

Rider MVI sets forth Ameren’s market index methodology used to calculate market value for the purpose of determining transition charges pursuant to Section 16-102 of the Illinois Public Utilities Act (“Act”), 220 ILCS 5/16-102, and the cost of power and energy under the power purchase option (“PPO”) pursuant to Section 16-112 of the Act, 220 ILCS 5/16-112. For all the reasons stated herein, the Commission should approve the Ameren Companies’ proposed revisions to Rider MVI, subject to those modifications adopted by the Ameren Companies in the course of this proceeding.

I. INTRODUCTION

A. Statutory Provisions

Rider MVI is intended to calculate “market value,” as that term is used in the Act. Unfortunately, the Act is as significant for what it does not define, as for what it does. The term “market value” is not expressly defined. Rather, under Section 16-102, in calculating the transition charge, the electric utility is obligated to deduct from base service revenues “the market value of the electric power and energy that the electric utility would have used to supply” the electric requirements of the customers who have switched to delivery services. 220 ILCS 5/16-102. Section 16-112 of the Act further provides that one manner in which the Commission may determine the market value of electric power and energy is “as a function of an exchange traded or other traded market index, options or futures contract or contracts applicable to the market in which the utility sells, and the customers in its service area buy, electric power and energy.”

Thus, the Commission is left with the task of determining what market value should capture, and, even as a “function” of some market index, what other factors should be considered. Under any view, however, the Commission’s goal should be to capture, as

accurately as possible, what revenue stream an electric utility will realize when it has power and energy to market (or what costs an electric utility will avoid) because a customer has switched to delivery services. The intervening competitive suppliers have generally argued that this revenue stream should recognize what costs suppliers need to cover, on the assumption that the market price will recover all costs. The Ameren Companies would add that it is appropriate to recognize what products and services the electric utility can offer, and assign an appropriate value to each.

B. History of the Market Value process

C. Summary of Position and Recommendations

The Ameren Companies recommend that the Commission approve the adjustments that the Ameren Companies have proposed to their Rider MVI, to be effective at the earliest possible date. Further, the Ameren Companies have identified several adjustments proposed by other parties that they do not oppose.

D. Other

II. PROPOSED ADJUSTMENTS OR REVISIONS TO UTILITIES PROPOSALS

A. Energy Imbalances Adjustment

The Ameren Companies do not oppose this adjustment, proposed by the RES Coalition. Ameren Ex. 3.0, p. 8.

B. Capacity Backed Adjustment

The Ameren Companies proposed inclusion of what has been termed a “capacity backed adjustment” for the value of “regulatory capacity” not reflected in, and incremental to, the indexed energy products that serve as the basis of the market value calculation under Rider MVI.

The Rider MVI calculation begins with Into Cinergy and Intercontinental Exchange (“ICE”) values. The Into CINergy prices posted in Megawatt Daily are described as “financially firm” under “Methodology”. The products traded on the Intercontinental Exchange are financially firm as well. Ameren Ex. 3.0, p. 3.

These financially firm products are liquidated damages products. They reflect the sale of energy only, and are not “capacity” products. Owning the rights to physical capacity is not a requirement for selling a standard liquidated-damages product. As Mr. Hock explained, the only requirement is a risk-related one, namely that the seller meets the credit requirements of the buyer. The buyer acquires no rights to designate a specific unit or units as the source of the energy. Ameren Ex. 3.0, p. 3. The buyer merely acquires a promise from the seller to deliver energy, any energy, from any source, to the buyer, or to make the buyer whole in the event that the seller fails to deliver and the buyer must acquire energy from another source.

This distinction has a significant effect both on control area operations and on the aggregate revenue stream that an electric utility can realize from power and energy freed up by customer switches. The operational significance relates to the reliability council treatment of a product that is merely financially firm. The reliability council to which Ameren belongs is MAIN, which audits the amount of capacity that is available to meet an electric utility’s summer peaks. Ameren Ex. 3.0, p. 2. This capacity, which is known as “MAIN-accredited capacity” or “regulatory capacity,” is capability, reduced by unit or system capacity sales, and increased by unit or system capacity purchases. Generating capability is reviewed in comparison with member filed characteristics with MAIN and the U.S. Department of Energy and member, manufacturer or owner’s representations. Capacity purchases are reviewed for specific contract firmness and firmness of the transmission contract path from source to sink.

All parties appear to agree that financially firm transactions do not satisfy reliability council capacity obligations. Ameren Ex. 3.0, p. 2; Tr. 561-62 (McNeil). Regulatory capacity is a separate product from a financially firm energy sale. Capacity allows the buyer to designate a specific unit or group of units as the source of its energy for a sale, Ameren Ex. 3.0, p. 2, whereas a financially firm sale provides a buyer a price guarantee on the energy delivered to it.

Because regulatory capacity and financially firm contracts are separate products, and because financially firm products are not recognized by MAIN as having any valid capacity component, it follows that an electric utility can recognize two separate revenue streams when a customer switches to delivery services. First, the electric utility can market a financially firm product, of the type reported in the Into Cinergy index and traded on ICE. Second, the electric utility can market regulatory capacity, which has value to suppliers who seek to serve load with financially firm products, but who cannot satisfy reliability council guidelines with those products.

IIEC has suggested that recognizing separate revenue streams would constitute double counting because “some” capacity value is reflected in the financially firm prices. IIEC did not identify this purportedly double counted component. IIEC’s witness, Mr. Stephens, merely surmised that it is there because prices for financially firm products are higher during peak periods. This, he stated, “suggest[s] a capacity element is already reflected in the higher summer energy prices, or when supplies are tight.” IIEC Ex. 1.0, p. 10. It does not follow from higher periodic prices, however, that there is any capacity value to a financially firm product, which at all times is a financial guarantee, not a physical one. The product affords no specific right to capacity -- only to a price. The price for such a price guarantee can (and ought to) rise at peak because the cost of meeting the supply obligation is higher at peak.

Unable to identify the capacity component of a liquidated damages contract, IIEC has effectively challenged the Ameren Companies to prove a negative -- namely, to prove that there is no capacity component in the Into Cinergy and ICE values. Mr. Hock testified that there is no such capacity component, and the evidence he offered remains the best evidence: MAIN does not recognize any capacity value associated with a liquidated damages contract. Ameren Ex. 3.0, pp. 2-3.

A simple hypothetical demonstrates that there are two separate components to the revenue stream. If an electric utility serves its native load through the purchase of financially firm products, all parties agree that these products would not satisfy MAIN regulatory capacity requirements. Thus, the electric utility would have to acquire capacity rights in the market, in addition to the financially firm products, in order to satisfy its MAIN capacity obligations. If the electric utility's native load then switches to delivery services, the electric utility now has two products to resell back into the market: the financially firm contracts and the regulatory capacity purchases. Under the Ameren Companies' view, the electric utility would recognize one revenue stream component from the resale of the financially firm products and a second component from the resale of the regulatory capacity. Under the view of IIEC, however, there is some overlap between the two separately purchased categories of products, an overlap that IIEC cannot specifically identify or otherwise adequately explain.

This same hypothetical can be cast in terms of avoided cost. If a utility is purchasing financially firm and regulatory capacity products, and it loses load, it avoids the cost of both products in the future. Under IIEC's view, the market value should reflect only the avoidance of the financially firm product, and should disregard the avoided cost of regulatory capacity.

There is no statutory or policy basis for IIEC's disregard of the very real cost of regulatory capacity. The Commission should adopt the same view as MAIN, and attribute no capacity value to the liquidated damages products that serve as the basis for the Rider MVI calculations.

While regulatory capacity is clearly a distinct product, the market for this product is extremely thin. Most transactions are executed bilaterally, without the use of an exchange. Ameren Ex. 3.0, p. 3. The Ameren Companies offered several options initially for calculating the value of freed up capacity. In light of the comments of the other parties, Ameren ultimately decided to base the Capacity Charge on the \$205.15/MW-day rate from Ameren's OATT Schedule-4A.

Mr. Hock explained how this value would be reflected in the Rider MVI methodology. The rate will be applied to the load shape for each individual customer class applied on a daily basis only during the summer months, as defined in Rider MVI. Ameren Ex. 3.0, pp. 3-4. Mr. Hock explained that the application of this charge only during the summer months is consistent both with Ameren's experience in the Illinois market, which is that regulatory capacity has very little value during the winter months, and with the assumptions and methodology that were used to calculate the value. *Id.* The value of \$205.15/MW-day is based on a portfolio of Ameren owned (at the time of the calculation) generation. In that calculation, a weighting was assigned to the embedded fixed costs of each generating unit based on the probability that the unit would be operating and available to provide imbalance service at the time that the imbalance service was requested. In general, base load plants were assigned very low probabilities because they are normally used to supply native load. A further assumption was made that the service would not be requested in times of low system demand or low market prices because suppliers would

prefer to supply their own capacity (and not under-schedule) during those times. Therefore, the value was calculated assuming that the service would only be purchased during times of high system demand and high prices. Id.

Based on the sample calculations that the Ameren Companies performed, the addition of this component will result in an increase in the Market Value rates of \$2.80/MWh to \$4.20/MWh depending on the customer class. Based on the load shapes that were used in these sample calculations, these results are equivalent to annual capacity values of \$13,500/MW-year to \$16,500/MW-year. Mr. Hock noted that these values are comparable to the \$11,984/MW-year value presented by RES Coalition witness Leigh, and only slightly higher than, but certainly comparable to, the \$9,000/MW-year value that the Staff attributed to the Illinois Power proposal. Ameren Ex. 3.0, pp. 4-5.

Mr. Hock explained that the Ameren Companies' proposed capacity value has several advantages, including, significantly, that it is a tariff based value. Ameren prefers to use a tariff based value for several reasons. A tariff based value is transparent. All market participants, not just the ones who are participating in this proceeding, can understand where the value comes from and to some extent how it was derived. Further, tariff based prices are typically adjusted over time as circumstances change. Ameren Ex. 2.0, p. 6.

The RES Coalition agrees with this position. One RES Coalition panel stated in its testimony that, "for the Ameren service territory, we agree with Ameren's preferred approach to establish generation capacity value through a tariff-based methodology." RES Coalition Ex. 3.0, p. 12. The use of this value addresses, at least in part, the concern that several witnesses raised regarding the changes that may result when the Ameren Companies become operational members of the Midwest Independent System Operator, including the potential changes to

capacity requirements. Ameren's proposed methodology is based on the OATT, specifically Schedule-4A, Retail Energy Imbalance. When Ameren becomes an operational member of MISO (indirectly through GridAmerica) later this year, Ameren's OATT will be replaced by the MISO's OATT. However, since an imbalance market has not yet been established, each transmission operator's Schedule-4 will be adopted by MISO on a temporary basis. These Schedule-4s will remain in effect until an imbalance market is established, which will not be until at least December 2004 based on the current MISO plans. As a result, this portion of the MVI methodology will not need to be revisited later in 2003. Thereafter, the capacity value used in the MVI proceedings should be reevaluated periodically to ensure continued linkage to the OATT and to ensure that the value continues to approximate the true market price of capacity in the State of Illinois. Ameren Ex. 3.0, p. 5.

C. Inclusion of "Placeholder" for Potential RTO-Imposed Costs or Market Changes (e.g. Capacity adjustment)

The Ameren Companies believe that their proposal of a capacity-backed adjustment already captures all known, generation-related RTO-imposed costs. This issue centers on the fact that ComEd, unlike the Ameren Companies, IP and the PJM West RTO that ComEd is joining, does not require regulatory capacity in addition to financially firm contracts. It is anticipated that regulatory capacity may be required when ComEd is fully integrated into PJM West. No such change will occur with respect to the Ameren Companies, which already require regulatory capacity. Accordingly, no "place holder" is required.

D. Odd Lot Adjustment

The Ameren Companies do not object to this adjustment, proposed by the RES Coalition.

E. Customer Churn Adjustment

F. Residual Error Term Adjustment

The RES Coalition proposed an adjustment of \$8/MWh to capture what the RES Coalition terms a “residual error” – i.e., an unexplained (yet apparently quantifiable) difference that remains between modeled and actual market values, even after giving effect to all of the RES Coalition’s other adjustments. Based on observations of switching activity and other market developments, the Ameren Companies agree in principle that a “model residual” does exist and that the residual causes the modeled market values to understate the true market prices. While the RES Coalition’s proposed solution is refreshing in its simplicity, the RES Coalition has not provided sufficient justification for the inclusion of an \$8/MWh adder that would be applied to all customer classes and for all affected service territories in Illinois.

First, the Ameren Companies note that the \$8/MWh value is derived by means of subtraction. The RES Coalition asks the parties to this proceeding to accept, largely on faith, that there is a residual of \$15/MWh. If one were to accept the \$15/ MWh residual, the parties to this proceeding are then asked to accept figures for a wide range of additional adjustments, which leads to the \$8/ MWh unexplained residual. A great deal of testimony has been presented by the RES Coalition in support of these adjustments. As stated previously, the Ameren Companies support many of these adjustments, although some not in the precise form proposed by the RES Coalition. However, in the Ameren Companies’ opinion, there has not been sufficient evidence presented in this case to support a conclusion that the net effect of these adjustments is \$7/ MWh.

Further, as Mr. Hock noted, Ameren cannot agree to the \$8/MWh adder without additional detailed information on the calculation and proposed application of this adjustment. For example, the RES Coalition witnesses provide no guidance as to how the \$8/MWh adder

would be adjusted for the modifications being proposed by the Ameren Companies, including the Capacity Charge. Without having an explanation of the factors that contribute to this residual, the Ameren Companies are concerned that such a fixed adder would create discrepancies from one utility to another and could lead to cross subsidization among customer classes within each utility. Ameren Ex. 3.0, p. 9.

Moreover, the studies performed by RES Coalition witness Marc Ulrich were completed only for the ComEd service territory. Mr. Hock observed that there was no showing that these studies indicative of the Ameren control area as well. Ameren Ex. 3.0, p. 9. It is at least possible that the studies are not indicative of the Ameren control area, in which case the \$8/MWh adder would not be appropriate for Ameren customers. Id.

Also, most of the adjustments that have been proposed by the RES Coalition vary in the magnitude of their value from one customer class to another. Based on this conclusion, it is reasonable to assume that the residual adjustment would vary from one customer class to another as well. The RES Coalition, however, does not explain how this would be accomplished.

For all these reasons, the residual error adjustment should be rejected for application to the Ameren Companies.

G. Retail Margin Adjustment

H. Avoided Administrative (and related) cost Adjustment

I. Retail uplift adjustment

J. Avoided PPO cost Adjustment

K. Load following Adjustments

L. Proper method for allocating sales and marketing expenses

The Ameren Companies do not object to this adjustment, proposed by the RES Coalition.

M. Off-Peak Issues

1. Adjustment of Zeros and Negative values in the PJM Hourly Price Data

The Ameren Companies are willing to adopt the RES Coalition's proposed methodology for treating zeros and negatives in the PJM price shape, which the Ameren Companies understand to be the same as that which the Staff says would be acceptable.

2. Other

The Ameren Companies oppose the proposal by the RES Coalition that Ameren serve as facilitator of an auction of forward off-peak wrap products delivered to its service territory. Mr. Hock explained that the small number of buyers and sellers creates a lack of price transparency for off-peak energy. An auction will not increase the number of participants. Further, the RES Coalition has not specified what amount of off-peak price data would be so insufficient as to trigger an auction. Ameren Ex. 3.0, p. 6.

N. Basis Adjustment

1. Illiquidity Adjustment

The Ameren Companies do not object to this adjustment, proposed by the RES Coalition.

2. Other

O. RES Coalition Proposal to Synchronize Price Shape Data from the PJM Market with Load Shape Data

The Ameren Companies do not disagree that the price and load shapes are not synchronized. Mr. Hock acknowledged that the PJM price shape is not completely appropriate for application to the Illinois markets, not only because of weather, but also because of differences in the generation mix, plant outages, weather sensitivity of the load, and other factors. Ameren Ex. 3.0, p. 8. Accordingly, the Ameren Companies disagree with the assertion by the RES Coalition that an increase in demand in the ComEd service area, all else being equal, should coincide with an increase in the PJM West price. Mr. Hock indicated that this assertion would be true if there were a simple and perfect correlation between demand and price. Ameren Ex. 3.0, p. 8. However, this is most certainly not true due to the effect of other variables as described above. He cautioned that the adoption of the RES Coalition methodology may result in some bias toward overstatement of the MVI value. Id.

P. Other

III. FLOATING MVI ADDER PROPOSAL

A. To which utilities, if any, should a floating MVI adder apply

The Ameren Companies have no objection to the use by Illinois Power of a floating adder. The Ameren Companies do not believe, however, that the application of such an adder to their Rider MVI would be appropriate, and they do not seek to implement such an adder.

B. Beginning value

C. Incremental changes

D. Limits on floating MVI adder

E. Determining Level of Marketing Activity

F. Other

IV. MULTI-YEAR OPTION ISSUES

A. Availability of multi-year contracts

B. Length of multi year contracts

C. Adjustments of multi year TC for changes in delivery service rates and mitigation factors

D. Market value adder based on length of contract

E. Limitation on load eligible for multi year TC contracts

F. Implications of RES default during multi year TC contract

G. Other

In a separate proceeding, the Ameren Companies are pursuing the suspension of their recovery of transition charges for the period June, 2003 through June, 2005, which the Commission made a condition of Ameren's acquisition of Central Illinois Light Company. The RES Coalition proposed that the Ameren Companies be required to offer a multi-year transition

charge for the remainder of the transition period (June, 2005 through December, 2006) should the Ameren Companies re-implement their transition charge in June, 2005. The Ameren Companies indicated that they would be willing to propose an option for customers to subscribe to an 18-month transition charge in such an event. The Ameren Companies have not developed a specific proposal for such an 18-month transition charge, but would be would model any such an offering on any approved for Commonwealth Edison Company and Illinois Power Company in this proceeding. Ameren Ex. 4.0, p. 4.

V. TIME PERIOD AND TC ADMINISTRATION ISSUES

A. Frequency of MV/TC calculations

(a. Periods A/B b. bi-monthly c. quarterly)

B. Moving data collection period for Applicable Period A to January

The Ameren Companies do not support moving the data collection period for Applicable Period A.

C. Decision Window for PPO Customers

D. Customer Eligibility for individual TC calculation

E. Customer Aggregation for individual TC calculation

F. Other

VI. OTHER ISSUES

A. Multi year price shaping

B. Price and Data Availability -- Monitoring and Reporting requirements

C. Dr. Ulrich's MVI-Study

D. Dr. Ulrich's NFF-Study

E. Mr. Sharfman's RPI Index

F. Reinstitution of the NFF process

The Ameren Companies do not believe that the market would be well served by the reintroduction of the NFF process.

G. Other

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Respectfully submitted,

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CERTIFICATE OF SERVICE

Christopher W. Flynn, an attorney, hereby certifies that he caused copies of the accompanying Initial Brief of the Ameren Companies to be served on the official service list by electronic delivery this 29th day of January, 2003.

Christopher W. Flynn