs. Indeed, the Commission's initiating orders in Docket Nos. 06-0388 and 06-0389 appeared to recognize that such issues exist by stating in each order that the Commission only wanted to consider proposals "that are based on the Commission's statutory authority as it exists at this time." Moreover, such issues may have played a role in the Commission's decision to dismiss those dockets on its own motion. We do not recommend that the Commission commence another general proceeding to consider demand response and energy efficiency programs given the open issues regarding the scope of the Commission's authority, and the current Staff resources to address those issues. If the Commission were inclined to open another round of dockets to examine the economic merits of demand response and energy efficiency programs, we believe it would be prudent to first define the boundaries of what the PUA allows with respect to Commission oversight of utility-funded demand-side management and energy efficiency programs.

Q. Mr. Crandall suggests three broadly-defined methods for pursuing demand side resources more aggressively:

> **As I have discussed, the most efficient way to procure demand side resources would be to have the utilities and state agencies involved in planning energy efficiency and demand response programs for customers. The second best approach is the three-tier demand bidding process, discussed above. While less optimal, the Commission can implement it within the existing auction framework. (CUB Exhibit 2.0, p. 18, lines 388-392)**

How do you respond to these suggestions?

A. If it is determined that energy efficiency and demand response should be more heavily relied upon by ComEd and Ameren, we agree entirely with Mr. Crandall that the least desirable approach would be to implement it within the existing auction framework. The concept of *demand side resources* is fundamentally different than the concept of *supply side resources.* There is no direct way of measuring a <u>reduction</u> in electricity demand, as there is of measuring a <u>supply</u> of electricity, and even if such measurement problems could be adequately solved, it would be simply impossible to “supply” a vertical tranche of energy efficiency (which presumably would be a constant portion of load in every hour of the year that has been reduced). Hence, the provision of demand side resource cannot be adequately compared against the supply of vertical tranches in a manner that would enable them both to be treated interchangeably in the same auction.

VII. <u>Response to IIEC Witness Robert R. Stephens</u>

Q. On lines 220 to 227 of his direct testimony (IIEC Exhibit 1.0), Mr. Stephens introduces the following concept:

> **Based on their pre-qualification choices, customers would identify themselves as (1) willing to pre-commit to procure their power supply through the auction, (2) willing to endure a very short enrollment period (such as five business days), or (3) requiring a longer enrollment period,**

> **such as 30 to 50 days. Once customers have used the prequalification options to sort themselves into one of the three segments, those segments can be defined by the utility in terms suitable for the purpose of bidding. Suppliers then would bid according to their perception of the relative risks and load profiles of each segment.**

What is your view of this concept?

A. We are intrigued by the approach suggested by Mr. Stephens. It would seem to be a means of allowing customers themselves to take responsibility for deciding what enrollment period is best for them. Thus, unless other testimony demonstrates that significant problems of practicality are likely to arise, we have no objection to the implementation of Mr. Stephens' proposal.

VIII. <u>Response to Ameren/ComEd Witness Chantale LaCasse</u>

Q. In Auction Manager Exhibit 1.4 and Auction Manager Exhibit 1.5, Dr. LaCasse presents proposed changes to the Part 1 and Part 2 Applications, respectively. On pages 18 to 21 of her direct testimony (Auction Manager Exhibit 1.0), she explains how these changes help clarify the following aspects of the applications that she opines were confusing to potential bidders:

> **Section A.7 of the Part 1 Application where prospective suppliers signify their ability to comply with the PJM requirements of the CPP Supplier Forward Contracts;**
>
> **Section A.6 of the Part 1 Application where prospective suppliers provide financial information or indicate that such information is unavailable; and**
>
> **Section B.2 of the Part 2 Application where qualified bidders specify the pre-auction security that is provided with their application.**

Do you concur with Dr. LaCasse's proposals?

A. Yes.

Q. On pages 21 to 22 of her testimony (Auction Manager Exhibit 1.0), Dr. LaCasse

proposes to provide prospective suppliers, well in advance of the application process, an additional document (see Auction Manager Exhibit 1.6) regarding the Registered Agent requirement. She also proposes that the Auction Manager develop a list of entities that are willing to act as Registered Agents to Illinois Auction applicants and guarantors, and that this list be made available to prospective suppliers upon request. Do you concur with Dr. LaCasse's proposals?

A. Yes.

Q. On page 22 of her direct testimony (Auction Manager Exhibit 1.0), Dr. LaCasse proposes rewording the Pre-auction Letter of Credit to replace the word "therefor" with the phrase "that such non-conforming demand for payment was not effected" (see Auction Manager Exhibit 1.7). Do you concur with Dr. LaCasse's proposal?

A. Yes.

Q. On page 23 of her direct testimony (Auction Manager Exhibit 1.0), Dr. LaCasse proposes to introduce a time window during which applications would be processed. Do you have a position with respect to this proposal?

A. No.

Q. On pages 24 to 31 of her direct testimony (Auction Manager Exhibit 1.0), Dr. LaCasse proposes numerous modifications to the information dissemination process preceding the auction. Do you concur with these proposals?

A. Yes.

Q. On lines 702 to 704 of her direct testimony (Auction Manager Exhibit 1.0), Dr. LaCasse states, "In general, I believe that the auction process should provide as much information as possible to all stakeholders while preserving the confidentiality

of bidder information necessary to promote participation." Do you agree with this principle?

A. Yes. Auction participation is crucial to generating competition between bidders and obtaining the lowest prices for the premium products purchased through the auction.

Q. On lines 755 to 768 of her direct testimony (Auction Manager Exhibit 1.0), Dr. LaCasse proposes that:

> **Rider MV and Rider CPP be modified so that these Riders specify the information items that would be released in the Public Report of the Auction Manager and that could be released in the Public Report of the Staff;**
>
> **Rider MV and Rider CPP be modified to state that any information other than the information released in the Public Report of the Auction Manager would remain confidential, unless publicly released by the Commission;**
>
> **the Public Report of the Auction Manager have two parts that are released at different times. The first part, containing the bulk of the information generated by the auction process and the Auction Manager's recommendations, would become available no earlier than 15 business days of the close of the auction. The second part, containing information that should be kept confidential for a longer period of time after the auction, such as the supplier-product match, would be released 60 business days after the close of the auction.**

Do you concur with these recommendations?

A. We believe that the above-cited recommendations of the Auction Manager are similar to recommendations made by us at lines 506 to 532 of our direct testimony (ICC Staff Exhibit 1.0) in this docket, although Dr. LaCasse has also recommended an alternative timeline for releasing certain information. Upon further consideration, we concur with her alternative timeline, due to the practical difficulties that she explains with the current timeline if the next auction is to be followed by another improvement proceeding. To reconcile Dr. LaCasse's proposal with ours, we would propose the following modification to our recommended definition of "confidential bidding data" found on lines 506 to 532 of our direct testimony (ICC Staff Exhibit 1.0):

> 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, which shall be reported by the Auction Manager and by the Staff to the public within the first part of their Public Reports 15 business days after the close of the auction; (3)~~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 the second part of their Public Reports 60 business days after the close of the auction~~within May of the year in which the auction takes place~~; and (~~3~~4) 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. On lines 895 to 902 of her direct testimony (Auction Manager Exhibit 1.0), Dr. LaCasse presents three other recommendations concerning the timeline:

> **Change the order of events so that the tranche targets would be announced first, then the Auction Rules would be provided in final form, and finally the Part 1 Application would be released;**
>
> **Compress the timeline between the Part 1 Application and the auction; and**
>
> **Introduce a time window during which applications would be processed where prospective suppliers could submit their applications at any time before or during the processing window.**

Do you concur with these changes?

A. We do, except for the following caveat. As we state earlier in this rebuttal testimony, we support IIEC witness Stephens' proposal (to the extent to which it is practical to implement) to give large customers a menu of three enrollment window choices (which would give bidders a menu of three large customer segments to bid for, per utility). However, if Mr. Stephen's proposal were accepted, the tranche targets for each utility's three large customer segments could not be derived (and could not be announced to potential bidders) ***until*** the customers are given an opportunity to choose among the three possible enrollment windows. That is, somewhere within Dr. LaCasse's timeline, a period for customer election of preferred enrollment window would have to be added.

Q. On pages 43 to 44 of her direct testimony (Auction Manager Exhibit 1.0), Dr. LaCasse recommends that the end of the time period during which the following bidder certifications must hold be extended to (or established to be) the date that the SFCs are signed or until the results of the auction are rejected:

> **A certification that the bidder is not associated with any other bidder according to the criteria given in the Auction Rules;**
>
> **A certification that the bidder agrees that the submission of any bid creates a binding and irrevocable offer to provide service under the terms set forth in the Supplier Forward Contract;**
>
> **A certification that if the auction is successful, a binding and enforceable contract to provide service for the number of tranches won arises under the Supplier Forward Contract, and that the bidder will execute such contract and comply with the creditworthiness requirements;**
>
> **A certification that the bidder will not substitute another entity in its place, transfer its rights to another entity, or otherwise assign its status as a bidder to another entity, and that the bidder understands that any such substitution, transfer, or assignment is null and void, and will result in its exclusion from participation in the auction.**

Do you concur with this recommendation?

A. Yes.

Q. On pages 45 to 47 of her direct testimony (Auction Manager Exhibit 1.0) , Dr.

LaCasse proposes that Rider CPP and Rider MV specify when the auction would be re-run in the eventuality that the Commission initiates an investigation into the auction results and that ICC Staff, the Auction Manager and the utilities determine that the auction should be re-run (and that prospective suppliers be made aware of the specific time at which the auction would be re-run). Do you concur with this recommend?

A. In principle, we agree with Dr. LaCasse's proposal. However, although Dr. LaCasse "proposes that Rider CPP and Rider MV specify when the auction would be re-run…," she did not actually "specify when." However, it may be more appropriate to simply revise Rider CPP and Rider MV to state that the Auction Manager shall provide a timeline to potential bidders as part of the auction rules, and that this timeline shall include a date or a range of dates within which the auction would be re-run in the eventuality that the Commission initiates an investigation into the auction results and that ICC Staff, the Auction Manager and the utilities determine that the auction should be re-run.

IX. <u>Response to Ameren Witness James C. Blessing</u>

Q. Did Ameren witness Blessing propose changes to Ameren's hourly price product?

A. Yes. On lines 126 to 142 of his direct testimony (Ameren Illinois Utilities' Exhibit 2.0), Ameren witness Blessing puts forward three changes that he claims could render Ameren's hourly price product more viable and attractive in the next auction:

> **Reduce the uncertainty of load served by capping the amount of Hourly Price capacity with both an upper and lower limit (for example 200 to 500 MW).**

> **Remove components that create risk for the suppliers, such as ancillary services, which could be addressed through a "pass through" mechanism.**

> **Use seasonal payment factors for capacity in an effort to mitigate risk borne by the suppliers that is created by customers switching on and off the hourly product on a seasonal basis because seasonal payment factors better reflect the actual cost of capacity at the time it is being used.**

Q. Did Ameren witness Blessing opine on his proposed changes?

A. Yes. Mr. Blessing states that these changes would be unlikely to sufficiently satisfy the concerns that led to the ICC opening an investigation of the results of the hourly price section of the first Illinois Auction, concluding:

> As a consequence, the Ameren Illinois Utilities support the Staff's recommendation to procure supply for the BGS-LRTP product outside the auction until such time as these alternative processes can be fully evaluated. (Ameren Illinois Utilities' Exhibit 2.0, p. 7, lines 150-152)

Q. How do you respond to this testimony by Mr. Blessing?

A. The three changes that Mr. Blessing puts forward may marginally enhance bidders' response to the hourly-price products. However, we agree entirely with Mr. Blessing's assessment that those changes would not sufficiently satisfy the concerns that led to the ICC opening an investigation of the results of the hourly price section of the first Illinois Auction.

Q. On lines 323 to 333(Ameren Illinois Utilities' Exhibit 2.0), Mr. Blessing states:

> **Several of the items for which the supplier was responsible under the original SFC's Appendix C are items for which the supplier has no practical means of mitigating the cost. A further review also indicated that certain of these costs are more closely correlated to transmission service than to supply (for example, charges related to future period network upgrades). By transferring the responsibility for such costs from the supplier to the Ameren Illinois Utilities, and leaving only those costs directly related to their activities as a MISO Market Participant or which are more typically thought of as "generation related" (specifically Schedules 3 – regulation, 5 – spinning reserves, and 6 – non-spinning reserve), it is believed that a more appropriate balance of risk is achieved**

and a lower overall cost is expected.

How do you respond to this recommendation?

A. While we do not anticipate that this particular change will have a significant impact on ratepayers, the Ameren Illinois Utilities, or auction suppliers, we have no objection to the change.

Q. On pages 16 to 18 (Ameren Illinois Utilities' Exhibit 2.0), Mr. Blessing describes proposed changes to Ameren's Rider MV to allow a portion or all of the required energy to be acquired and priced in the MISO day-ahead market, when the Limitations and Contingencies section of Rider MV are invoked. This would be accomplished by modifying Rider MV to allow the Ameren Illinois utilities to submit good faith nominations of the expected hourly energy usage to MISO on a day-ahead basis. Do you concur with this recommendation?

A. Yes. In fact, Ameren recently made an independent filing to similarly modify Rider MV as it pertains to large real-time pricing customers. As described by Mr. Blessing, it seems that certain of MISO's day-ahead charges are significantly less than their analogous real-time charges. As a result, at present, it is reasonable to expect that energy purchased in MISO's day-ahead market via day-ahead schedules of forecasted energy use will result in savings relative to residual purchases in MISO's real-time market. However, if that state of the world changes in the future, so that the expected savings from submitting day-ahead schedules turn into expected cost increases, we would hope that Ameren would make a suitable filing to rectify the situation.

X. <u>Response to Ameren Witness Leonard M. Jones</u>

Q. Mr. Jones testifies that

> **The current timeline calls for the final Market Cost data and prism 135 calendar days, or more than four months, prior to the Auction Commencement Date. Reducing the number of days before the final Market Cost data and prism are provided would provide a more current reflection of seasonal pricing to retail customers and, also may improve the likelihood of Market Cost being more consistent with what potential suppliers also see as the appropriate seasonal splits. In summary, providing final Market Cost data and prism about 75 calendar days prior to the Auction Commencement Date will provide more current pricing and a more current reflection of seasonal pricing to retail customers. (Ameren Illinois Utilities' Exhibit 3.0, p. 4, lines 78-86)**

Do you concur with this recommendation?

A. Yes.

XI. Response to Ameren Witness Craig D. Nelson, ComEd Witness William P. McNeil, and Ameren/ComEd Witness Chantal LaCasse Concerning Enrollment Windows

Q. On lines 45 to 53 of his direct testimony (Ameren Illinois Utilities' Exhibit 1.0), Ameren witness Nelson testifies:

> **My first recommendation is to reduce the number of days between the end of bidding and the end of any applicable enrollment window. This can be accomplished by implementing two specific changes:**
>
> **1. Reduce the number of days the Ameren Illinois Utilities have to submit the Retail Supply Charge Informational filing from nine to two business days from the declaration of a successful result.**
>
> **2. Shorten the enrollment window for all BGS-LFP Customers to 20 days.**
>
> **Also, I recommend that suppliers be provided more frequent and timely updates of customer switching activity during the enrollment period.**

ComEd witness McNeil and Ameren/ComEd witness LaCasse present similar testimony. Do you concur with these recommendations?

A. Yes, with only one caveat: While we support shortening the enrollment window for BGS-LFP customers to 20 days, we also support IIEC witness Stephens' alternative proposal (to the extent to which it is practical to implement) to give large customers a menu of three enrollment window choices (which would give bidders a menu of three large customer segments to bid for, per utility).

XII. Response to Ameren Witness James C. Blessing, ComEd Witness William P. McNeil, and Ameren/ComEd Witness Chantal LaCasse Concerning the Mix of Contract Terms

Q. On pages 7 to 11 of his direct testimony (Ameren Illinois Utilities' Exhibit 2.0), Ameren witness Blessing advocates serving smaller customers with a combination of 25% 1 year contracts and 75% 3 year contracts, and he puts forward a proposal for transitioning to this alternative mix of supplier forward contracts. ComEd witness McNeil (ComEd Exhibit 1.0, p. 25-26, lines 463-489) and Ameren/ComEd witness LaCasse (Auction Manager Exhibit 1.0. pp. 53-55, lines 1164-1228) provide similar testimony. How do you respond to this proposal?

A. As noted in our direct testimony (ICC Staff Exhibit 1.0), we recommend the use of sequential 1-year contracts covering a three year forward period. We continue to support this approach because it gives bidders the greatest degree of flexibility.

However, if the Commission decides to employ a mix of 1-year and 3-year contracts, we would suggest modifying the Ameren/ComEd proposal by increasing the share of 1-year contracts and decreasing the share of 3-year contracts. We would also recommend adding a 2-year contract into the mix.

Q. Why would you propose to increase the share of 1-year contracts, decrease the share of 3-years contracts, and re-introduce a 2-year contract?

A. First, as reported in the Post-Auction Public Report of the Staff (see table on p. 17), we believe that longer term contracts will contain higher risk premiums than shorter term contracts. Longer-term contracts allow more time for market prices to deviate markedly from the utility’s bundled rates. This encourages strategic (non-economic) switching by customers, and the anticipation of this by bidders raises the risk premium embedded in auction prices. Even where switching does not occur, the stickiness of a bundled rate based on longer-term contracts constitutes a less efficient price signal.

Second, from the results of the September 2006 auction, the most heavily concentrated product (e.g., with the fewest remaining bidders) was ComEd’s 2-year (plus 5-month) contract (see B 41 in the table below). In fact, Exelon Generation (ComEd’s affiliate) secured 96% (89 of the 93 tranches) of the ComEd CPP B-41 product, while Ameren Energy Marketing secured 42% of the analogous Ameren BGS FP-41 product, sharing the total FP-41 tranches with just two other bidders.

	Small						Large	
	CE			Amrn			CE	Amrn
	B 17	B 29	B 41	FP 17	FP 29	FP 41	A 17	LFP 17
Bidders	10	8	4	3	4	3	8	5
HHI	1,732	2,475	9,165	5,200	3,009	4,306	2,637	2,608

We are ***not*** claiming that the relevant market for purposes of assessing the competitiveness of the auction is each of the eight products included in the auction, individually. However, it is fair to say that the long-term products are a focal point for some concern. This is particularly the case since, in the first auction, the 3-year products comprised 33.33 percent of the total eligible load, but under the utilities’ proposal, that share would rise to 75%. Given the results of the first auction, we are concerned that there will not be enough competition for that 75% of the load if the field is limited to those bidders (like Exelon Generation and Ameren Energy Marketing) that clearly preferred the longer-term contracts.

Third, as shown in the March 1, 2007 *"Summary Report on the Questionnaire on Auction Improvements for Potential Suppliers - The 2008 Illinois Auction,"* a majority of the respondents indicated that "50% or more of the load should be allocated to the 12-month product." (Auction Manager Exhibit 1.8, bottom of page 4) Furthermore, when asked, "Are There Benefits to Adding a 24-Month Product," the majority of those respondents indicating a preference answered affirmatively (Yes-5, No-4, No Preference-4). (Auction Manager Exhibit 1.8)

Q. What specific mix would you recommend of 1-year, 2-year, and 3-year products?

A. After transitioning, we would recommend targeting an eventual mix of 50% 1-year, 20% 2-year (10% per auction), and 30% 3-year contracts (10% per auction), as shown in ICC Staff Exhibit 4.1 accompanying this rebuttal testimony. We believe this mix would solicit more bidder interest, greater competition, and lower supply costs in the upcoming auctions, while still providing adequate inter-year price stability.

Q. What mix would you recommend under your preferred plan of using three sequential 1-year contracts?

A. As shown in ICC Staff Exhibit 4.2 accompanying this rebuttal testimony, we would propose a mix of sequential 1-year contracts analogous to the mix of 1-year, 2-year, and 3-year contracts described in the previous question and answer: 70% for the first year, 20% for the second year, and 10% for the third year. This is analogous to the previously described mix of 50% 1-year, 20% 2-year, and 30% 3-year contracts because each 2-year contract includes both a first and a second year, while each 3-year contract includes a first, second, and third year. Comparison between ICC Staff Exhibit 4.1 and 4.2 renders the numerical conversion between the two approaches clearer.

Q. Does this conclude your prepared rebuttal testimony?

A. Yes.

Staff Recommended Transition to 1-, 2-, and 3-Year Contracts for Small to Medium Size Customers

	Delivery Periods								
Auction	**Jan-07**	**Jun-07**	**Jun-08**	**Jun-09**	**Jun-10**	**Jun-11**	**Jun-12**	**Jun-13**	**Jun-14**
Sep-2006	**17-month**								
	29-month								
	41-month								
Jan-2008			**12-mo**						
			24-mo						
			36-month						
Jan-2009				**12-mo**					
				24-mo					
				36-month					
Jan-2010					**12-mo**				
					24-mo				
					36-month				
Jan-2011						**12-mo**			
						24-mo			
						36-month			
Jan-2012							**12-mo**		
							24-mo		
							36-month		
			1	**1**	**1**	**1**	**1**		
Sep-2006		33.33%							
		33.33%	33.33%						
		33.33%	33.33%	33.33%					
Jan-2008			13.33%						
			10.00%	10.00%					
			10.00%	10.00%	10.00%				
Jan-2009				26.67%					
				10.00%	10.00%				
				10.00%	10.00%	10.00%			
Jan-2010					50.00%				
					10.00%	10.00%			
					10.00%	10.00%	10.00%		
Jan-2011						50.00%			
						10.00%	10.00%		
						10.00%	10.00%	10.00%	
Jan-2012							50.00%		
							10.00%	10.00%	
							10.00%	10.00%	10.00%

Staff Proposed Transition to Sequential 1-Year Contracts for Small to Medium Size Customers

	Delivery Periods								
Auction	**Jan-07**	**Jun-07**	**Jun-08**	**Jun-09**	**Jun-10**	**Jun-11**	**Jun-12**	**Jun-13**	**Jun-14**
Sep-2006	**17-month**								
	29-month								
	41-month								
Jan-2008			**12-mo**	**12-mo**	**12-mo**				
Jan-2009				**12-mo**	**12-mo**	**12-mo**			
Jan-2010					**12-mo**	**12-mo**	**12-mo**		
Jan-2011						**12-mo**	**12-mo**	**12-mo**	
Jan-2012							**12-mo**	**12-mo**	**12-mo**
			1	**1**	**1**	**1**	**1**		
Sep-2006		33.33%							
		33.33%	33.33%						
		33.33%	33.33%	33.33%					
Jan-2008			33.33%	16.67%	10.00%				
Jan-2009				50.00%	20.00%	10.00%			
Jan-2010					70.00%	20.00%	10.00%		
Jan-2011						70.00%	20.00%	10.00%	
Jan-2012							70.00%	20.00%	10.00%