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ILLINOIS COMMERCE COMMISSION

DOCKET No. 12-0244

REBUTTAL TESTIMONY ON REHEARING

OF

JAMES BLESSING

Submitted on Behalf Of

AMEREN ILLINOIS COMPANY
d/b/a Ameren Illinois

*****DENOTES CONFIDENTIAL AND PROPRIETARY INFORMATION**

REDACTED***

September 11, 2012

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is James Blessing. My business address is 6 Executive Drive, Collinsville, IL 62234.

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

A. I am currently Director, Power Supply and Infrastructure Development for Ameren Illinois Company ("Ameren Illinois" or "Company").

Q. Please describe your current job duties and responsibilities.

A. The duties of my role in Power Supply consist of supporting the Illinois Power Agency ("IPA") procurement process in a manner consistent with the Illinois Public Utilities Act ("PUA"), procuring sufficient power supply products to serve the Company's customer load, managing the portfolio of the Company's power supply products that result following IPA procurement events, and administering all power supply contracts entered into by the Company. In my role concerning Infrastructure Development, I oversee the implementation of Electric Infrastructure Modernization Act ("EIMA").

Q. Please describe your educational background and relevant work experience.

A. See my Statement of Qualifications, attached as an Appendix to this testimony.

II. PURPOSE OF TESTIMONY AND IDENTIFICATION OF EXHIBITS

Q. What is the purpose of your rebuttal testimony on rehearing in this proceeding?

A. The purpose of my rebuttal testimony is to comment on and respond to the Illinois Commerce Commission Staff (“Staff”) and Intervenor witnesses’ direct testimony. Specifically, I am responding to Attorney General ("AG")/AARP witness Mr. J. Richard Hornby on the reasonableness of Ameren Illinois' forecasted avoided generating capacity costs.

Q. Are you sponsoring any exhibits with this testimony?

A. No.

III. RESPONSE TO AG/AARP

Q. Please summarize Mr. Hornby's opinions on Ameren Illinois' forecasted avoided generating capacity costs.

A. Mr. Hornby claims the Company's projection of avoided generating capacity costs is "likely too high." Mr. Hornby cites two concerns: (1) he claims the mechanism or process by which reductions in peak demand caused by customers that will ultimately translate into avoided generating capacity costs, is not clear; and (2) he takes issue with the assumption that the long-term avoided cost of generating capacity will be set by the cost of adding a gas fired combustion turbine. I address both concerns in my rebuttal testimony.

Q. Please describe how Ameren Illinois is currently arriving at a 20-year projection of Avoided Peak Demand Cost.

A. Ameren Illinois' 20-year projection of Avoided Peak Demand Cost consists of three components: Avoided Capacity Cost, Average Avoided Distribution Cost and Average Avoided Transmission Cost. By summing these three components you arrive at the Avoided Peak Demand Cost.

Q. Does Mr. Hornby take issues with any component of this 20-year projection?

A. Yes, Mr. Hornby takes issue with the Avoided Capacity Cost component of this 20 year projection. He does not take issue with either the Average Avoided Distribution Cost or Average Avoided Transmission Cost components of this calculation.

Q. How did Ameren Illinois arrive at its 20- year projection of Avoided Capacity Costs?

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Q. You mentioned Mr. Hornby has taken issue with this approach; could you please be more specific about what exactly is the issue?

A. ** ** ** **************************

Q. Has Mr. Hornby forecasted any revenues from energy and ancillary services market revenues that a developer of a new combustion turbine would receive from the market?

A. No. In response to Data Request AIC-AG 4.18, Mr. Hornby acknowledges this fact.

Q. Can you please describe the process Mr. Hornby used to determine his projection of avoided capacity costs?

A. Yes. Mr. Hornby testified that "My alternative projection is based on an assumption that the avoided cost of capacity will be set by demand and supply over the evaluation period. My projection assumes the avoided cost will be approximately 60 percent of the cost of new entry based upon the actual experience with capacity prices in Eastern MAAC, the most congested zone of PJM, over the last several years." (AG Ex. 1.0RH, p. 18). In effect Mr. Hornby is comparing PJM capacity prices with MISO capacity prices in his analysis.

Q. Do you have any concerns with comparing PJM capacity prices and MISO capacity prices?

A. Yes. First, the capacity market designs in MISO and PJM are dissimilar. PJM operates a 3-year forward market while MISO, starting with the 2013 planning year, will operate a 1-year

forward market. PJM sets its market clearing price in part based on an administratively set demand curve while no such demand curve is utilized in the MISO capacity markets. In addition the PJM market rules include a minimum offer price requirement on new generation while no such requirement is include in the MISO market rules. Second, the use of PJM's most congested zone (Eastern MAAC) from a resource adequacy perspective over the last few years as a means to project future capacity values in MISO over the planning horizon, does not take into consideration that while this PJM zone had binding constraints that resulted in locational price adders, the overall PJM footprint maintained excess planning reserves. **********
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Q. Has Ameren Illinois conducted any analysis regarding the potential revenues a combustion turbine could receive from the market?

A. Yes. To illustrate the effect Mr. Hornby references, I have developed an analysis that explores the issue.

Q. Let's start with the energy markets. Please describe how a combustion turbine would receive value from the MISO energy markets.

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111 **Q. Why does this not represent the energy value of a combustion turbine?**

112 A. The above analysis assumes perfect knowledge of market price information and
113 completely ignores real operating constraints, which must be considered when determining the
114 energy value of a combustion turbine.

115 **Q. What operating constraints are you referring to?**

116 A. **********
117 **********
118 **********
119 **********
120 **********
121 **********

122 **Q. You mention the basic analysis assumes perfect knowledge of market price**
123 **information. Why is that significant?**

A. *** *** ** *** ** ** ** ** *** *** *** *** ** *** *** *********

Q. Has Ameren Illinois estimated the energy value taking these operating constraints in consideration?

A. ** ** *** *******************************

Q. Now let's discuss the ancillary services markets. How would a combustion turbine receive value from the MISO ancillary services markets?

A. The MISO ancillary services markets consist of three products: regulation service, spinning reserves and supplemental reserves. Of these three, a combustion turbine would only receive value for the supplemental reserves product because both regulation service and spinning reserves require the unit to be operating at less than full capacity to participate which simply is not economical for a combustion turbine.

Q. So what value can a combustion turbine receive from the ancillary services markets for the supplemental reserves product?

A. Just like the energy value discussion above, I will first start with a basic value discussion of relevant markets and then apply actual market constraints to access the true value of a combustion turbine in this market. At its very basic level, value is received by successfully bidding into the supplemental reserves market each hour and receiving the marginal clearing price in that hour. Since the payment received for supplemental reserves is a reservation charge and the unit is not required to operate unless called upon, there is no operating cost associated with successfully bidding into the supplemental reserves markets.

Q. Please continue.

A. Looking at the market results for MISO Zone 1&2, the zones in which Ameren Illinois operates, the average hourly marginal clearing price for the 12 months ending July 31, 2012 was $1.34/MW. **********

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Q. So does this represent the supplemental reserves value of a combustion turbine?

A. No, it does not. The above analysis assumes that the operator of the combustion turbine is a successful bidder in each and every hour. This is not realistic. It also ignores penalties the operator would incur if the unit was called upon to deliver energy and it failed to do so.

Q. Why is it not a good assumption that the operator of a combustion turbine would be a successful bidder in every hour of the year?

A. This is not a good assumption for two reasons. First, a combustion turbine, like any other generating unit, will not be available all hours of the year. Scheduled maintenance is required and a combustion turbine may be subject to forced outages as well. ** The second reason is that over the course of all hours during the 12 months ending July 31, 2012, the MISO only cleared, on average, slightly more than 1,000 MW of supplemental reserves per hour. This is for a market that consists of more than 130,000 MW of generating capacity of which more than 25,000 MW are combustion turbines. To assume that you could successfully bid a unit into the supplemental reserves market each and every hour is unrealistic.

Q. What do you believe the supplemental reserve value of a combustion turbine to be considering these constraints?

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Q. So the total value that a combustion turbine could realistically receive from the market after considering all of the operating and market constraints would be ******** for the energy value and ********** of the supplemental reserves value, correct?**

A. **********

Q. ******** **********

A. **********

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Q. Mr. Hornby states the cost of capacity in MISO and other markets are set by demand and supply fundamentals, and that those fundamentals will continue to set cost of capacity in future years. How do you respond?

A. *** *** *** ** *** *** ** ** *** ***

Q. Is Ameren Illinois now modifying its base case assumption of future avoided capacity cost based on the analysis you present here?

A. ** ** *** ** *** **********

Q. In addition to the value of future capacity Mr. Hornby also expressed concerns that the Company's demand response programs may not lead to actual reductions in capacity requirements. Is this a legitimate concern?

A. No, it is not. The annual MISO resource adequacy construct, which is being implemented for the 2013 planning year, clearly provides mechanisms to capture the capacity value of peak demand reductions. Ameren Illinois has already entered into discussion with MISO representatives related to the Peak Time Rebate program required under the EIMA. MISO has confirmed that the program envisioned would qualify as a Load Modifying Resource ("LMR") which would be able to be converted to Zonal Resource Credits ("ZRC"). These ZRCs could then be used to directly participate in the planning resource auction administered by MISO allowing Ameren Illinois to monetize the value of the peak demand reduction and pass that value back to customers.

In separate discussions, MISO representatives have indicated that peak demand reductions associated with Critical Peak Pricing and Direct Load Control programs would also be eligible to be converted into ZRCs in a similar fashion as the Peak Time Rebate program. The Power Smart Pricing and Time of Use Metering programs would allow the responsible party to lower the amount of capacity they need to procure on an annual basis, thus saving them the cost associated with procuring capacity either through bi-lateral transactions or the MISO Planning Resource Auction.

In the end, there will be ample opportunities for customers to take advantage of demand reduction programs and the Company is making all reasonable efforts to ensure those programs

result in cost savings for its customers. Mr. Hornby's beliefs to the contrary are not supported by the evidence.

IV. CONCLUSION

Q. Does this conclude your rebuttal testimony on rehearing?

A. Yes, it does.