

ILLINOIS COMMERCE COMMISSION

DOCKET 15-0534

DIRECT TESTIMONY

OF

RICHARD L. MCCARTNEY

Submitted On Behalf

Of

**AMEREN ILLINOIS COMPANY
d/b/a Ameren Illinois**

March 18, 2016

TABLE OF CONTENTS

| | Page |
|--|-------------|
| I. INTRODUCTION..... | 1 |
| II. PLANNING PROCESS FOR FIXED PRICE TARIFF | 3 |
| III. PLANNING PROCESS FOR REAL TIME PRICING TARIFFS | 8 |
| IV. PROCUREMENT PROCESS FOR REAL TIME PRICING TARIFFS..... | 9 |
| V. ADMINISTRATIVE & OPERATIONAL COST REASONABLENESS | 10 |
| VI. CONCLUSION | 12 |
| APPENDIX..... | 1 |

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7 **I. INTRODUCTION**

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

9 A. My name is Richard L. McCartney, and my business address is 1901 Chouteau
10 Avenue, St. Louis, Missouri 63103.

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

12 A. I am currently Director, Power Supply Acquisition of Ameren Illinois Company
13 d/b/a Ameren Illinois (AIC, Ameren Illinois or Company).

14 **Q. Please describe your current job duties and responsibilities.**

15 A. The duties of my current position consist of supporting the Illinois Power Agency
16 (IPA) procurement process in a manner consistent with the Illinois Public Utilities Act
17 (the Act), procuring sufficient power supply products to serve the Company's customer
18 load, managing the portfolio of the Company's power supply products that result
19 following IPA procurement events, and administering all power supply contracts entered
20 into by the Company.

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

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

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

24 A. My testimony and the testimony of other Ameren Illinois witnesses respond to the
25 Commission's Initiating Order in this docket. In its Initiating Order at 3, the Commission
26 requires the following:

27 Each utility shall address in testimony specifically how it complied
28 with the applicable procurement plan approved by the Commission for
29 the period under review. Additionally, each utility shall include a
30 summary schedule detailing the internal administrative and operational
31 costs associated with the procurement of electric power and energy for
32 retail customers during the period under review. Moreover, each utility
33 shall provide in testimony a conclusion about the reasonableness of these
34 costs and the basis for that conclusion.

35 With respect to ComEd, such reconciliation will also provide for
36 the correction of any accounting errors that might have occurred in the
37 application of the provisions of Rider PE and Rate BESH. Additionally,
38 such reconciliation may provide for the determination of the
39 reasonableness of the utility's internal administrative and operational
40 costs associated with the procurement of electric power and energy for
41 retail customers served under Rider PE and Rate BESH (see Ill. C.C. No.
42 10, 2nd Revised Sheet No. 329 (Rider PE), and Ill. C.C. No. 10, 5th
43 Revised Sheet No. 46 (Rate BESH).

44 With respect to Ameren Illinois, such reconciliation will also
45 provide for the correction of any accounting errors that might have
46 occurred in the application of the provisions of Riders PER and HSS."

47 In this testimony, I describe the planning process prior to the procurement
48 activities for eligible retail customers taking supply on the Company's fixed price tariff
49 (Rider BGS - Basic Generation Service (Rider BGS)). I also describe both the planning
50 process and supply procurement activities for customers on the Company's real time
51 pricing tariffs (Rider RTP - Real Time Pricing (Rider RTP) and Rider HSS - Hourly
52 Supply Service (Rider HSS)), and the prudence of the Company's efforts to obtain power
53 supply for such customers at a reasonable cost. The procurement term contemplated in
54 my testimony is June 1, 2013 through May 31, 2014 (Reconciliation Period).

55 **Q. Are you sponsoring any exhibits in support of your direct testimony?**

56 A. No.

57 **Q. Are any other witnesses testifying in this proceeding on behalf of Ameren**
58 **Illinois?**

59 A. Yes. Ameren witness Dominic S. Perniciaro will present various schedules that
60 represent the reconciliation statement, as well as identify the amounts Ameren Illinois
61 asks the Commission to approve in this proceeding under Rider RTP, Rider HSS and
62 Rider PER – Purchased Electricity Recovery (Rider PER) which is the tariff that serves to
63 recover the company’s power supply costs incurred to supply Rider BGS customers. In
64 addition, Ameren witness David J. Brueggeman will present details regarding the power
65 supply procurement process pertaining to Rider BGS.

66 **II. PLANNING PROCESS FOR FIXED PRICE TARIFF**

67 **Q. Please provide an overview of the planning process prior to the supply**
68 **procurement activities for customers on Rider BGS.**

69 A. Pursuant to Section 16-111.5 of the Act, the Company provided a five-year hourly
70 forecast to the IPA on July 12, 2012. Customers with peak demands of less than 400
71 kilowatts (kW) were included in the forecast through April 2014, but effective May 2014,
72 only customers with peak demands less than 150 kilowatts (kW) were included in the
73 forecast since pursuant to the Commission Final Order in Docket 11-0192, on that date
74 the three year competitive declaration transition period expired for customers with peak
75 demands equal to or higher than 150 kW but less than 400 kW. (ICC Final Order in
76 Docket 11-0192 at Page 4). Therefore, effective May 2014 and continuing indefinitely,
77 all customers with peak demand equal to or greater than 150 kW were prohibited from

78 taking Rider BGS supply for which the IPA procures. The IPA subsequently used this
79 forecast as the basis for determining the initial quantities of energy, capacity and
80 renewable energy credits to be pursued in the IPA Procurement Plan (Plan) which was
81 made public as part of an informal comment period on August 15, 2012. The IPA then
82 subsequently filed the Plan with the Commission on September 28, 2012 and this led to
83 the commencement of Docket 12-0544. The Company then provided the IPA with an
84 updated forecast and filed a Motion for Leave to File Updated Load Forecast on
85 November 20, 2012 so as to comply with the Plan where it states the IPA shall “require
86 updated load forecasts from ComEd and Ameren in November based on available
87 information from November municipal aggregation referenda, followed by an update in
88 March based on available information from municipal aggregation referenda, to be
89 reviewed before any procurement event occurs by the IPA, the Utilities, Commission
90 Staff, and the Procurement Administrators and the Procurement Monitor if they are
91 retained.” Final Plan at 58.

92 The Plan included a detailed description of the Company’s forecast methodology
93 and the Company’s monthly projections per rate class. The merits of the Plan were
94 debated by the Staff and other intervening parties. In its Final Order on December 19,
95 2012, the Commission accepted the Plan with certain modifications. In regards to the
96 forecast provided by Ameren Illinois, the Commission made no modifications and
97 concluded that “the Commission approves the load forecasts attached to the Procurement
98 Plan as modified by the November 16, 2012 ComEd update and the November 20, 2012
99 AIC updated.” The Commission also affirmed that the March 2013 forecast update
100 should be used in determining final procurement quantities subject to consensus among

101 the IPA, Staff, Utilities, Procurement Administrators and Procurement Monitor. (Docket
102 12-0544 Final Order at 68.) Consistent with the approved Plan, the Company provided
103 another updated forecast on March 14, 2013 and consensus was reached on March 27,
104 2013 among the IPA, Staff, Procurement Administrator, Procurement Monitor and the
105 Company.

106 **Q. What type of products did the Plan propose and the Final Order approve?**

107 A. The approved Plan stated that “both ComEd and Ameren have experienced
108 dramatic reductions in retail load serving obligations since the overwhelmingly
109 successful March 2012 referenda authorizing opt-out aggregation of customers and the
110 consequent opportunities for substantial savings on the supply portion of customers’
111 bills.” Final Plan at 2. The Plan concluded that existing block energy hedges procured in
112 prior years were in excess of forecasted requirements and therefore no additional bilateral
113 procurement should occur in 2013. Further, the Plan recommended that the excess
114 energy hedges settle in the Midcontinent Independent System Operator, Inc. (MISO)
115 markets. Final Plan at 30. While this matter was undisputed in Docket 12-0544, for the
116 sake of clarity the Commission affirmed this decision and also affirmed the decisions
117 regarding capacity and Renewable Energy Credits (RECs) as described below. Final
118 Order at 272 and 109-110 respectively. In regards to capacity, the Plan acknowledged
119 that some existing purchases were made in prior years and recommended that the
120 remaining capacity requirement be procured through the MISO capacity auction in 2013.
121 Final Plan at 4. Regarding RECs, the Plan noted that “the quantity targets for future
122 years in the 2013 Procurement Plan’s planning horizon have been more than met by prior
123 long term purchases.” Final Plan at 84. The Plan therefore recommended no

124 procurement of RECs in 2013. Final Plan at 4. The Plan also acknowledged that existing
125 procurements of renewables could cause the spending cap to be exceeded during the
126 Reconciliation Period. This created the potential for the Utilities to invoke a partial
127 curtailment of existing Long Term Power Purchase Agreements (LTPPAs procured by
128 the IPA as part of Docket 09-0373), which in turn would keep the purchase of renewables
129 under the spending cap. The IPA proposed that partial curtailments, if any, be based on
130 the March 2013 forecast update after consensus of the IPA, Staff, Utilities, Procurement
131 Administrators and Procurement Monitor. The Commission approved the IPA
132 recommendation. Final Order at 110. Consistent with the Final Order, the Company
133 provided the updated forecast on March 14, 2013 and this forecast affirmed that existing
134 purchases of RECs were in excess of targeted requirements and therefore no additional
135 procurement of RECs was warranted during the Reconciliation Period. However, the
136 forecast also revealed that the renewable budget for Rider BGS customers was not
137 exceeded and therefore a partial curtailment of the LTPPAs was not necessary to keep
138 expenditures below the spending cap. Regarding this updated forecast, consensus among
139 the IPA, Staff, Ameren Illinois, Procurement Administrator and Procurement Monitor
140 was reached on March 27, 2013.

141 **Q. To clarify, consistent with the Commission approved Plan, the IPA made no**
142 **additional procurements of energy, capacity and RECs during the Reconciliation**
143 **Period?**

144 A. Yes, that is correct.

145 **Q. In addition to energy, capacity and renewable energy credits, were any other**
146 **types of services included in the Plan?**

147 A. Yes. Consistent with prior years, the Plan included a description of how the
148 Company would procure services such as network transmission service, load balancing
149 services, ancillary services, and auction revenue rights. Final Plan at 4.

150 **Q. Did the Commission approve these types of services as described in the Plan?**

151 A. Yes.

152 **Q. Did the Plan contain a proposal for a Clean Coal facility and if so what**
153 **conclusion did the Commission reach?**

154 A. Yes. The Plan included a recommendation to approve a power purchase
155 agreement from FutureGen 2.0. Final Plan at 78-83. The Commission ordered that
156 FutureGen should contract with only the Utilities who would then subsequently recover
157 costs from all delivery service customers regardless of whether supplied by the Utility or
158 an Alternative Retail Electricity Supplier (ARES). Final Order at 236. The Commission
159 also ordered that remaining language associated with the pending Sourcing Agreement
160 between FutureGen and the Utilities be addressed through a separate proceeding. Final
161 Order at 234. This commenced Docket 13-0034 and after several workshops, the
162 Commission was presented a Sourcing Agreement which was mutually agreeable among
163 impacted parties; the Commission subsequently ordered that the Utilities and FutureGen
164 should execute the Sourcing Agreement. Final Order at 18. Consistent with the Final
165 Order, Ameren Illinois and FutureGen executed the Sourcing Agreement on August 22,
166 2013. Since that date, FutureGen has been unable to obtain adequate capital so as to
167 commence construction of its planned generating facility and therefore FutureGen

168 invoked its right under the Sourcing Agreement to terminate. FutureGen sent its
169 termination letter to the Ameren Illinois on February 9, 2016 and the Company
170 acknowledged receipt. With termination now complete, neither party has any remaining
171 obligation under the Sourcing Agreement and therefore the Company plans to seek
172 Commission termination of the approved Clean Coal Adjustment (Rider CCA) which
173 would have been the cost recovery mechanism had FutureGen proceeded with
174 construction and in-service declaration.

175 **Q. Did the Company abide by the Commission approved Plan?**

176 A. Yes, Ameren Illinois abided by the plan with no exceptions.

177 **III. PLANNING PROCESS FOR REAL TIME PRICING TARIFFS**

178 **Q. Please provide an overview of the planning process associated with customers**
179 **taking supply under Rider RTP and Rider HSS.**

180 A. During the Reconciliation Period, the Company planned for the procurement of
181 power supply products for customers on two real time pricing tariffs. The first pertains to
182 Rider RTP which was for residential and small business customers with peak demand of
183 less than 150 kW (changed from 400 kW effective May 1, 2011 when the competitive
184 declaration was granted in Docket 11-0192 as previously described). The second was for
185 Rider HSS which pertains to larger business customers and industrial customers with
186 peak demand of 150 kW or greater (changed from equal to or greater than 400 kW
187 effective May 1, 2011).

188 Forecasts were created for the Reconciliation Period using three primary sources.
189 The first source was billing data for those customers actively taking service on Rider RTP
190 and Rider HSS, and those customers who were pending to take such supply in the next

191 billing cycle. The second source was historical hourly consumption data associated with
192 the MISO settlement process. The third source was less formal types of communications
193 between customers and personnel working for Ameren Illinois (e.g., Key Accounts
194 personnel). The resulting forecasts were used to estimate the yearly capacity
195 requirements and daily energy requirements for customers on Rider RTP and Rider HSS.

196 **IV. PROCUREMENT PROCESS FOR REAL TIME PRICING TARIFFS**

197 **Q. Please provide an overview of the energy and capacity procurement process**
198 **associated with the customers on Rider RTP and Rider HSS.**

199 A. All energy associated with Rider RTP and Rider HSS was priced based on
200 MISO's Locational Marginal Pricing (LMP) methodology. For each operating day
201 during the Reconciliation Period, Ameren Illinois submitted an hourly megawatt forecast
202 to MISO the day prior to the operating day pertaining to the applicable Rider RTP and
203 Rider HSS load. Once submitted to MISO, this forecast became a financially binding
204 "Demand Bid" which subsequently was priced at the MISO hourly day ahead LMPs.
205 Any difference between the day ahead forecast and the actual energy used by customers
206 was settled at hourly real time LMPs.

207 Regarding capacity, the Reconciliation Period represented the first year of the
208 MISO annual capacity construct, whereas in previous years MISO used a monthly
209 capacity construct. Under the annual capacity construct, Zonal Resource Credits (ZRCs)
210 replaced Planning Resource Credits as the means to satisfy the MISO resource adequacy
211 requirement. All of the capacity (ZRCs) for customers taking supply from Rider RTP
212 and Rider HSS was procured via the MISO auction.

213 **Q. Please discuss the prudence of the purchases made on behalf of the**
214 **Company's customers taking supply under real time pricing tariffs.**

215 A. The Company's tariff for Rider RTP and Rider HSS defines the parameters for
216 procuring the capacity and energy required to serve the Company's real time pricing
217 customer load. The capacity and energy purchases made by the Company on behalf of
218 the real time pricing customer load were made in a manner consistent with the parameters
219 included in these tariffs. The biggest difference in procurement between the Company's
220 real time pricing tariffs and Rider BGS is that load on the real time pricing tariffs incurs
221 actual costs from MISO without forward hedging, whereas customers on Rider BGS
222 incur forward hedging costs resulting from bilateral contracts procured by the IPA and
223 subsequently any balancing of these contracts is done in the MISO markets.

224 **Q. Were the Company's purchases made on behalf of customers taking supply**
225 **under real time pricing tariffs done so prudently?**

226 A. Yes. Ameren Illinois complied with the terms and conditions of the Riders and
227 the Act and all purchases were done so prudently.

228 **V. ADMINISTRATIVE & OPERATIONAL COST REASONABLENESS**

229 **Q. Please discuss the administrative and operational costs associated with the**
230 **Reconciliation Period.**

231 A. Pursuant to the Initiating Order, Mr. Perniciaro includes a summary schedule
232 detailing the administrative and operational costs associated with the procurement of
233 electric power and energy for retail customers during the period under review as well as a
234 reconciliation of actual administrative and operational costs relative to revenue collected
235 under the Supplier Cost Adjustment used during this Reconciliation Period. These

236 administrative and operational costs are incurred when Company personnel who work in
237 Power Supply perform the Company's responsibilities in accordance with the approved
238 IPA procurement plan and the Company's tariffs on file with the Commission. These
239 costs are further described under the Procurement Adjustment provisions of these tariffs
240 where it details that costs may include professional fees, costs of engineering,
241 supervision, insurance, payments for injury and damage awards, taxes, licenses, and any
242 other administrative and general expense not already included in the price for power and
243 energy service.

244 **Q. Can you provide a more specific description of these costs and provide**
245 **examples as they pertain to daily responsibilities?**

246 A. Yes. Such costs entail a variety of responsibilities including, but not limited,
247 short and long term forecasting of load, active participation in the IPA procurement plan
248 docket and the planning stages leading up to the procurement process, assisting in the
249 development of bilateral contract terms associated with the IPA procurement,
250 development of the supply price for the upcoming planning year, on-going contract
251 administration, invoice check-out and payment to bilateral suppliers under contract,
252 submission of daily demand bids (forecasts) to MISO each day of the year, MISO
253 settlement, nomination of auction revenue rights which act as to offset customer costs,
254 participation in MISO initiatives, implementation of changing MISO business practices
255 and feedback to various interested parties (e.g., IPA, Staff, Procurement Administrator,
256 Procurement Monitor) regarding a variety of MISO issues throughout the course of the
257 year and responding to data requests from regulatory parties.

258 **Q. Do you believe these costs were necessary and reasonable?**

259 A. Yes. For the reasons explained in my testimony, the costs incurred during the
260 Reconciliation Period were consistent with the requirements under the IPA procurement
261 plan and the Commission approved Ameren Illinois power supply tariffs. I attest that
262 these costs were necessary and reasonable.

263 **VI. CONCLUSION**

264 **Q. Please summarize the conclusions of your testimony.**

265 A. For the Reconciliation Period contemplated under my testimony, the planning
266 process associated with load on Rider BGS followed the Commission approved IPA
267 procurement plan without exception. No additional procurements occurred for Rider
268 BGS for the reasons described previously. The procurement process for Rider RTP and
269 Rider HSS is legislatively outside the scope of the IPA procurements and therefore
270 consistent with prior years, without exception the Company followed the Commission
271 approved supply tariffs for both planning and procurement. Finally, the administrative
272 and operational costs provided in the testimony of Mr. Perniciaro were necessary and
273 reasonable.

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

275 A. Yes, it does.

APPENDIX

STATEMENT OF QUALIFICATIONS

RICHARD L. MCCARTNEY

I obtained a Bachelor of Science degree in Industrial Engineering from the University of Missouri-Columbia in 1986 and a Masters in Management degree from Maryville College (now Maryville University) in 1988. My professional work experience has been entirely at Ameren or predecessor companies. I started in 1986 as an Engineer in Union Electric's Transmission and Distribution department. In 1989, I accepted a position in Union Electric's Internal Audit department. In 1991, I accepted a position in Union Electric's Corporate Planning department which was subsequently transferred to Ameren Services Company. My responsibilities during this time were energy efficiency, resource planning and forecasting in Missouri, Illinois and Iowa. In 1996, I accepted a position in the Power Marketing and Trading department for Ameren Services Company which managed the vertically integrated generation and load for Union Electric Company and Central Illinois Public Service Company after the successful merger of the two companies in 1997. In 1998, I accepted a position in the Fuels department for Ameren Services Company which was subsequently transferred to Ameren Energy Fuels and Services Company. During this period my responsibilities included the procurement and transportation of natural gas and coal, and the management of the company's emissions position. In 2002, I accepted a position in Ameren Energy Marketing Company as Wholesale Sales Manager and then later as Supervisor of Power Trading. In 2007, I accepted a position as Lead Capacity Trader in Ameren Services Company which was subsequently transferred to AmerenCILCO and ultimately to Ameren Illinois Company upon the successful merger of AmerenCILCO, AmerenIP and

AmerenCIPS on October 1, 2010. On January 1, 2012, I was promoted to my current position as Manager, Power Supply Acquisition and then the title of this position was changed on January 1, 2013 to Director, Power Supply Acquisition.