

**DIRECT TESTIMONY
of
DAVID A. BORDEN
Energy Division
Illinois Commerce Commission**

**ILLINOIS POWER COMPANY
Approval of Delivery Services Tariffs
And Delivery Services Implementation Plans**

Docket No. 01-0432

September 12, 2001

1 [RECOMMENDATIONS](#) 3

3

4 **Q. Please state your name and business address.**

5 A. My name is David A. Borden. My business address is 527 East Capitol
6 Avenue, P. O. Box 19280, Springfield, Illinois, 62794-9280.

7 **Q. Please briefly state your qualifications and education background.**

8 A. In 1986, I graduated from the University of Texas at Austin with a Bachelor
9 of Arts degree in Economics. In 1989 I graduated from Texas A&M
10 University, College Station, Texas with a Master of Science degree in
11 Economics. I have been employed by the Illinois Commerce Commission
12 (Commission) since June, 1990.

13 I began work for the Commission as an Economic Analyst II in the
14 Rate Design Department of the Public Utilities Division. In December of
15 1992, I was hired as an Economic Analyst III by the Water and Sewer
16 Program of the Office of Policy and Planning. In September of 1996, I
17 transferred to the Energy Program of the Office of Policy and Planning as
18 an Economic Analyst III. In January of 1998, I was hired as an Executive
19 Assistant to Commissioner Richard Kolhauser. In January of 2000 I was
20 hired as an Economic Analyst IV by the Energy Division.

21 I provided policy and technical analysis for Commissioner
22 Kolhauser on all energy, water/wastewater and transportation matters
23 before the Commission. I have previously testified on behalf of Staff in
24 numerous dockets concerning energy and water/wastewater issues.

25 **Q. What is your assignment in this proceeding?**

26 A. I am assigned to review testimony and exhibits filed on behalf of Illinois
27 Power Company (IP or the Company), supporting their filing for approval
28 of Delivery Services Tariffs (DSTs). In addition, I will respond, where
29 appropriate, to the testimony and exhibits filed by interveners in this
30 proceeding. Specifically, I address issues related to IP's existing tariff
31 language requiring retail customers to pay IP for the RES's unpaid
32 transmission service costs. I also address the Company's proposal to
33 charge customers for use its Power Purchase Option (PPO) calculator.
34

35 **Recommendations**

36 **Q. What are your recommendations in this proceeding?**

37 A. I recommend deletion of the language set forth in IP's tariffs that requires
38 retail customers to pay IP for the transmission costs incurred, but not paid
39 by the retail customers' Retail Electric Supplier (RES). (See Illinois Power
40 Company Schedule of Rates for Electric Service, Service Classification
41 110 – Page 26 of 34, Section 8. D. Customer's Responsibility to Pay
42 Charges Not Paid by Customer's Retail Electric Supplier, Meter Service
43 Provider, or Transmission Service Agent.)

44 **Q. If the Commission does not adopt your recommendation, do you**
45 **have an alternative proposal?**

46 A. Yes. As a lesser alternative (**that is problematic**), I recommend that IP
47 require that the Letter Of Agency (LOA) between a RES and its retail

48 customer fully inform the retail customer of the customer's financial
49 obligation.

50 **Q. What is the basis for your recommendation to delete IP's existing**
51 **tariff language?**

52 A. The requirement is unnecessary. Transmission service is a wholesale
53 service provided by IP to the transmission customer and the retail
54 customer's RES is the transmission customer. IP has sufficient means,
55 through the terms and conditions of its OATT, to establish reasonable
56 credit security requirements for the transmission customer. If concerns
57 arise that RESs may default, then the credit security requirements should
58 be altered to levels that reflect the risk of conducting business in the
59 relevant market. Thus, assigning the financial liability to the retail
60 customers appears to be unnecessary. Although a RES (transmission
61 customer) is allegedly acting as an agent for a retail customer (eligible
62 customer), by OATT definition (see IP OATT Original Sheet No. 13,
63 Section 1.11 Eligible Customer & Section 1.45, Transmission Customer), it
64 is unreasonable to expect that retail customers, other than a select
65 minority, have any knowledge or expertise as to the provision of
66 transmission service and the associated costs and thus have little or no
67 knowledge as to the financial liability they are assuming. Furthermore,
68 there has been no demonstration that existing credit security requirements
69 are inadequate or that conducting business in the wholesale and retail

70 market entails such financial risk to the transmission provider and
71 customer that retail customers must insure these payments.

72

73 It is also my opinion that IP's language may promote the entry of RESs in
74 the market who may have a greater risk of default.

75 **Q. What action should be taken (by IP and the ICC) if a RES is not credit
76 worthy?**

77 A. If a RES is not credit worthy, then it appears to me that the appropriate
78 policy for IP and the ICC is to discourage and prohibit non-creditworthy
79 RESs from participating in the market rather than assigning the costs
80 incurred by the RES (and unpaid) to the retail customer. The latter is
81 accomplished by establishing reasonably credit security requirements for
82 the RES (transmission customer.) If the financial liability associated with
83 procuring transmission services is assigned to the RES, then it
84 encourages knowledgeable and creditworthy RESs to participate in the
85 market. If a RES defaults under these circumstances, then the posted
86 credit security is available to compensate the transmission provider.
87 Thus, I see no need to go beyond the posted credit security of the RES in
88 order to compensate the transmission provider. In fact, it is my opinion
89 that doing otherwise will serve to increase costs to retail customers by
90 encouraging non-creditworthy RES to enter the market.

91

92 **Q. Are you claiming that this is why there is a lack of customer**
93 **switching to RESs in IP's service area?**

94 A. No. There are likely several more important reasons that explain the lack
95 of customers switching to RESs in IP's service area. However, in my
96 opinion, very few, if any retail customers are aware of their financial
97 liability for transmission services and they have probably not been billed to
98 date for any significant amounts by IP (unpaid by RESs) because IP has
99 been both provider of and bill collector for transmission service. Although
100 utility tariffs are public documents, retail customers do not normally read
101 tariffs until after a dispute arises or until the customer has specific
102 requests for service from the Company. Moreover, since the current
103 arrangements are derived from the utility tariffs, it is likely that the RES
104 has no legal obligation to inform the customer in writing that the customer
105 is financially responsible for transmission services incurred but unpaid by
106 the RES, i.e., the obligation is imposed by the utility—not the RES.

107 **Q. Earlier in your testimony you indicated that your lesser alternative,**
108 **i.e., full disclosure via the LOA, is problematic, please explain.**

109 A. The lesser alternative is problematic because it essentially allows non-
110 creditworthy suppliers to serve the market, which may increase the risk of
111 supplier default. It may also be cumbersome and costly for ARES to
112 implement, and I am not confident in the ability to educate retail customers
113 for this unbundled service. However, to the extent retail customers will

114 benefit from switching suppliers there is an incentive for retail customers
115 to improve their knowledge as shoppers.

116 **Q. How do you propose to explicitly inform customers of this financial**
117 **risk and what about customers who previously switched from IP to a**
118 **RES?**

119 A. IP should require that the LOA entered into between a RES and the retail
120 customer, prior to the RES' submission of the Direct Access Service
121 Request (DASR), set forth the tariff language set forth in IP's tariffs that
122 requires retail customers to assume this financial obligation. Thus, the
123 LOA will indicate that the customer understands and assumes this
124 financial obligation on behalf of their RES. Current customers of RESs
125 can be informed of this financial obligation at the time of renewal of their
126 supplier contract. In the interim, current customers who are billed by IP for
127 their RES' unpaid transmission service may have a legitimate complaint
128 for rate relief with the Illinois Commerce Commission, in my opinion.

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

130 A. Yes.