

**The September 2006
Illinois Auction**

***Post-Auction
Public Report of the Staff***

**Prepared by the
Staff of the Illinois Commerce Commission
with the assistance of
Boston Pacific Company, Inc.**

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EXECUTIVE SUMMARY

Introduction

- This is Staff's Post-Auction Report to the Illinois Commerce Commission regarding Staff's review and oversight of the Illinois Auction that took place in September 2006, pursuant to Commission Orders in Docket 05-0159 and Dockets 05-0160, 05-0161, 05-0162 (consol.) ("Procurement Dockets").
- The Illinois Auction was designed to procure wholesale commitments from bidders to supply, beginning in January 2007, all the electric energy needs of retail customers served by Commonwealth Edison Company ("ComEd") and the three Ameren utilities doing business in Illinois.
- For the general public, this report presents background on the Illinois Auction, an analysis of the auction results and their impact on retail rates, details on the particular tranches won by each of the winning bidders, and an assessment of the conduct of the auction, itself.
- For the Commission, this report supplements the Immediate Post-Auction Staff Report, submitted on a confidential basis to the Commission on September 12, 2006, two business days following the final round of the Illinois Auction. While the Immediate Post-Auction Staff Report was meant to aid the Commission in deciding whether or not to accept or reject the September auction results, the present report is meant to aid the Commission in evaluating whether the same procurement method should continue to be used in the future, with or without modifications. The last section of the report contains recommendations to improve future auctions.
- Consistent with the Commission's previous orders in the Procurement Dockets, Staff will be presenting the Commission with a draft order to initiate proceedings to determine what if any modifications to the procurement process the Commission wishes to adopt. It is anticipated that Staff's recommendations will be vetted in those upcoming proceedings.

Background

- The General Assembly's restructuring of the Illinois electric industry in 1997 resulted in, among other things, ComEd and the Ameren utilities selling or spinning off to affiliates their generating assets. These companies became distribution-only utilities. As distribution-only utilities, ComEd and the Ameren utilities can only serve their retail customers with electricity by entering into wholesale contracts with other companies (possibly including, but not necessarily limited to, affiliates).
- Since the Federal Energy Regulatory Commission ("FERC") has primary jurisdiction over wholesale electricity sales, any wholesale contracts entered into by ComEd and Ameren must be consistent with FERC regulations.

- The initial wholesale power contracts that these companies entered into expire with the January 1, 2007 end of the Restructuring Act's "mandatory transition period."
- In the Procurement Dockets, the Commission found the best option available for ComEd and Ameren to acquire new wholesale power contracts (for delivery starting January 2007) would be an open auction, where all bids from competing suppliers would be evaluated uniformly on the basis of price. Specifically, the Commission approved the use of a "descending clock auction," to be run by an independent Auction Manager and to be subject to Commission Staff oversight. The term "descending clock" derives from the fact that, as long as bidders offer to sell more electricity than consumers need, the price ticks down after each round of bidding.
- The first auction was held in September 2006. It consisted of two sections: one for fixed price contracts and the other for hourly price contracts. Most customers would be served through the fixed price contracts, where, as the name implies, the auction would set a single price to be used during the entire length of the contract. For the hourly price contracts, on the other hand, the auction would establish only a capacity charge, while the bulk of suppliers' revenues would be tied to externally-determined spot market prices for energy.
- The Illinois Auction began on September 5, 2006, and prices continued to tick down for four days. On September 12, 2006, the Commission approved the results of the Fixed Price Section, but rejected the results of the Hourly Price Section.

Staff Findings

- Staff and the Commission's Auction Monitor, Boston Pacific Company, Inc., had full access to all elements of the Illinois Auction. Monitoring included, among many other actions, participation in several trial auctions as well as on-site and electronic monitoring at the secure bid site during all rounds of the actual auction. Staff found that the auction was conducted in a transparent, equitable, and highly professional manner, consistent with both the Commission orders in the Procurement Dockets and the auction rules.
- In the view of Staff and the Auction Monitor, the auction was competitive. There were 21 registered bidders in the Illinois Auction and 16 of them were winning bidders. More specifically, there were 14 winning bidders for the various ComEd fixed price products and all 14 have entered into wholesale supply contracts with ComEd. There were 9 winning bidders for the various Ameren fixed price products and all 9 have entered into wholesale supply contracts with the Ameren utilities. There were 5 winning bidders for ComEd's hourly price product and 4 winning bidders for the Ameren utilities' hourly price products, but, since the Commission rejected the hourly price results, no hourly price contracts were signed. Neither Staff nor the Auction Monitor found evidence of collusive behavior or other anti-competitive actions by bidders.

- Staff believes the competitiveness of the auction was due, in part, to the Commission’s decisions in the Procurement Dockets, including but not limited to the Commission’s decisions regarding confidential treatment of bidder-specific information. The relatively large number of bidders shows that they perceived the Illinois Auction to be a fair process.
- In the Fixed Price Section, there were eight separate products. As seen in the table below, a “product” in the Fixed Price Section is defined generally by the size of the consumer (small or large), by the buyer (ComEd or Ameren), and by the length of the wholesale supply contract (17-, 29-, or 41-months). The prices for all the products in the small Fixed Price Section (this includes residential and small commercial consumers) were in a range of about \$63 to \$66 per megawatt-hour (“MWh”).

Section	Fixed Price							
Round Closed	39							
Customer Group	Small to Medium						Large	
Utility Group	ComEd			Ameren			ComEd	Ameren
Product	B 17	B 29	B 41	FP 17	FP 29	FP 41	A 17	LFP 17
Price (\$/MWH)	63.96	64.00	63.33	64.77	64.75	66.05	90.12	84.95

- The winning prices for the small to medium consumers were in line with Staff’s expectations. However, the prices for the large consumers were much higher.
- According to Staff’s analysis, the resulting auction prices include risk premiums due to various uncertainties over the cost of supplying power under these contracts. One significant source of cost uncertainty concerns the number of customers and the ultimate level of load that actually will be served. The risk premiums are most pronounced in the products purchased by ComEd and Ameren for large customers. This is likely due to a greater propensity of these large customers to switch to alternative suppliers (rather than buy from ComEd or Ameren) in reaction to changes in market prices during the life of the wholesale supply contracts.

Impact on Rates

- Combining the auction prices for electricity and currently-effective delivery service charges, the rates for most consumers will increase on January 1, 2007.
- It is instructive to put these rate increases in perspective. Residential increases will come after rates were first reduced (up to 20%) and then frozen for a decade since 1997. Therefore, we compare the increased rates not only to today’s rates, but also to those in effect back in 1997, before the Restructuring Act’s reforms began.
- Furthermore, when comparing prices in 2007 to those in 1997, it is appropriate to adjust for inflation. This is as intuitive as realizing that an income of \$20,000 in 1997 was much more valuable than \$20,000 in 2007 because inflation has eaten

away purchasing power by 23% over these ten years. Adjusting for the effect of general price inflation permits an apples-to-apples comparison, where we can state prices in two disparate time periods in common “purchasing power terms.”

- For ComEd, which serves about 70% of residential consumers in Illinois, residential rates for customers without electric space heating will increase by 21% in January 2007, as compared to current rates. However, compared to where they were in 1997 (prior to enactment of the Restructuring Act), rates will actually be 3% less. Furthermore, in purchasing power terms (adjusting for inflation), the 2007 rates will be 22% lower than in 1997.
- For Illinois Power, which serves 14% of residential consumers in Illinois, rates will increase by 37% in 2007 as compared to current rates. Compared to 1997 rates, the January 2007 rates will be up only 10%. In purchasing power terms, the 2007 rates will be 11% lower than 1997 rates.
- For CIPS, which serves 9% of residential consumers in Illinois, rates will increase 36% in 2007 as compared to current rates. As compared to 1997, the 2007 rates will be 29% higher. In purchasing power terms, the 2007 rates will be 5% higher than those in 1997.
- Finally, for CILCO, which serves 5% of residential consumers in Illinois, rates will increase 53% in 2007 as compared to current rates, 45% compared to 1997 rates, and in purchasing power terms, 18% since 1997.

Staff Recommendations

- The Fixed Price products should continue to be procured through an auction. However, given the rejection of the Hourly Price auction results, Staff recommends that the resources needed to provide hourly price service at retail should be procured through alternative methods until such time that they can be fully evaluated.
- For serving residential and small commercial customers, the next auction should include three consecutive **one-year** contracts (as opposed to **three-year** contracts as now planned). This will help maintain, and perhaps even enhance, the inter-product competition observed during the first auction, leading to lower prices.
- An “enrollment window” should be instituted for small non-residential customers. For large customers, the enrollment window should be either shortened or replaced with a pre-enrollment procedure. Such measures will help mitigate supplier risks and thus are expected to lead to lower auction prices.
- An additional day should be allowed for the Staff to provide its report to the Commission following the auction (three instead of two).
- For a complete list of Staff’s recommendations, see the last section of this report.

I. INTRODUCTION

This report concerns the Illinois Auction process for the procurement of electricity at wholesale by ComEd and by Ameren's three Illinois utilities for ultimate delivery to all Illinois retail consumers eligible to receive utility supply service after January 1, 2007. The initial Illinois Auction was held between September 5th and 8th, 2006. It utilized a simultaneous descending clock auction format, which will be described further below. Subsequent iterations of the Illinois Auction are scheduled to take place annually, each January, beginning in 2008. The purpose of this document is to report on the results of the initial auction and to propose improvements for the next auction.

II. BACKGROUND

The Electric Service Customer Choice and Rate Relief Law of 1997 ("the Restructuring Act") was a massive overhaul of the State of Illinois' policy toward electric utility service. It began a transition toward greater reliance on market forces to determine how electric electricity would be provided to retail customers, while maintaining the obligation of electric utilities to provide tariffed bundled electric service to residential and small commercial retail customers. January 1, 2007 marks the statutory end of the Restructuring Act's "mandatory transition period" and its bundled rate freeze. In addition to requiring electric utilities to provide delivery services (enabling consumers direct access to alternative suppliers of electricity), the Restructuring Act also authorized these utilities to reorganize their businesses and to divest themselves of their generation assets, subject to limited Commission oversight. While providing for Commission review, the General Assembly expressly chose to authorize Commission disapproval of such asset divestiture only if the agency found that the transaction would render the utility unable to provide safe and reliable service, or would result in a strong likelihood that the utility could seek a base rate increase during the mandatory transition period. The largest of the Illinois utilities-- ComEd, Central Illinois Light Company, Central Illinois Public Service Company, and Illinois Power Company--sold to third parties or spun off to affiliates their generating assets and entered into long-term supply contracts that terminate on or around January 1, 2007. Thus, in its wake, the Restructuring Act left the Commission with an important question: How would these utilities meet their responsibilities to provide electricity to consumers after January 1, 2007?

Potential answers to this question began to form during a series of workshops organized by the Commission in the spring of 2004. Known as the "Post 2006 Initiative," these workshops were organized into working groups focusing on the issues of Procurement, Rates, Competitive Issues, Utility Service Obligations, Energy Assistance, and Implementation. Final reports by each of the working group conveners were submitted to the Commission in September 2004, and a final Staff Report was submitted to the Commission in November 2004. The Staff Report endorsed the use of an auction.

On February 25, 2005, ComEd formally filed tariff sheets embodying a proposal to implement, and use in setting retail rates, a wholesale competitive power procurement auction. On February 28, 2005, Central Illinois Light Company d/b/a

AmerenCILCO, Central Illinois Public Service Company d/b/a AmerenCIPS and Illinois Power Company d/b/a AmerenIP (jointly the “Ameren Companies” or “Ameren”) filed similar tariff sheets embodying their proposal to utilize the same wholesale competitive power procurement auction, in conjunction with ComEd. After an 11-month hearing process, the Commission approved modified versions of the companies’ proposals for an “Illinois Auction.”

For example, in the ComEd docket, the Commission concluded that

[T]he Commission does not have the luxury or the time to reassess or unravel the General Assembly’s decision to enact the Restructuring Law. As the record amply demonstrates, ComEd possesses no generation assets and the current contracts for supply expire December 31, 2006. The Commission must ensure that Illinois utilities possess a viable procurement process. The Commission is of the opinion that in the near term, the only viable approach relies upon the wholesale market. (ICC Docket No. 05-0159, Order, January 24, 2006, p. 61)

The Commission finds that nothing that has been presented in this proceeding or in any other forum provides any basis for reaching a different outcome or for proposing any other procurement approach. Therefore, as modified elsewhere in this Order, the Commission approves ComEd’s tariffs incorporating a competitive procurement auction. (ICC Docket No. 05-0159, Order, January 24, 2006, p. 171)

Similarly, in the Ameren docket, the Commission concluded

Ameren has made a case in this proceeding, with the support of Staff and some of the other parties, for using its auction proposal. Whatever the availability and potential benefits of other procurement alternatives may be in theory, the record in this case does not support a conclusion that any are more viable in terms of price, reliability and other pertinent factors for purposes of meeting Ameren’s post-transition supply requirements. (ICC Docket No. 05-0160/1/2, Order, January 24, 2006, p. 203)

A detailed review of the above-mentioned hearing process is beyond the scope of this report. We will not, for example, reiterate the arguments for and against the various procurement methods that were debated. To summarize, though, the Commission’s January 2006 Orders authorized the utilities to base retail rates for electricity on the results of a “simultaneous descending clock auction,” run by an independent Auction Manager, to secure “tranches” of electricity. To explain these terms, “tranches” are equal slices (or percentages) of the total load of well-defined customer groups; since retail energy demand varies continuously, a supplier of a tranche must provide a continuously varying quantity of electricity. A “simultaneous descending clock auction” is a relatively sophisticated and complicated form of auction, where multiple buyers or sellers (in this case sellers) offer to provide multiple quantities (in this case “tranches” of electricity) of multiple products (in this case, different contracts to provide electricity to various customer groups over various time periods), by bidding quantities as the prices of the various products are systematically

lowered by the auctioneer. In such an auction, the initial price announced by the auctioneer is high enough to solicit more supply than is actually required by the buyers. Then, the auctioneer allows prices to fall in discrete rounds, and, as the prices fall, the quantities offered by bidders predictably fall as well. The auction ends when the quantity offered by bidders no longer exceeds the quantity sought by the auctioneer on behalf of the buyers (in this case, ComEd and Ameren).

Following the Commission's orders in the above-mentioned proceedings, ComEd and Ameren retained Dr. Chantale LaCasse of NERA (an economic consulting firm) as the independent Auction Manager. One of the initial tasks for Dr. LaCasse's auction management team was developing a web site, where bidders (and other interested parties) could find important information for evaluating the auction opportunity and for qualifying to bid. The web site can be found at www.Illinois-Auction.com. For interested readers, complete details of the auction rules, bidder application forms, supplier contracts, auction-related utility tariffs, and other information can be found on this web site.

In the summer of 2006, Boston Pacific Company, Inc. was retained by the Commission as Auction Monitor. Boston Pacific is a consulting firm specializing in the electricity and natural gas industries, and focusing most recently on monitoring procurement processes and independent market monitoring. The Boston Pacific team included Professor Ken Hendricks, who has 24 years of experience performing research in economics, specializing in the economics of auctions. The expertise of the Boston Pacific team in auctions, bidding behavior, and market structure and performance was particularly valuable to the Staff and the Commission in assessing the competitiveness of the Illinois Auction.

III. SUMMARY OF THE SEPTEMBER 2006 ILLINOIS AUCTION

In 2006, the Illinois Auction was actually two auctions beginning on the same day and run in parallel: one auction for a “Fixed Price Section” and the other auction for an “Hourly Price Section.” Each of the two sections of the auction was designed to solicit bids for multiple products within the section and for multiple quantities (i.e., *tranches*) of each product.

As shown in the diagram below, the various products are differentiated by the utility company purchasing the product (ComEd is the CPP group while Ameren is the BGS group), by the customer classes being served (described further below), and by the term of the contract (17 months, 29 months, or 41 months). For each auction, “load caps” limit each bidder to no more than 35 percent of the total tranches sought for each utility.

Most ComEd customers are in the CPP-B load category while most Ameren customers are in the BGS-FP load category. These load categories include residential, small to medium non-residential and lighting categories. Some of ComEd’s larger customers are in the CPP-A load category, while all of Ameren’s larger customers are in the BGS-LFP load category. Large ComEd customers in classes previously declared competitive are not included in either the CPP-A or CPP-B load categories.¹ They, along with self-generation customers, are included in the CPP-H load category and are eligible to be served through an hourly-price supply service, where the auction was to determine only a portion of the total price paid by ComEd. Similarly, large Ameren customers may choose an optional “real-time” retail rate (RTP-4); they are included in the BGS-LRTP load category. Smaller Ameren customers (RTP-1 through RTP-3) are also eligible for an optional real-time rate option. But, while their charges were to be based partially on the results of the BGS-LRTP, these smaller Ameren customers will still be served through the BGS-LP products.

¹ The Restructuring Act states that “The Commission shall declare the service to be a competitive service for some identifiable customer segment or group of customers, or some clearly defined geographical area within the electric utility’s service area, if the service or a reasonably equivalent substitute service is reasonably available to the customer segment or group or in the defined geographical area at a comparable price from one or more providers other than the electric utility or an affiliate of the electric utility, and the electric utility has lost or there is a reasonable likelihood that the electric utility will lose business for the service to the other provider or providers; provided, that the Commission may not declare the provision of electric power and energy to be competitive pursuant to this subsection with respect to (i) any retail customer or group of retail customers that is not eligible pursuant to Section 16-104 to take delivery services provided by the electric utility and (ii) any residential and small commercial retail customers prior to the last date on which such customers are required to pay transition charges.” (220 ILCS 5/16-113) In Docket 02-0479, the Commission found that “competitive conditions in the ComEd service territory for Rate 6L customers 3MW and greater exist in considerable degree; however, there are sufficient concerns about recent developments that cause the Commission to refrain at this time from either granting or denying ComEd’s Petition,” but that ComEd’s competitive declaration would “take effect by operation of law.” (Docket 02-0479, Interim Order, November 14, 2002, p. 79)

Overview of Illinois Auction Products

Customer Group	Product	Tranche Target	Company Group			Auction Section	
			Company	Sum of Product Tranche Targets	Load cap	Product type	Volume
CPP-A	CPP-A 17-mo	88	Com-Ed (CPP)	366	128	Fixed Price Section	510
CPP-B	CPP-B 17-mo	92					
	CPP-B 29-mo	93					
	CPP-B 41-mo	93					
BGS-LFP	BGS-LFP 17-mo	37	Ameren (BGS)	144	50		
BGS-FP	BGS-FP 17-mo	35					
	BGS-FP 29-mo	36					
	BGS-FP 41-mo	36					
CPP-H	CPP-H 17-mo	53	Com-Ed	53	18	Hourly Price Section	90
BGS-LRTP	BGS-LRTP 17-mo	37	Ameren	37	12		

Break-down of Customer Supply Groups / Classifications within each Load Category

Section	Utility Group	Load Category	Customer Supply Groups / Classifications
Fixed Price	Com-Ed	CPP-B	Residential
			Watt-Hour
			Small Load
			Medium Load
			Dusk to Dawn Lighting
			General Lighting
		CPP-A	Large Load
	Very Large Load		
	Ameren	BGS-FP	BGS-1 Residential Service
			BGS-2 Small General Service
			BGS-3 General Service
			BGS-5 Dusk-to-Dawn Lighting Service Rate
			RTP-1 Residential Real-Time Pricing Service Rate
RTP-2 Small General Real-Time Pricing Service Rate			
BGS-LFP	BGS-FP	RTP-3 General Real-Time Pricing Service Rate	
		BGS-4 Large General Service	
Hourly Price	Com-Ed	CPP-H	Competitively Declared
			Self-Generating
	Ameren	BGS-LRTP	RTP-4 Large General Real-Time Pricing Service Rate

A. Summary of the Fixed Price Auction Results

The Fixed Price (“FP”) Section began with the opening of round 1 around 7:30 AM on September 5, 2006. It concluded with the close of round 39 just before noon on September 8, 2006. No volume adjustment was made to the FP Section during the auction, so the pre-auction tranche targets and load caps remained the same throughout the auction. At a September 14, 2006 Commission meeting, the Commissioners voted to accept the results of the FP Section. Of the 21 registered bidders, only 16 of them won tranches. The table below shows other indicators and measures for the FP Section.

Fixed Price Auction Summary

	<u>Date</u>	<u>Time</u>	<u>Round</u>
Start	Tue, 5 Sep 2006	7:30 AM	1
End	Fri, 8 Sep 2006	11:30 AM	39

Purchasing Utility	ComEd				Ameren				Total
	CPP-B			CPP-A	BGS-FP			BGS-LFP	
Load Category	17-mo	29-mo	41-mo	17-mo	17-mo	29-mo	41-mo	17-mo	
Product									
Peak load of Category (MW)	13,879			4,376	5,366			1,853	25,474
Tranche size (% of peak load)	0.36%			1.14%	0.93%			2.70%	
Tranche size (approximate MW)	49.92			49.73	50.15			50.08	
Percent of load this auction	100%			100%	100%			100%	
Starting tranche target	92	93	93	88	35	36	36	37	510
Starting target (% of peak load)	33%	33%	33%	100%	33%	34%	34%	100%	
Final tranche target	92	93	93	88	35	36	36	37	510
Final target (% of peak load)	33%	33%	33%	100%	33%	34%	34%	100%	
Quantity procured (# tranches)	92	93	93	88	35	36	36	37	510
Percent of peak load procured	33%	33%	33%	100%	33%	34%	34%	100%	
# Winning bidders	10	8	4	8	3	4	3	5	16
Max tranches sold by any 1 bidder	27	38	89	37	24	15	18	12	138
Max tranches sold by any 1 bidder	128				46				138
Starting load cap (# tranches)	128				50				
Final load cap (# tranches)	128				50				
Starting Price (\$/MWH)	100.0	100.0	100.0	104.0	100.0	100.0	100.0	104.0	
Final price (\$/MWH)	63.96	64.00	63.33	90.12	64.77	64.75	66.05	84.95	

As shown in the last line of the table above, there is a close similarity in the prices for the CPP-B products and the BGS-FP products (i.e., the products used to serve the residential and small to medium-size non-residential customers of ComEd and Ameren, respectively). The average CPP-B price is \$63.76 per MWH while the average BGS-FP price is \$65.19 (a 2% differential).

However, the prices for the CPP-A and BGS-LFP products (those used to serve the large customers of ComEd and Ameren, respectively), are significantly different from each other, and significantly higher than the prices of the CPP-B and BGS-FP (smaller customer) products. Later in this report, we delve into explanations for this phenomenon and offer recommendations that in future auctions are expected to lower the premium commanded for the large customer products.

B. Summary of the Hourly Price Auction Results

The Hourly Price (“HP”) Section was conducted in parallel with the FP Section. It began with the opening of round 1 at around 7:30 AM on September 5, 2006. It concluded with the close of round 38 (one round earlier than the fixed price section) at around 10 AM on September 8, 2006. For reasons to be discussed later in this report, a volume adjustment was made between rounds 1 and 2, reducing volumes sought from 90 to 71 tranches. The tranche targets for each utility were reduced in the same proportion. There were no load cap reductions. At a September 14, 2006 Commission meeting, the Commissioners voted to reject the results of the HP Section. Of the 8 bidders registered for the HP Section, 6 won tranches. The table below shows various indicators and measures for the HP Section.

Hourly Price Auction Summary

	<u>Date</u>	<u>Time</u>	<u>Round</u>
Start	Tue, 5 Sep 2006	7:30 AM	1
End	Fri, 8 Sep 2006	10:00 AM	38

Purchasing Utility	ComEd	Ameren	Total
Load Category	CPP-H	BGS-LRTP	
Product	17-mo	17-mo	
Peak load of Category (MW)	2,629	1,853	4,482
Tranche size (% of peak load)	1.89%	2.70%	
Tranche size (approximate MW)	49.60	50.08	
Percent of load this auction	100%	100%	
Starting tranche target	53	37	90
Starting target (% of peak load)	100%	100%	
Final tranche target	42	29	71
Final target (% of peak load)	79%	78%	
Quantity procured (# tranches)	42	29	71
Percent of peak load procured	79%	78%	
# Winning bidders	5	4	6
Max tranches sold by any 1 bidder	16	12	28
Starting load cap (# tranches)	18	12	
Final load cap (# tranches)	18	12	
Starting Price (\$/MW-Day)	290.00	310.00	
Final price (\$/MW-Day)	175.35	276.19	

IV. WINNING BIDDERS IN THE SEPTEMBER 2006 AUCTIONS

The table below shows the winning bidders for each product in both the Fixed Price Section and the Hourly Price Section of the September 2006 Illinois Auction (even though the Hourly Price results were not accepted by the Commission).

Section	Fixed Price								Hourly Price	
Round Closed	39								38	
Customer Group	Small to Medium						Large		Very Lg & Optional	
Utility Group	ComEd			Ameren			ComEd	Ameren	ComEd	Ameren
Product	B 17	B 29	B 41	FP 17	FP 29	FP 41	A 17	LFP 17	H 17	L RTP 17
Price (\$MWH)	63.96	64.00	63.33	64.77	64.75	66.05	90.12	84.95	175.35	276.19
Bidder / Tranches Won										
Ameren Energy Marketing Company				6	15	15		10		2
American Electric Power Service Corporation	3						5	2		
Conectiv Energy Supply, Inc.		6	1				3			
Constellation Energy Commodities Group, Inc.		3			10	18	22	12	4	5
DTE Energy Trading, Inc.	3	4					3		6	
Dynegy Power Marketing, Inc.				24	4				16	12
Edison Mission Marketing & Trading, Inc.	19	22								
Energy America, LLC	4									
Exelon Generation Co., LLC		38	89				1	10	4	10
FPL Energy Power Marketing, Inc.	6						9		12	
J. Aron & Company	15	10		5						
J. P. Morgan Ventures Energy Corporation	27	4	1		7					
Morgan Stanley Capital Group, Inc.	6						37	3		
PPL EnergyPlus, LLC	6	6	2							
Sempra Energy Trading Corp.							8			
WPS Energy Services, Inc.	3									
Sum of Tranches Won	92	93	93	35	36	36	88	37	42	29

While there were 21 registered bidders, only sixteen of them are identified above. Neither the table above, nor any of the other tables in this report, show the identities of the five bidders that won no tranches. All five were eligible to bid in the FP Section and two of the five were also eligible to bid in the HP Section. Among the winning bidders are Ameren Energy Marketing Company, which is an affiliate of the Ameren utilities, and Exelon Generation Co., LLC, which is an affiliate of ComEd.

The two tables on the next page rank the winners, by the total number of tranches that were won in each of the sections:

Fixed Price Section Winners Ranked

Rank	Bidder	Tranches Won	% of Total
1	Exelon Generation Co., LLC	138	27.1%
2	Constellation Energy Commodities Group, Inc.	65	12.7%
3-4	Ameren Energy Marketing Company	46	9.0%
	Morgan Stanley Capital Group, Inc.	46	9.0%
5	Edison Mission Marketing & Trading, Inc.	41	8.0%
6	J. P. Morgan Ventures Energy Corporation	39	7.6%
7	J. Aron & Company	30	5.9%
8	Dynegy Power Marketing, Inc.	28	5.5%
9	FPL Energy Power Marketing, Inc.	15	2.9%
10	PPL EnergyPlus, LLC	14	2.7%
11	DTE Energy Trading, Inc.	13	2.5%
12	American Electric Power Service Corporation	10	2.0%
13	Conectiv Energy Supply, Inc.	10	2.0%
14	Sempra Energy Trading Corp.	8	1.6%
15	Energy America, LLC	4	0.8%
16	WPS Energy Services, Inc.	3	0.6%

Hourly Price Section Winners Ranked

Rank	Bidder	Tranches Won	% of Total
1	Dynegy Power Marketing, Inc.	28	39.4%
2	Exelon Generation Co., LLC	14	19.7%
3	FPL Energy Power Marketing, Inc.	12	16.9%
4	Constellation Energy Commodities Group, Inc.	9	12.7%
5	DTE Energy Trading, Inc.	6	8.5%
6	Ameren Energy Marketing Company	2	2.8%

Note: The Hourly Price Section results were rejected by the Commission.

Finally, the following table shows the winners by utility group and by auction section. Those winning bidders who reached a load cap are shown in bold face type. Recall that load caps were 35% of the total load sought (by utility and by section). This amounted to 128 tranches of the ComEd fixed price products, 50 tranches of the Ameren fixed price products, 18 tranches of the ComEd hourly price product, and 12 tranches of the Ameren hourly price product.

Load caps were reached by Exelon Generation Co. for the ComEd fixed price group and by Dynegy Power Marketing, Inc., for the Ameren hourly price group. No bidder reached the load cap in the Ameren fixed price group or the ComEd hourly price group.

Section	Fixed Price		Hourly Price	
Utility Group	Comed	Ameren	Comed	Ameren
Group Load Cap	128	50	18	12
Bidder				
Ameren Energy Marketing Company		46		2
American Electric Power Service Corporation	8	2		
Conectiv Energy Supply, Inc.	10			
Constellation Energy Commodities Group, Inc.	25	40	4	5
DTE Energy Trading, Inc.	10	3	6	
Dynegy Power Marketing, Inc.		28	16	12
Edison Mission Marketing & Trading, Inc.	41			
Energy America, LLC	4			
Exelon Generation Co., LLC	128	10	4	10
FPL Energy Power Marketing, Inc.	15		12	
J. Aron & Company	25	5		
J. P. Morgan Ventures Energy Corporation	32	7		
Morgan Stanley Capital Group, Inc.	43	3		
PPL EnergyPlus, LLC	14			
Sempra Energy Trading Corp.	8			
WPS Energy Services, Inc.	3			

Bidders at the load cap shown in bold-face type

V. ANALYSIS OF THE SEPTEMBER 2006 AUCTION PRICES

A. *Comparison of Auction Prices to Other Wholesale Market Prices*

In this section, Staff presents benchmarks against which to compare the final prices determined through the Illinois Auction. At the outset, two points need to be strongly emphasized. First, creating benchmarks of this kind relies upon many assumptions. Thus, any such benchmarks should be interpreted cautiously. Second, Staff did not utilize such benchmarks in forming its recommendations to the Commission concerning approval or rejection of the September auction results. In general, Staff's recommendations for approval or rejection of auction results are based not on second-guessing resulting auction prices, but rather on an assessment of whether the auction is conducted in accordance with the Commission's orders and the auction rules and whether the auction was adversely affected by contemporaneous external events. Positions taken in the Procurement Dockets by potential bidders clearly indicate that their participation in the Illinois Auction (and hence the competitiveness of the auction) would be adversely effected by second-guessing of auction prices.²

However, for planning future procurements, Staff believes it is appropriate to compare the prices resulting from the auction to other indicators of wholesale market prices for electricity. We consider this to be a significant challenge since there are no other observable markets for the tranches of electricity sought through the Illinois Auction. Nevertheless, some of the key ingredients for this type of service are sold in other observable markets. To provide such a service, suppliers need energy, capacity (or capacity credits), transmission and ancillary services.

1. Energy Costs

Recall that the Illinois Auction contracts specify terms of 17 months, 29 months, and 41 months. A proxy for the cost of energy needed to serve consumers over 17-month, 29-month and 41-month periods can be established by observing futures and/or forward market prices. For example, futures contracts for electricity are traded at the New York Mercantile Exchange ("NYMEX"). Data on such contracts can be downloaded at the end of each trading day without charge. For our purposes, the most relevant contracts eventually settle against spot market prices at specific PJM and MISO hubs³, including PJM's Western Hub, PJM's Northern Illinois Hub, and MISO's Cinergy Hub.⁴ Each contract covers either all the on-peak hours or all the off-peak hours within a given month. At any one time, there could be trading available in two or more years' worth of such monthly contracts, starting with the next calendar month. Such futures contracts would enable suppliers to lock in purchased energy costs (or revenues) over the terms of the auction contracts with ComEd and Ameren. Thus, NYMEX futures contract prices

² See, for example, the initial briefs of Morgan Stanley (pp. 3-13) and Constellation (pp. 15-16) filed on October 7, 2005 in Docket 05-0159.

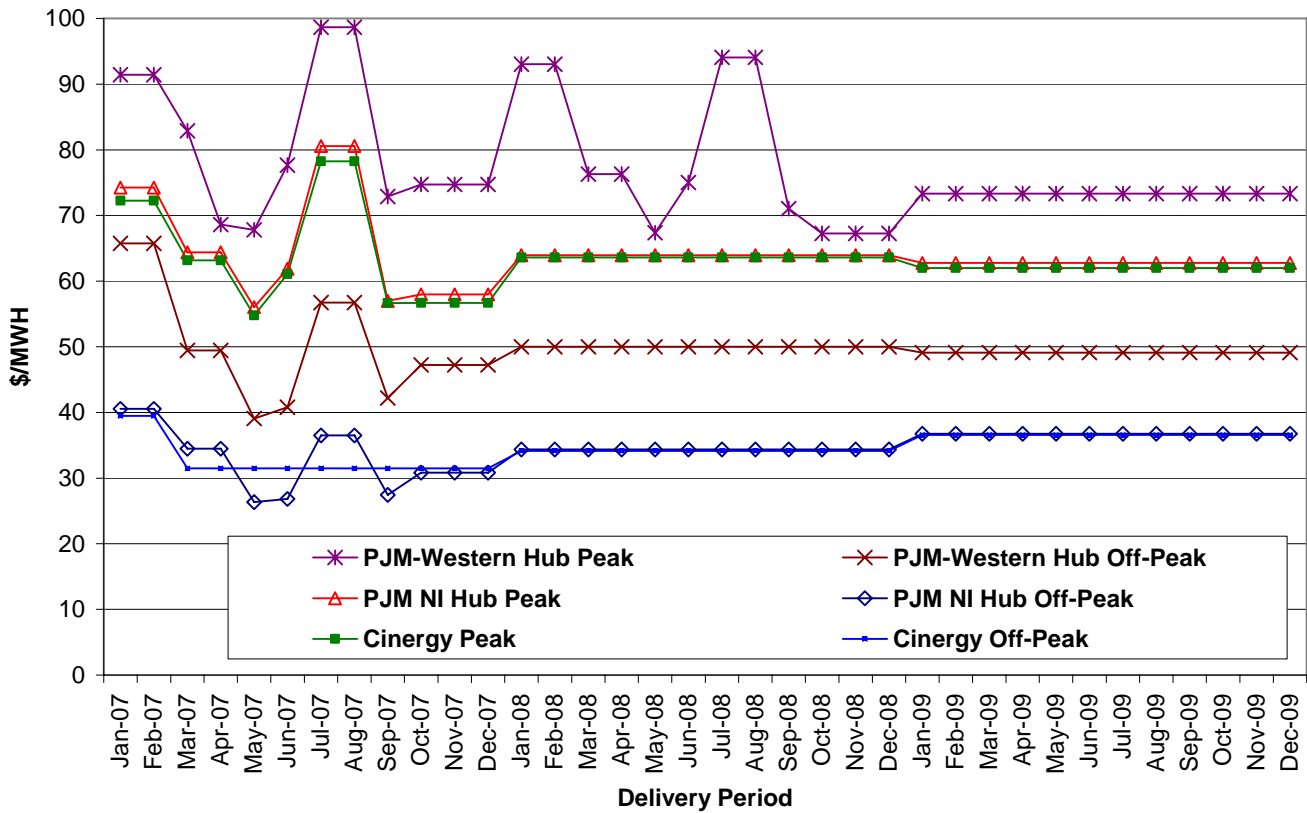
³ PJM and MISO are each regional transmission organizations to which ComEd and Ameren belong, respectively.

⁴ Where these hubs do not exactly match up to the Ameren or ComEd service territories, adjustments for expected geographic differences in prices can be made using more detailed historical price data from the relevant spot markets.

observed while the Illinois Auction was taking place provide a reasonable means of independently assessing the contemporaneous value of wholesale energy.

The graph below shows a snapshot of futures market prices for various delivery months relevant to our analysis. It uses NYMEX settlement prices observed on the last day of the Illinois Auction (9/8/06). From the graph, it is clear that on-peak prices are higher than off-peak prices, summer prices are generally higher than non-summer prices, and the PJM Western Hub is generally higher than the Northern Illinois and Cinergy Hubs. For Staff's more detailed analysis, price data was used in conjunction with expected energy volumes during the relevant months and time periods, and further adjustments were made for basis differentials, where needed. Nevertheless, to show the order of magnitude of energy prices, the simple average for the first 24 months of the Northern Illinois Hub will serve: \$50.12.

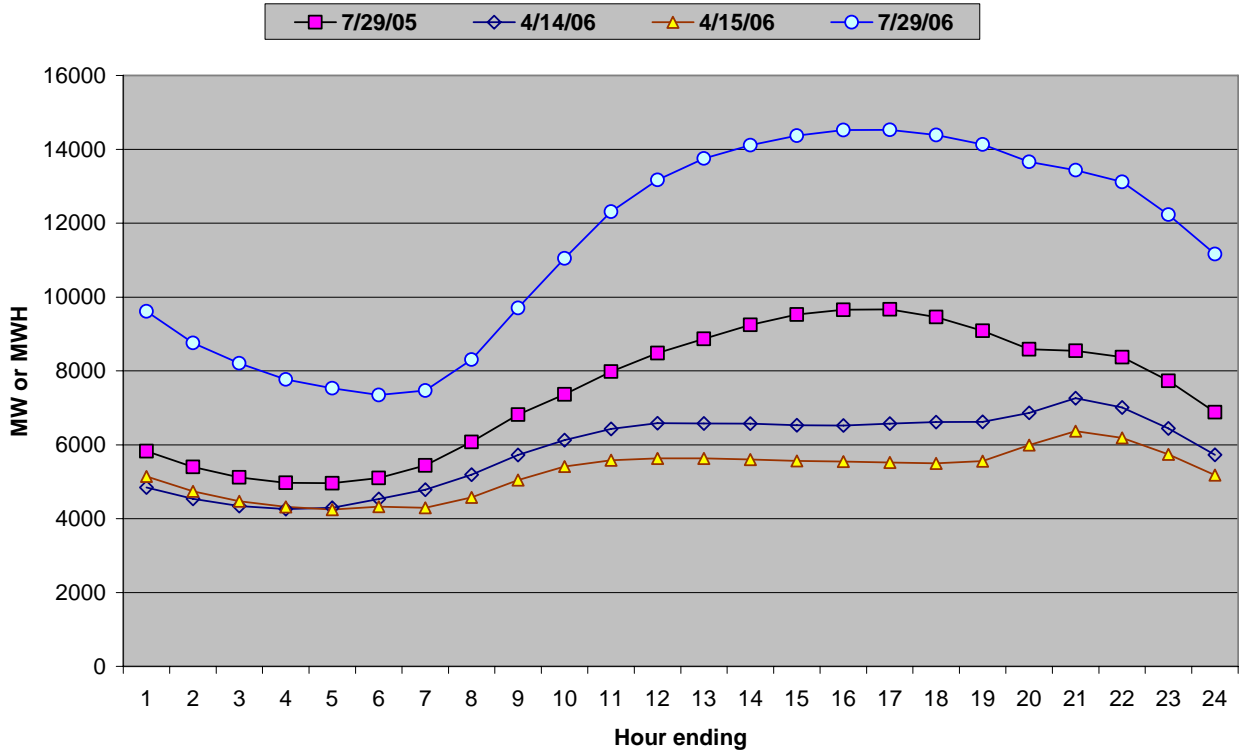
NYMEX Futures Contract Settlement Prices for 9/8/06



However, futures contracts are far from a perfect proxy for the energy component of full requirements service. Futures contracts specify a fixed block of power (equal amounts in each on-peak or off-peak hour within the delivery month). In contrast, suppliers to the Illinois Auction are required to meet a fixed percentage of the load every hour during the life of the contract. That load is an unknown and ever-changing quantity. For example,

suppliers to ComEd's CPP-B fixed price service serve the load of CPP-B customers, which varies by hour, by day, and by season (see chart below).

ComEd's CPP-B eligible customer load on four different days



Data source: Illinois Auction Data Room (<http://www.illinois-auction.com>)

The load that a CPP-B wholesale supplier must serve may also vary as retail customers switch between ComEd's CPP-B fixed price service and ComEd's hourly price service. Load may also vary as a result of customers switching to or from CPP-B and alternative electric suppliers. Load will also vary as customers migrate to or from ComEd's service territory. To some extent, historical load data and other data enable suppliers to construct statistical estimates of future load, but such statistical methods are of limited efficacy, especially for predicting load several months or one to two years into the future. Thus, relative to the price of futures contracts for known and fixed quantities, the price for a CPP-B supply contract can be expected to entail premiums for load variability/unpredictability or allowances for creating hedges against such variability/unpredictability.⁵

⁵ If hourly loads under CPP-B were merely variable (but not unpredictable), based on observed variations in hourly spot prices and loads, Staff estimates the premium should amount to between 4% and 6% on average over the life of a CPP-B contract. However, the more difficult analytical task is modeling an expected market premium for the *uncertainty* in load. While Staff has not established a quantitative way of estimating that premium, Staff would anticipate that it could be significantly greater than 6%.

2. Capacity

There are also observable markets for capacity, especially in PJM. In MISO, capacity is traded through bilateral contracts. In PJM, capacity is not only traded through bilateral contracts, it is also traded in PJM-administered capacity auctions, where PJM acts as a clearing-house for all market participants (a buyer to all sellers and a seller to all buyers). Such auctions are held daily for daily capacity, and periodically for capacity covering anywhere from one to twelve months. The following table shows the auction-clearing prices for capacity credits covering periods of at least 120 days.

		Delivery Period		Date of PJM Capacity Auction	Auction Clearing Price (\$/MW-day)
		Start	End		
Days in Delivery Period	120	02/01/2005	05/31/2005	1/24/05	1.00
		02/01/2006	05/31/2006	1/24/06	1.50
	122	06/01/2005	09/30/2005	3/16/05	10.00
				4/21/05	8.00
				5/25/05	5.00
		06/01/2006	09/30/2006	3/15/06	20.00
				4/20/06	20.00
				5/24/06	12.76
	151	01/01/2006	05/31/2006	10/18/05	1.60
				11/21/05	2.00
				12/21/05	3.75
				12/29/05	1.60
		01/01/2007	05/31/2007	10/24/06	2.99
	214	06/01/2005	12/31/2005	3/15/05	6.50
				4/20/05	6.00
				5/24/05	4.50
		06/01/2006	12/31/2006	3/14/06	16.50
				4/19/06	13.95
				5/23/06	9.50
	365	06/01/2005	05/31/2006	1/20/05	10.74
				4/19/05	4.73
				5/23/05	5.25
		06/01/2006	05/31/2007	1/19/06	7.95
				2/14/06	12.00
3/9/06				11.48	
4/18/06				10.73	
5/22/06				7.75	

A few points from the table are worth noting in particular. First, the most recent auction for an entire twelve month period was held on 5/22/06 (a few months before the Illinois Auction) and resulted in a capacity price of \$7.75 per MW-Day covering the 365-day period June 1, 2006 through May 31, 2007. The next three most recent 12-month capacity auctions resulted in prices between \$10.73 and \$12.00 per MW-Day. The most recent (and so far only) auction covering the 151-day period from January 1, 2007 through May 2007 was held on 10/24/06, and resulted in a clearing price of \$2.99 per MW-Day.

For purposes of our analysis, Staff utilized the values for capacity costs included in ComEd and Ameren's "rate prisms." These rate prisms are mathematical models defined by the utilities' tariffs that essentially allocate the total costs of electricity resulting from the Illinois Auction among the utilities' individual rate classes. In rate prisms for the 2006 Illinois Auction, both companies utilized a capacity cost of \$10.73 per MW-Day covering a 17 month January through May period. To compare such capacity prices to the energy prices discussed in the previous subsection, units of dollars per MW-Day can be converted into dollars per MW-Hour. Based on recent energy usage and capacity obligation data from the ComEd and Ameren rate prisms, \$10.73 per MW-Day converts to approximately \$1.12 per MW-Hour for ComEd's CPP-B class and \$0.98 per MW-Hour for Ameren's BGS-FP class (the difference owing to ComEd's somewhat larger ratio of capacity obligation to recent energy usage). In any event, in comparison to the earlier-mentioned proxy for energy costs, capacity costs appear to be a relatively small component of the overall expected cost of being a tranche supplier in the Illinois Auction.

3. Transmission and Ancillary Services

In order to get power from generators to consumers, transmission and distribution resources must be utilized.

In general terms, distribution resources and the services that they provide are subject to state regulation. In Illinois, the rates for distribution-level delivery services are set forth in the utilities' ICC-jurisdictional tariffs. As of January 2, 2007, ComEd and Ameren will utilize these distribution-level delivery service tariffs for all their retail customers. Since distribution charges are incurred by retail consumers directly, and not by wholesale suppliers who win tranches in the Illinois Auction, there is no need to include these charges within an estimate of suppliers' costs.

Transmission resources and the services that they provide, however, are outside the scope of state price regulation. Transmission services and "ancillary services" are considered to be in interstate commerce and are subject to the regulatory jurisdiction of the FERC. Nevertheless, to the extent to which the utilities legitimately and verifiably incur these costs in order to serve their retail customers, they seek to recover them in rates. To some extent (as explicitly established in the Illinois Auction's supplier forward contracts), utilities will continue to incur some types of transmission and ancillary service costs directly and will pass them on to their retail customers through cost-tracking mechanisms which have been approved by the Commission for this purpose. Like the distribution-level delivery service costs mentioned in the previous paragraph, there is no need to include

these transmission and ancillary service costs that are directly incurred by the utility within an estimate of the auction suppliers' costs.

However, the Illinois Auction's supplier forward contracts also establish that other transmission and ancillary service costs will be borne by the suppliers. Thus, we should make an effort to account for the expected level of these costs within our benchmark. Ameren's rate prism includes ancillary services cost estimates of \$1.25 per MWH and ComEd's prism includes ancillary services cost estimates of \$1.76 per MW.

4. Adding it all up

a. Residential and Small Commercial Fixed Price Products

To add up all the components and weight them appropriately by customer usage, Staff again relied upon the utilities' rate prisms, which already contain the necessary usage data. Once again, Staff cautions that its analysis relies upon many assumptions and does not wholly reflect the type of products bought through the auction. As already noted, the "tranches" purchased through the auction shift considerable risk from utilities and/or ratepayers to the winning bidders. Staff's analysis does not include compensation for 1) the risk that load changes, 2) risks created by the uncertainty in the underlying markets such as PJM and MISO, or 3) regulatory risks. Thus, the resulting auction prices can be expected to be higher than Staff's benchmark, because the auction prices can be expected to contain risk premiums, which Staff did not quantify.

Staff's analysis results in expected costs, excluding risk premiums, in the range of about \$54 to \$60 per MWH for the small to medium customer supply contracts, while actual auction prices were between \$60 and \$66 per MWH. If the entire difference between the actual auction prices and Staff's benchmark prices is assumed to be due to the risk premium that Staff did not otherwise quantify, then the implied risk premiums would be approximately 7%, 11%, and 12% for the 17-month, 29-month, and 41-month ComEd products, respectively, and 18%, 21%, and 25% for the three Ameren products. The higher premiums for the Ameren products may reflect the less-developed nature of the younger MISO markets within which Ameren resides relative to the PJM markets within which ComEd resides. These comparisons are shown in the following table, along with similar comparisons for the large customer class products. A further comparison can be made between these implied premiums and premiums computed using the same methodology following similar auctions held elsewhere, such as the auctions held in New Jersey each year since 2002, for that State's electric utilities. For instance, following New Jersey's most recent (2006) auction for very similar electricity products, we found the premium on the contract for serving the small and medium sized retail customer load of that state's largest utility (PSE&G) to be 15%.

b. Large Commercial Fixed Price Products

As noted, the table below also compares Staff’s projections of auction prices (without risk premiums) to the actual auction prices for the ComEd and Ameren **large** customer products, CPP-A and BGS-LFP. In this case, the implied risk premiums are significantly higher than they are in the case of the smaller customer products. While we do not know for certain, we attribute these higher premiums to significantly greater switching risk associated with these customers. That is, these customers have demonstrated that they are more prone to switch to alternative suppliers, so a winning bidder may end up serving significantly more or significantly less load than was anticipated. Thus, the additional quantity risk faced by suppliers can be expected to lead to an additional risk premium in the auction prices. In future auctions, we believe that this risk premium can be ameliorated with appropriate tariff and contract changes that will lower the risk of supplying to these customer groups. Such changes are discussed in the Recommendations section of this report.

**Comparison of Auction Clearing Prices and Staff Projections
without Risk Premiums Added**

Customer Classes	Utility	Auction Products	Auction Prices	Projections w/out Risk Premiums	Implied Premium	Implied Premium Percent
Residential and Small to Medium Commercial Customers	ComEd	CPP-B 17-mo	\$63.96	\$59.74	\$4.22	7%
		CPP-B 29-mo	\$64.00	\$57.84	\$6.17	11%
		CPP-B 41-mo	\$63.33	\$56.46	\$6.87	12%
	Ameren	BGS-FP 17-mo	\$64.77	\$54.68	\$10.09	18%
		BGS-FP 29-mo	\$64.75	\$53.72	\$11.03	21%
		BGS-FP 41-mo	\$66.05	\$52.69	\$13.36	25%
Large Customers	ComEd	CPP-A 17-mo	\$90.12	\$58.98	\$31.14	53%
	Ameren	BGS-LFP 17-mo	\$84.95	\$50.42	\$34.53	68%

c. Reasonableness of the implied risk premiums

At this stage, the natural question is whether the implied risk premiums shown in the table, above, are “low,” “reasonable,” or “excessive.” At this time, Staff does not have a definitive answer to this complex question. However, we can provide a little more intuition about why risk premiums can be expected.

First, consider what would happen if market prices for electricity were to fall between the time of the auction and some later date. If they just fell a little bit, it may not have much of an effect on consumer behavior. But if they fell a lot, consumers may find themselves being approached by alternative retail suppliers offering electricity bill savings. Thus, the suppliers to the auction would start losing load under their wholesale contracts

with ComEd and Ameren, at the same time that the market value of electricity is falling. Thus, suppliers would lose money if they locked in their supply at the previously-higher market prices, only to find themselves trying to unload it at lower market prices.

Second, consider what would happen if market prices for electricity were to increase. If they just increased a little bit, it may not have much of an effect on consumer behavior. But if prices increased a lot, consumers that previously left to take service from alternative suppliers would face unpleasant renewal prices from suppliers. They may find it advantageous to return at that point to the utility. Thus, suppliers to the auction would see an increase in demand under their wholesale contracts with ComEd and Ameren, at the same time that the market value of electricity is increasing. Thus, they lose money because they may have to buy additional electricity at prices above the fixed prices they get paid.

As the above examples demonstrate, relative to entering into contracts for known quantities, suppliers may not be willing to enter into supply contracts for unknown quantities without obtaining a premium. The level of the premium is going to be a function of the potential level of customer switching between service options. Based on switching statistics seen to date, this potential appears to be greatest for large customers. The premium is also going to be a function of how significantly market energy prices and costs to serve such customers can vary during the life of the wholesale contract with ComEd and Ameren. Further analysis of these issues will be part of Staff's work plan between now and the next iteration of the Illinois Auction.

B. Impact on Retail Rates

The results of the auction will not be reflected in retail rates until January 2007. For fixed price customers of ComEd and the Ameren utilities, bundled service rates will include a delivery services component and a electricity component. The delivery services component will include the delivery services charges approved in the most recent delivery services rate case. For ComEd, the Commission recently approved a 0.5% delivery service increase.⁶ For the Ameren companies, the Commission recently approves delivery service rate increases of 32.8%, -3.8%, and 21.3% for Ameren-IP, -CIPS, and -CILCO, respectively.⁷ The electricity component will include the FP section auction results from the September auction.

In this section, we compare the combined delivery service and electricity rates (to be effective in January 2007) to the bundled rates currently in effect. For residential customers, we also compare the combined delivery service and electricity rates (to be effective in January 2007) to the bundled rates that existed just prior to the Restructuring Act (in 1997). In all cases, we compute annualized average rates, by customer class, excluding sales taxes.

⁶ ICC Docket 05-0597, Order, July 26, 2006. Case currently in rehearing.

⁷ ICC Dockets 06-0070, 06-0071, and 06-0072 (consolidated), Order, November 21, 2006. The precise changes to individual delivery service charges to comply with the Commission's order are still under review by the Staff.

1. Residential Customers

We begin with a review of the residential customer classes. At the outset, it should be noted that residential customers were given automatic rate reductions following implementation of the Restructuring Act. Thus, to compare their anticipated post-2006 rates to their pre-Restructuring Act rates, we must take into account those automatic rate decreases.⁸

For ComEd and Illinois Power residential customers, the automatic rate reductions amounted to an initial decrease of 15%, followed by an additional decrease of 5%, for a combined decrease of 20%.⁹

For CILCO residential customers, the automatic rate reductions amounted to initial decrease of 2%, followed by a second 2% decrease and a final 1% decrease, for a combined decrease of 5%, while for CIPS customers (and former UE customers within Illinois) the automatic rate reductions amounted to a single decrease of 5%.¹⁰

The following table displays residential rates in cents per kWh for each of the four utilities at three different points in time: (a) January 1997 before competitive reforms took hold; (b) currently in 2006 with the Restructuring Act's legislated rate cuts and rate freeze in place; and (c) prospectively in January 2007.

RESIDENTIAL RATES BY UTILITY
(¢/kWh)

Utility and Customer Class	Pre-Restructuring / 1997	Current 2006	Post 2006	Current to Post 2006 (% Change)	Pre-Restructuring to Post 2006 (% Change)
ComEd Residential (w/out electric space heat)	11.23	8.99	10.85	21%	-3%
Ameren-IP Residential	9.56	7.65	10.49	37%	10%
Ameren-CIPS Residential	7.63	7.25	9.87	36%	29%
Ameren-CILCO Residential	7.27	6.90	10.57	53%	45%

⁸ Prior to the rate cuts, relative to the residential rates of 203 privately-owned utilities in the U.S. for which 1996 data were available, ComEd's rates ranked 58th highest and were 7% higher than the load-weighted average rates of the 203, IP's ranked 72nd highest and were 5% lower than the weighted average, CIPS's ranked 94th lowest and were 24% lower than the weighted average, and CILCO's ranked 60th lowest and were 33% lower than the weighted average.

⁹ Thus, for ComEd and Ameren-IP, rates on January 1, 1997, were 25% higher than they are currently (i.e., $\frac{1}{(1-0.2)}$).

¹⁰ Thus, for Ameren-CILCO and Ameren-CIPS and UE, rates on January 1, 1997 were approximately 5.263% higher than they are currently (i.e., $\frac{1}{(1-0.05)}$).

As seen in the top row of the table, above, for ComEd, which serves about 70% of residential consumers in Illinois¹¹, residential rates for customers without electric space heating will increase by 21% in January 2007, as compared to current rates (All but a third of a percent of this increase is due to the change in the electricity component of rates, since ComEd's delivery service component has changed only a fraction of a percent). However, compared to where bundled rates were in 1997 (prior to enactment of the Restructuring Act), rates will actually be 3% less. Furthermore, this comparison fails to account for inflation over the 10 year period during which rates have been frozen.

To more meaningfully compare prices of a specific good or service in different years, economists typically take into account the effect of inflation in the overall level of prices in the economy. While prices for some consumer items may fall,¹² the prices of others may increase.¹³ When, on average, prices for a wide variety of goods and services rise, a dollar bill can be said to have lost some of its value, since it does not buy the same overall quantity of goods and services that it once did. One often-used measure of inflation is the Consumer Price Index. Between the 12 months ending October 1997 and the 12 months ending October 2006, the Consumer Price Index for all consumer items increased 23% for Midwest urban consumers. Thus, \$1000 today would have been able to purchase more like \$1230 worth of goods and services in 1997.¹⁴ Returning to the previous table of residential electricity rates, the inflation-adjusted version is as follows:

**INFLATION-ADJUSTED RESIDENTIAL RATES
(¢/kWh IN 2006 DOLLARS)**

Utility and Customer Class	Pre- Restructuring / 1997	Post 2006	Pre- Restructuring to Post 2006 (Change)	Pre- Restructuring to Post 2006 (% Change)
ComEd Residential (w/out electric space heat)	13.82	10.85	(2.97)	-22%
Ameren-IP Residential	11.76	10.49	(1.27)	-11%
Ameren-CIPS Residential	9.39	9.87	0.49	5%
Ameren-CILCO Residential	8.94	10.57	1.63	18%

*** Reflects inflation of 23% between the 12 months ending October 1997 and the 12 months ending October 2006.**

¹¹ Illinois Commerce Commission, Illinois Electric Utilities, Comparison of Electric Sales Statistics for Calendar Years 2005 and 2004, page 12 (for all four utilities).

¹² For example, average prices for Apparel decreased by approximately 16% between the 12 months ending October 1997 and the 12 months ending October 2006 (for Midwest urban consumers).

¹³ For example, between the 12 months ending October 1997 and the 12 months ending October 2006, average prices for **Energy** increased by approximately 76%, for both Midwest urban consumers and for U.S. urban consumers, while average prices for **Electricity** increases by approximately 26% for U.S. urban consumers and 11% for Midwest urban consumers.

¹⁴ Similarly, wage rates have also risen. For example, average hourly wages of production workers increased approximately 34% between the 12 months ending October 1997 and the 12 months ending October 2006.

For ComEd, comparing the values in the first table with the inflation-adjusted values in the second table, paying 11.23¢ in 1997 would be like paying 13.82¢ in 2006 dollars, i.e., after adjusting for the changing purchasing power of the dollar. Thus, in purchasing power terms, the post-2006 rate of 10.85¢ represents a 22% decline as compared to 1997.

For the three Ameren utilities, the story varies.

- For Illinois Power, which serves 14% of residential consumers in Illinois, rates will increase by 37% in 2007 as compared to current rates (Approximately 32% of this increase is due to Ameren-IP's recent delivery service rate increase, and approximately 68% is due to the change in the power and energy component of rates). As compared to 1997, the January 2007 rates will increase 10%. But in purchasing power terms, the 2007 rates will be 11% lower than 1997 rates.
- For CIPS, which serves 9% of residential consumers in Illinois, rates will increase 36% in 2007 as compared to current rates (Virtually the entire increase is due to the change in the power and energy component of rates; the recent rate case order led to a small decrease of one one-hundredth of a cent per kWh in Ameren-CIPS's residential delivery service rates.). As compared to 1997, the 2007 rates will be 29% higher. In purchasing power terms, the 2007 rates will be only 5% higher than those in 1997.
- For CILCO, which serves 5% of residential consumers in Illinois, rates will increase 53% in 2007 as compared to current rates (Approximately 24% of this increase is due to Ameren-CILCO's recent delivery service rate increase, and approximately 76% is due to the change in the power and energy component of rates.). The increase as compared to 1997 will be 45%. In purchasing power terms, the 2007 rates will constitute an 18% increase over 1997.

It should also be noted that, despite the disparity in the percentage increases, there is much less difference between the resulting rates, in cents per kWh, for ComEd and Ameren customers, as of January 2007. In large part, this is due to the close similarity in the prices for ComEd's CPP-B products and Ameren's BGS-FP products (i.e., the products used to serve the residential and small to medium-size non-residential customers of ComEd and Ameren, respectively) that were bought through September's auction. The average CPP-B price is \$63.76 per MWh while the average BGS-FP price is \$65.19 per MWh, which amounts to only a 2% differential.

This convergence in prices reflects a significant change brought about by restructuring. The electricity component of rates under traditional regulation tended to be idiosyncratic and strongly linked to the specific power plant investment patterns of each utility company. Furthermore, under traditional regulation, the consequences of unlucky but not necessarily imprudent investment choices were borne largely by ratepayers. In contrast, Illinois restructuring provided utilities with incentives to divest themselves of power plants and rely on purchases from an increasingly extensive yet integrated wholesale power market. One consequence of this reliance on an extensive integrated

power market is that wholesale prices between geographic areas will tend to converge, except where prevented by transmission constraints. Thus, in the long run, the cost of worse-than-average performance will be borne largely by underperforming unregulated wholesale power companies; better-than-average performance will inure to the benefit of overachieving wholesale power companies; and ratepayers will end up insulated from both extremes.

2. Non-Residential Customers

Non-residential customers fit within two broad groups: (1) small to medium sized, and (2) large. The combined load of the small to medium sized non-residential customers was grouped in with that of residential customers for purposes of securing fixed price supply contracts from winning bidders in the Illinois Auction. In Ameren's case, this included all non-residential customers with peak demand under 1 MW. In ComEd's case, the cut-off point was 400 kW. Two separate supply contracts were obtained for larger customers: one for ComEd customers between 400 MW and 3 MW and one for all Ameren customers above 1 MW.

As with the residential rates for the post 2006 period, the non-residential rates are computed by combining the average annual electricity prices with the average annual delivery service rates for each of the non-residential classes. These post 2006 rates are then compared to current rates, which are the same as the rates that were in effect just prior to the 1997 Restructuring Act. These comparisons are shown on the following page. The largest percentage increases occur in ComEd's "Large" and "Very Large" classes and in the Ameren utilities' "Large" classes. This reflects the significant premium that was obtained by bidders in the Illinois Auction for the two large customer fixed price products. In a later section of this report, Staff presents recommendations for reducing the size of this premium in future auctions.

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Comparisons of Rates Pre-Restructuring, Current, and 2007

Customer Group/Customer Subgroup	Rate Comparison by utility and rate class, using average rates per kwh							General Inflation in Energy between 1997 and 2006	General Inflation in All Items between 1997 and 2006	Inflation-Adjusted Comparison			
	Bundled Rates			Comparisons						Bundled Rates		Comparisons	
	(cents/kwh)			(cents/kwh and %)						(2006 ¢/kwh)		(2006 ¢/kwh and %)	
	1997	Current	2007	Change from 1997	% Change from 1997	Change from Current	% Change from Current			1997	2007	Change from 1997	% Change from 1997
ComEd	/1	/2	/3										
Residential Non-Electric Space Heating	11.23	8.99	10.85	(0.39)	-3.4%	1.86	20.7%	67.5%	23.0%	13.82	10.85	(2.97)	-21.5%
Residential Electric Space Heating	7.38	5.90	7.48	0.10	1.3%	1.57	26.6%	67.5%	23.0%	9.08	7.48	(1.60)	-17.6%
Total Residential	10.74	8.59	10.49	(0.25)	-2.3%	1.90	22.1%	67.5%	23.0%	13.21	10.49	(2.72)	-20.6%
Watt-hour Non-Electric Space Heating	12.27	12.27	12.37	0.10	0.8%	0.10	0.8%	67.5%	23.0%	15.10	12.37	(2.72)	-18.0%
Small Load Non-Electric Space Heating	8.88	8.88	9.45	0.57	6.4%	0.57	6.4%	67.5%	23.0%	10.92	9.45	(1.48)	-13.5%
Medium Load Non-Electric Space Heating	7.52	7.52	8.99	1.47	19.6%	1.47	19.6%	67.5%	23.0%	9.25	8.99	(0.26)	-2.8%
Nonresidential Electric Space Heating	6.81	6.81	8.62	1.81	26.6%	1.81	26.6%	67.5%	23.0%	8.37	8.62	0.25	3.0%
Total Dusk to Dawn Lighting	6.02	6.02	7.62	1.60	26.6%	1.60	26.6%	67.5%	23.0%	7.40	7.62	0.22	3.0%
General Lighting	7.36	7.36	8.26	0.90	12.2%	0.90	12.2%	67.5%	23.0%	9.05	8.26	(0.80)	-8.8%
Total Nonres <400 kW	8.19	8.19	9.22	1.03	12.6%	1.03	12.6%	67.5%	23.0%	10.07	9.22	(0.86)	-8.5%
Total - Blended Segment	8.42	8.42	9.91	1.50	17.8%	1.50	17.8%	67.5%	23.0%	10.35	9.91	(0.44)	-4.3%
Large Load (400 to 1,000 kW)	6.86	6.86	11.27	4.40	64.2%	4.40	64.2%	67.5%	23.0%	8.44	11.27	2.83	33.5%
Very Large Load (1 to 3 MW)	6.54	6.54	11.19	4.65	71.1%	4.65	71.1%	67.5%	23.0%	8.04	11.19	3.14	39.1%
Ameren-IP													
DS 1 (Residential)	9.56	7.65	10.49	0.93	9.7%	2.84	37.1%	67.5%	23.0%	11.76	10.49	(1.27)	-10.8%
DS 2 (Small General)	8.25	8.25	9.56	1.31	15.9%	1.31	15.9%	67.5%	23.0%	10.14	9.56	(0.59)	-5.8%
DS 3 (General)	6.76	6.76	8.40	1.64	24.2%	1.64	24.2%	67.5%	23.0%	8.32	8.40	0.08	1.0%
DS-4 (Large General)	4.71	4.71	8.92	4.21	89.6%	4.21	89.6%	67.5%	23.0%	5.79	8.92	3.13	54.1%
DS 5 (Lighting)	12.04	12.04	15.60	3.56	29.6%	3.56	29.6%	67.5%	23.0%	14.81	15.60	0.79	5.3%
Ameren-CIPS													
DS 1 (Residential)	7.63	7.25	9.87	2.24	29.4%	2.62	36.2%	67.5%	23.0%	9.39	9.87	0.49	5.2%
DS 2 (Small General)	7.43	7.43	9.31	1.89	25.4%	1.89	25.4%	67.5%	23.0%	9.14	9.31	0.18	1.9%
DS 3 (General)	5.21	5.21	8.10	2.89	55.5%	2.89	55.5%	67.5%	23.0%	6.41	8.10	1.69	26.4%
DS-4 (Large General)	3.92	3.92	9.05	5.13	130.7%	5.13	130.7%	67.5%	23.0%	4.82	9.05	4.22	87.6%
DS 5 (Lighting)	9.26	9.26	13.37	4.10	44.3%	4.10	44.3%	67.5%	23.0%	11.39	13.37	1.97	17.3%
Ameren-CILCO													
DS 1 (Residential)	7.27	6.90	10.57	3.30	45.5%	3.67	53.1%	67.5%	23.0%	8.94	10.57	1.63	18.3%
DS 2 (Small General)	7.31	7.31	9.43	2.13	29.1%	2.13	29.1%	67.5%	23.0%	8.99	9.43	0.44	4.9%
DS 3 (General)	6.34	6.34	8.66	2.32	36.7%	2.32	36.7%	67.5%	23.0%	7.79	8.66	0.86	11.1%
DS-4 (Large General)	5.00	5.00	8.98	3.99	79.7%	3.99	79.7%	67.5%	23.0%	6.15	8.98	2.84	46.1%
DS 5 (Lighting)	9.44	9.44	17.00	7.55	80.0%	7.55	80.0%	67.5%	23.0%	11.62	17.00	5.38	46.3%

Notes to the above table:

- /1 **1997** rates represent those in effect prior to implementation of the Restructuring Act.
- /2 **Current residential** rates reflect the automatic rate decreases that occurred shortly after the Restructuring Act became effective.
- /3 **2007** rates include the currently effective delivery service rates, as well as the electric supply charges resulting from the recently-completed Illinois Auction.

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VI. CONDUCT OF THE SEPTEMBER 2006 AUCTIONS

In the following three sections of this assessment, Staff answers several pre-planned questions that were developed prior to the Illinois Auction taking place. A question that is immediately followed by a “Y” is one in which a yes answer would meet the criterion for a satisfactory result, an “N” means that a no answer would meet the criterion for a satisfactory result, and an “I” indicates that the question is merely informational and used as input to a subsequent question. The actual yes or no answers by the report’s contributors are provided in the last two columns of the tables below: one for the FP and one for the HP section. Comments are inserted under each of the questions.

Section 1 – Review of Auction Manager summary of pre-auction activities contained in her confidential report which was provided to the Commission two days following the completion of the auction		FP	HP
1	<p>Did the Auction Manager provide the Staff with a draft of Section 1 of the Auction Manager report two weeks prior to the auction? Y</p> <p>Comments: Draft of Section 1 of Auction Manager Report, while originally planned to be provided to Staff two weeks prior to the auction, was received approximately 5 days prior to the auction. However, Staff does not believe the delay adversely affected the auction.</p>	N	N
2	<p>Did the Auction Manager provide the Staff with an updated draft of Section 1 of her report by the start of the auction? Y</p> <p>Comments: Update of Section 1 of Auction Manager Report, while originally planned to be provided by the start of the auction, was not provided until the first business day following the auction. Since the first draft was provided only a few days before the start of the auction, and little or no progress was made on updating the draft prior in the remaining days leading up to the auction, the Auction Manager decided not to provide an update until after the auction was completed. From Staff’s perspective, it was correct not to devote resources to updating the draft while the auction was being conducted. Staff does not believe that the failure to provide an update of Section 1 of the Auction Manager’s report until the first business day following the auction adversely affected the auction.</p>	N	N
3	<p>Is there any reason to believe that the promotional activities described in the Auction Manager report materially differed from the activities that the Auction Manager committed to undertake and discussed with the Staff? N</p> <p>Comments: In the months prior to the auction, NERA fully discussed promotion plans with the Staff and sought Staff’s input on advertisements, press releases, and Illinois Auction web-site announcements, FAQ responses and data room contents. This was accomplished through regularly scheduled meetings. In addition, Staff attended all bidder-only and public information sessions and participated in the trial auction for bidders. Staff observed that NERA had a firm commitment to promote the auction as a means to facilitate a successful auction result.</p>	N	N

Section 1 – Review of Auction Manager summary of pre-auction activities contained in her confidential report which was provided to the Commission two days following the completion of the auction		FP	HP
4	Were there suggestions that the Staff made to the Auction Manager regarding promotion that were disregarded without a satisfactory explanation? N	N	N
5	Does the Staff have any reason to believe that the data dissemination activities as described in the Auction Manager report differ from the commitments made by the Auction Manager with respect to these activities? N	N	N
6	Were there any suggestions with respect to data or data dissemination made by the Staff to the Auction Manager that were disregarded without a satisfactory explanation? N	N	N
7	Did the Auction Manager activities during the application, qualification and registration process as described in the Auction Manager report give rise to any concern that any bidders were treated unfairly during these stages of the pre-auction process? N Comments: Activities that Staff was engaged in with NERA during the application, qualification and registration processes revealed no hint of unfair treatment toward any bidder. Staff received no complaints from prospective bidders.	N	N
8	Are the Auction Manager descriptions of the Auction Manager's and the Staff's agreement on the resolution of association and confidential information issues accurate? Y	Y	Y
9	Did bidder training activities, if observed, correspond to those committed to by the Auction Manager? Y	Y	Y
10	Did the Staff make any suggestions with respect to bidder training that were disregarded by the Auction Manager without a satisfactory explanation? N	N	N
11	Is the Staff able to confirm that the auction parameters were developed as described in the Auction Manager report? Y	Y	Y

Section 2 – Evaluation of the Conduct and Competitiveness of the Auction		FP	HP
1	<p>Is there any evidence that the auction was not conducted according to the Auction Rules? N</p> <p>Comments: Staff and the Auction Monitor participated in four trial auctions prior to the actual auction. The auction was conducted online through proprietary software, which Staff and the Auction Monitor tested during this time. These trials were meant to ensure that the software adhered to auction rules. Additional review was conducted to assess the backup bidding process and technical support for the auction software. In all these trials Staff and the Auction Monitor found the auction software to be in compliance with auction rules.</p> <p>During the auction, Staff and the Auction Monitor independently checked the accuracy of many calculations and actions by the Auction Manager. For example, Staff and the Auction Monitor independently calculated and verified reported price decrements (including the switch from phase 1 to phase 2 decrement calculations), reported excess supply, denied switches, and retained withdrawals in each round of bidding. Other calculations and actions were spot checked, including randomness of denied switch priorities, reports provided to bidders, and the accuracy of the auction software timer and schedule. Staff and the Auction Monitor found these calculations and actions to be in compliance with auction rules.</p> <p>In addition, the Auction Manager determined that a volume reduction was necessary for the Hourly Price Section. Staff and the Auction Monitor independently verified the necessity of the volume reduction, and the volume reduction methodology and results. Staff and the Auction Monitor found the volume reduction to be conducted in compliance with auction rules.</p> <p>Finally, at the end of the auction, Staff and the Auction Monitor independently assessed final auction results including the number of tranches won by each supplier and the final auction prices. Staff and the Auction Monitor compared and verified these results with the Auction Manager.</p>	N	N
2	<p>Did the Staff observe or was the Staff informed of any material procedural problems or errors with the auction, including the electronic bidding process, the backup bidding process, or communications between bidders and the Auction Manager? I</p> <p>Comments: See Comments to Questions 3 through 6, below.</p>	N	N
2b	<p>If Y, did any of these problems or errors have adverse effects? N</p>	n/a	n/a

Section 2 – Evaluation of the Conduct and Competitiveness of the Auction		FP	HP
3	<p>Were there any delays during the auction? I</p> <p>Comments: The auction rules allow each bidder to request 15-minute extensions in the bidding phase of each round and somewhat longer recesses between rounds. Of the 39 rounds, bidders requested and were granted extensions in 15 rounds. No recesses were requested. In addition, the Auction Manager called three time-outs at critical junctures in the auction. Finally, on Wednesday, there was a delay of 50 minutes to allow for a switch to the Auction Manager’s back-up computer server, which continued to be used for the remainder of the auction. The original server was available again the next day and was employed as the backup for the remainder of the auction.</p>	Y	Y
3b	<p>If Y, did any of the delays have adverse effects? N</p> <p>Comments: Extensions and time-outs are integral components of the auction rules and the switch to the back-up computer server went smoothly. Planning for such a contingency was demonstrated to be necessary. The Staff found no basis to believe the delay had a material effect on the results of the auction.</p>	N	N
4	<p>Is there any evidence that the Auction Manager did not follow procedures established by the Auction Manager for decisions regarding changes in auction parameters (e.g., volume, load caps, bid decrements)? N</p> <p>Comments: As noted previously, during the auction, Staff and the Auction Monitor independently checked the accuracy of many calculations and actions by the Auction Manager. This included changes in volume, load caps, and bid decrements. All calculations and actions were found to be in compliance with auction rules.</p> <p>For example, during the calculating phase of round 1, the Auction Manager determined that a volume reduction in the Hourly Price Section was necessary, as per the auction rules and confidential guidelines that had been worked out between the Auction Manager and Staff, as per the Commission’s orders. Staff and the Commission’s Auction Monitor independently verified the necessity and the extent of the volume reduction. Notably, the degree of the cutback was not significant enough to warrant a change in load caps for that section, as per the auction rules. As a result, the Auction Manager computed and announced the volume cutback consistent with the auction rules, but did not specifically mention that there would not be a change in the load caps.</p> <p>While the failure to mention that there would be no change in the HP Section load caps was NOT a violation of the auction rules, in Staff’s retrospective view, it would have been appropriate to include this information in the Auction Manager’s announcement about the volume reduction.</p>	N	N

Section 2 – Evaluation of the Conduct and Competitiveness of the Auction		FP	HP
5	<p>Did the Auction Manager provide bidders with the information specified in the Auction Rules? Y</p> <p>Comments: During the auction, Staff and the Auction Monitor independently spot-checked bidder-specific reports and broader auction reports provided by the Auction Manager to bidders. For example, the Auction Monitor periodically logged into a “Viewer” account provided to all bidders. In addition, all messages between the Auction Manager and bidders sent through the auction software were checked. Staff also monitored all discussions with bidders calling for technical assistance or in the backup bid process (see Appendix 1 for more details). These assessments were meant to confirm the accuracy, completeness, timeliness, and propriety of the information being provided to bidders.</p>	Y	Y

Section 2 – Evaluation of the Conduct and Competitiveness of the Auction		FP	HP
6	<p>Did the Auction Manager communicate with bidders promptly regarding the schedule and setting of auction parameters? Y</p> <p>Comments: Staff and the Auction Monitor conducted checks of the timeliness of reported auction parameters that were provided by the auction software. Staff and the Auction Monitor found that auction parameters were reported to bidders in a timely manner at appropriate phases of the auction.</p> <p>The auction experienced several schedule changes due to bidders requesting and being granted bidding phase extensions. These requests are allowed under auction rules. The granted extensions were communicated through the auction software and new schedules were updated automatically in the software. Staff and the Auction Monitor found that the extensions and subsequent schedule changes were reported in a timely manner at the appropriate phases of the auction.</p> <p>In addition, the auction experienced several “Time Outs” declared by the Auction Manager as allowed by the auction rules. Staff and the Auction Monitor found that these “Time Outs” and the resulting schedule changes were reported appropriately.</p> <p>While the Auction Manager communicated with bidders promptly regarding the schedule and setting of auction parameters, there was one incident involving a schedule change in which bidders inadvertently received conflicting messages. During the penultimate round of the day on Thursday, an email was sent by the Auction Manager to announce that the last round was being eliminated, so bidding would resume on the following day. However, the revised schedule was not posted to the auction software, so the auction software began a new bidding phase. Some bidders began bidding and several bidders sent emails and called the Auction Manager’s office to resolve the confusion. The situation was dealt with swiftly and professionally (see Appendix 1 for more details). Although in Staff’s estimation no bidder was adversely affected, one bidder complained about the slip-up in an e-mail.</p>	Y	Y
7	<p>Were there any material and legitimate complaints from bidders? N</p> <p>Comments: Only one complaint was recorded by Staff (see item 6, above), but Staff does not consider it to have been material.</p>	N	N
8	<p>Did the Staff suggest any actions to the Auction Manager that appear to have been ignored without a satisfactory reason? N</p>	N	N

Section 2 – Evaluation of the Conduct and Competitiveness of the Auction		FP	HP
9	<p>Is there any evidence that the Auction Office was not properly secured during the auction or that appropriate data back-up procedures were not planned and carried out? N</p> <p>Comments: The entire office suite was secured and made off-limits to unauthorized personnel. A guard was posted and was introduced to and given a list of each person allowed to be in the office suite. At various points during the auction, and at the end of the auction, he indicated to Staff that there had been no attempts by unauthorized personnel to gain access to the office suite. In addition to the guard, there was a NERA employee just inside the front door of the office suite who can verify that no unauthorized personnel entered the office suite.</p> <p>The Auction Manager also shared with Staff the detailed plans for maintaining security. There were, for example, periodic sweeps for electronic listening devices. While Staff did not witness these sweeps, Staff was assured by NERA personnel that such sweeps occurred. There was also a security camera that was supposed to be taking pictures of each person entering the office suite. Staff has no reason to doubt the integrity and honesty of these personnel.</p> <p>Staff was informed of similar precautions with respect to computer security. Before the auction, for example, whenever Staff received confidential information from NERA, it was sent in encrypted files.</p> <p>With respect to data back-up procedures, Staff has generally observed that the Auction Manager is detail-oriented and thorough in her planning for contingencies. While Staff has not physically verified that data back-up procedures were followed, Staff has no reason to believe that such procedures were not followed.</p>	N	N
10	<p>Did Staff receive satisfactory access to data? Y</p> <p>Comments: Staff had access in real time to all bidding activity and all messages sent to and from the Auction Manager to bidders. At the end of the calculating phase of each round, Staff received printed reports used by the Auction Manager for checking the progress of the auction and the accuracy of the auction software's computations. Also, at the end of the calculating phase of each round, Staff received an electronic data file containing all data previously requested by Staff. Periodically, Staff also received a series of printed reports used by the Auction Manager's outside anti-trust expert for monitoring signs of potentially collusive bidding behavior. Periodically, Staff also received reports in electronic format that Staff had previously requested. Finally, at the end of the auction, Staff requested and received a file containing the random numbers that were used in some rounds (as per the auction rules) basically to break ties in bids. In summary, Staff's access to data was complete and timely.</p>	Y	Y

Section 2 – Evaluation of the Conduct and Competitiveness of the Auction		FP	HP
11	<p>Is there any evidence that the utilities were provided with data that they are not permitted to observe per the final auction rules? N</p> <p>Comments: During the auction, the Auction Monitor periodically logged into a “Viewer” type account that was also provided to the utilities. This “Viewer” account allowed the utilities to only see basic information regarding the auction. They were allowed to see on an aggregate level, the going price for each product and the associated price decrement round by round. They were not provided with any bidder specific information through the auction platform. We did not find any evidence that the utilities received improper data regarding the auction.</p>	N	N
12	<p>Is there any evidence of collusion or improper coordination among bidders? N</p> <p>Comments: See Comments on 12-14, below.</p>	N	N
13	<p>Were bidding patterns observed during the auction consistent with competitive bidding? Y</p> <p>Comments: See Comments on 12-14, below.</p>	Y	Y
14	<p>Is there any evidence of a breakdown in competition in the auction? N</p> <p>Comments: See Comments on 12-14, below.</p>	N	N

Comments on 12-14:

Developing the information to answer these three questions and, more broadly, assessing the competitiveness of the Illinois Auction, were a central focus of our monitoring efforts. We assessed both structural and behavioral indicators of competitiveness in each round of bidding in both the Fixed Price Section (which includes residential customers as well as some commercial customers) and the Hourly Price Section (which includes larger commercial customers). The details of this assessment are not included in this public report to limit to extent to which bidders in future Illinois Auctions might be able to use such information to frustrate Staff’s attempts to detect collusion, improper coordination among bidders, or other issues with the competitiveness of the auction.

With respect to the Fixed Price Section, both structural and behavioral indicators give support for the specific answers provided to all three of the questions as well as support to the broader finding that the Illinois Auction was competitive. With respect to the Hourly Price Section, supplier interest was generally lower than in the Fixed Price Section. Indeed, the Hourly Price Section suffered a volume reduction (a reduction in the number of tranches put out for bid) because of this lack of interest. The number of tranches put out to bid was reduced from 90 to 71 after the first round of bidding. Furthermore, by all structural indicators the Hourly Price Section was less competitive than the Fixed Price Section. Notwithstanding this generally less sanguine assessment, Staff did not find that the Hourly Price Section

suffered from a “breakdown” in competition. Furthermore, Staff did not find evidence of collusion or improper coordination among bidders.

Section 3 – Evaluation of outside events		FP	HP
1	Did the Auction Manager provide the Staff with a draft of Section 3 of her report two days prior to the auction? Y	Y	Y
2	Did the Auction Manager provide the Staff with an updated draft by the start of the auction? Y Comments: Update of Section 3 of Auction Manager Report, while originally planned to be provided by the start of the auction, was not provided until the first business day following the auction. Since the first draft was provided only a few days before the start of the auction, and little or no progress was made on updating the draft prior in the remaining days leading up to the auction, the Auction Manager decided not to provide an update until after the auction was completed. From Staff’s perspective, it was correct not to devote resources to updating the draft while the auction was being conducted. Staff does not believe that the failure to provide an update of Section 3 of the Auction Manager’s report until the first business day following the auction adversely affected the auction.	N	N
3	Were there any disruptions to the energy markets that were material and that appeared to influence how bidders approached the auction? (For example, in response to a sudden change in markets did several bidders withdraw from the auction?) N Comments: See Comments on 3-6, below.	N	N
4	If there were any material changes to the energy markets, does it appear possible that they will be transitory and will soon reverse? N Comments: See Comments on 3-6, below.	n/a	n/a
5	Were there any major non-energy market changes that occurred during the auction and appear to have affected bidder interest? (For example, did one or more ICC Commissioners suddenly resign?) N Comments: See Comments on 3-6, below.	N	N
6	Were there any other factors exogenous to the auction that appear to have materially affected the auction in unanticipated ways? N Comments: See Comments on 3-6, below.	N	N

Comments on 3-6

To monitor for (a) major disruptions or material changes to the energy markets and (b) factors exogenous to the auction that appeared to significantly affect supplier behavior, news headlines and energy futures were observed during the auction week. More specifically, major news outlets such as Fox News and CNN , energy news outlets such as Platts, Energy Central, and Restructuring Today, and local news sources including the Chicago Tribune and Chicago Sun Times were screened at least

daily to determine if there was any event or combination of events that greatly impacted bidder behavior. Moreover, the Auction Monitor monitored electricity futures markets on both NYMEX and ICE on a daily basis to determine if there were any major shocks. The following notable event was recorded: On Tuesday, September 5, 2006, Chevron released news that it had successfully drilled for oil in the Gulf in what could be one of the most significant finds for the domestic oil industry in a generation. This finding did not appear to have a noticeable effect on the electricity futures market or on bidder behavior. Aside from this story, no other major event or development appeared to have had the potential to affect bidder behavior in a significant way.

Prior to the auction, two potentially relevant events were noted:

1. Appeal of Procurement Orders

Several parties to the procurement proceedings appealed various aspects of the Commission's approval of Ameren and ComEd's proposed auction process. These parties included the Attorney General, the Citizens Utility Board, the Cook County State's Attorney's Office, the Environmental Law and Policy Center, the Building Owners and Managers' Association, as well as Ameren and ComEd. These appeals were consolidated in the Appellate Court, Second District, on August 4, 2006.¹⁵ The extent to which bidders may have modified their bidding strategies in response to the appeals is unknown. However, it is known that several bidders asked questions of the Auction Manager concerning the status of these appeals.

2. Shutdown of Clinton Nuclear Station

The Clinton nuclear power station was automatically shutdown on August 28th after an instrument malfunction.¹⁶ The plant was operating at about 20% of the plant's full output level by August 30, 2006, and at about 97% of full capacity by August 31st, 2006. The extent to which bidders may have modified their bidding strategies in response to the Clinton shutdown is unknown, but Staff believes that this temporary outage was unlikely to have had a material effect on the auction.

¹⁵ People ex rel. Madigan v. Illinois Commerce Comm'n, Ill. Sup. Ct. No. 102767 (Aug. 4, 2006), order denying Attorney General's Petition for Expedited Review Pursuant to Rule 302(b) and Motion to Stay

¹⁶ http://www.nukeworker.com/news/facility_template.php?facility_news=Clinton+Nuclear+Power+Plant+location:IL

VII. RECOMMENDATIONS TO IMPROVE FUTURE AUCTIONS

A. Use of an Auction

In general, Staff believes that the Fixed Price Section of the Illinois Auction was successful in securing long-term fixed-price wholesale contracts for electricity for customers who choose to purchase their electricity at retail from ComEd and the Ameren Utilities. The process was reasonably transparent and enabled all qualified suppliers to bid on fair and equal terms. However, there are always ways to make incremental improvements. In this section, we present Staff's recommendations for improving the process.

The Hourly Price Section of the Illinois Auction was not successful, as evinced by the Commission's rejection of the results. Following the rejection, in accordance with the utilities' tariffs, it was determined by the Auction Manager, the utilities, and Staff that re-running the auction would not be productive. Hence, the utilities devised alternative means of serving hourly price customer load. Both ComEd and Ameren determined that they would rely upon language in their existing tariffs that permit them to purchase the needed resources directly from PJM-administered markets and MISO-administered markets, respectively. ComEd and Ameren each made separate filings with the Commission related to these alternatives. (Dockets 06-0658 (ComEd), 06-0715 (Ameren-CILCO), 06-0716 (Ameren-CIPS), and 06-0717 (Ameren-IP)) The Commission approved ComEd's proposal on October 25, 2006. The Ameren proposal is scheduled to be addressed by the Commission during its December 6, 2006 open meeting.

Recommendations:

- For the Fixed Price section, continue to utilize procurement auction.
- For the Hourly Price section, plan on using the alternative procurement methods adopted following the September 2006 rejection of the HP Section auction results, until such time that such alternatives can be fully evaluated.

B. Auction Format

The format of the Illinois Auction was that of a simultaneous descending clock auction. This is a relatively complex form of auction. Therefore, it involved a considerable volume of rules, which had to be understood by bidders. However, during pre-auction bidder training sessions and during the actual auction itself, Staff saw no evidence that bidders were overwhelmed or confused by the complexity or volume of auction rules. Furthermore, Staff believes that there are significant benefits to using a format designed to manage multiple contracts for multiple products. Such a format helps to stimulate inter-product competition and lower the average prices resulting from the auction. Simpler auctions would likely reduce the degree of competition among bidders and would lead to costlier outcomes.

Recommendation:

- Retain the simultaneous descending clock auction format.

C. Basic Product Definition – “Tranche”

As previously noted, the products sought through the Illinois Auction were for “tranches” (or slices) of electricity. That is, according to their contracts, winning bidders would be required to deliver to ComEd and/or Ameren a fixed percentage of the total load, regardless of the level of that load. For a supplier, this type of product is considerably riskier than a more standard wholesale power contract, which specified a fixed amount of power (say 50 MW) that must be delivered each hour of the delivery period specified in the contract. Since suppliers’ alternative market prices can vary significantly, as could be expected, bidders were not willing to take on such a responsibility without extracting a risk premium. However, by paying such risk premiums, customers can obtain greater price stability along with an assurance of supply availability. For this basic reason, Staff believes that the next auction should continue to utilize the tranche as the basic product definition. On the other hand, there are other aspects of product definition that affect how bidders perceive the risk of winning a given tranche. Under other headings, below, Staff will be making recommendations for changing some of these other aspects of product definition.

Recommendation:

- Continue to utilize the basic product definition of the tranche.

D. Tranche Size

As described above, a tranche is not a fixed quantity of power. Rather, it is a fixed percentage of load, which means it is a variable quantity of power. However, the larger the fixed percentage, the larger will be the quantity at any point in time. During the procurement dockets, the Commission determined that the size of tranches should be set so that, at time of peak load, one tranche amounted to approximately 50 MW of power. An evaluation of the September auction provided Staff with no basis for recommending a change to tranche sizes for the next auction.

Recommendations:

- Retain current tranche size of approximately 50 MW at time of peak.

E. Load Caps

As previously mentioned, the Illinois Auction incorporated a load cap of 35%. For each of the two sections (fixed price and hourly price), the load cap prevented any one

bidder from obtaining more than 35% of the total number of tranches for a given utility (ComEd or Ameren). The desirability of using a load cap and of using the specific load cap of 35% was discussed at length in the testimony, briefs and orders of ICC Dockets 05-0159 through 05-0162. Basically, a load cap acts as a competitive safeguard, limiting the influence that any one bidder can have on the results of the auction, while at the same time limiting the utility's exposure to any one particular supplier, thereby shielding the utility and its customers from risk.

Recommendations:

- Continue to use the 35% load cap.

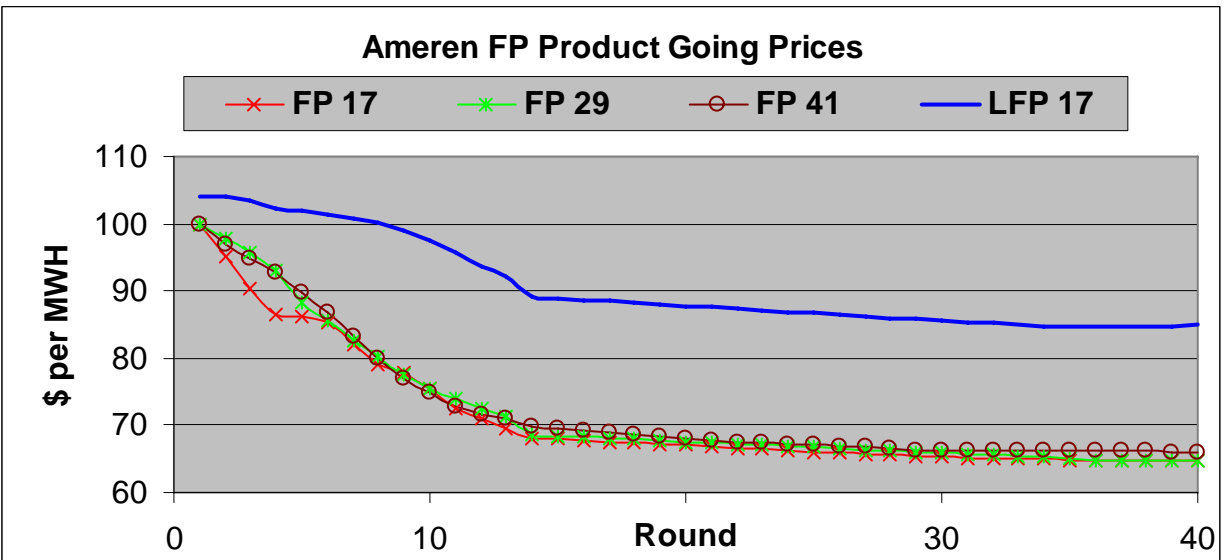
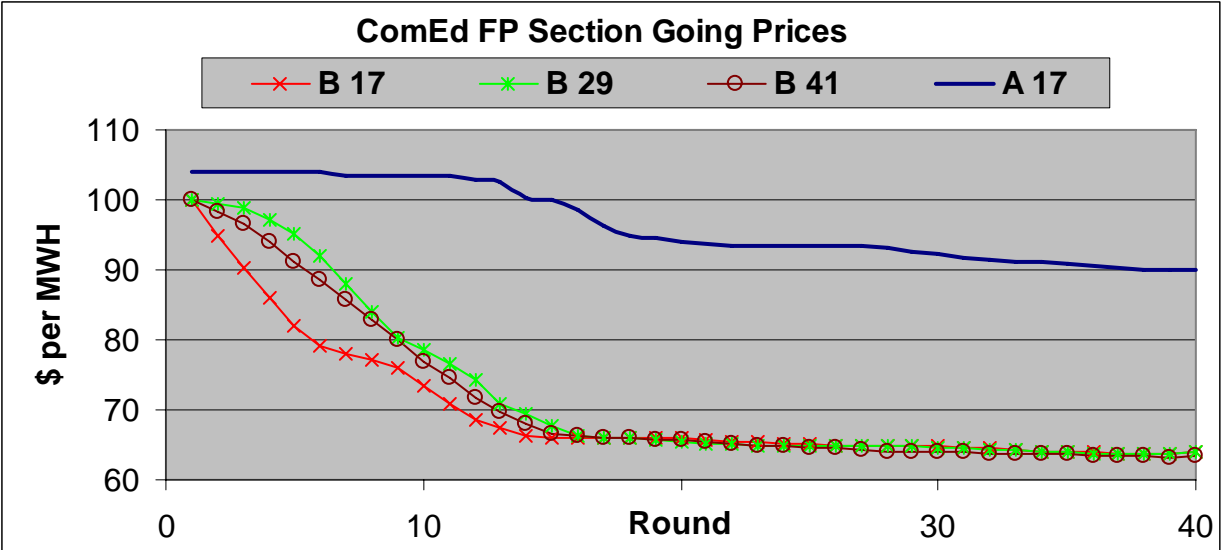
F. Starting Prices

As previously noted, in a descending clock auction, bidders bid quantities in response to an announcement of prices by the auctioneer. The prices start high and are expected to solicit from bidders more tranches than are needed. Then, in each subsequent round of the auction, prices are reduced in rather small increments. In general, bidders tend to reduce the quantities they are willing to supply, as prices fall. Eventually, the combined supply of all the bidders is equal to the number of tranches sought by the buyers (ComEd and Ameren), and the auction is over.

Setting starting prices is a matter of balance. The higher are the starting prices, the longer the auction will be, since subsequent prices will have to tick down further to get to the final auction-clearing price. However, if starting prices are set too low, then they may not elicit enough starting bids to fill the tranche targets.

In its procurement docket orders, the Commission concluded that the starting prices should not be explicitly determined within the dockets, since the auction was to be held several months in the future. If between the time of the hearings and the time of the auction, wholesale market prices were to rise significantly, then the starting prices might be too low to generate adequate interest in the auction. On the other hand, if wholesale market prices were to fall significantly, then the auction would start at an unrealistically high price and would take an inordinate amount of time to complete. Thus, the Commission concluded that the starting prices for products in the auction would be established by the Auction Manager in consultation with the ICC Staff and the utilities.

In terms of the balance discussed above, the starting prices for the September auction were clearly high enough to solicit enough interest to fill the tranche targets in the Fixed Price Section, but they were not so high as to result in an excessively long auction. As previously noted, the auction ended on the fourth day, after 39 rounds of bidding. The graphs below (and the table shown in the appendix) show how the prices of the various fixed price products evolved.



Recommendations:

- Commission should continue to entrust the detailed methodology for setting starting prices up to the Auction Manager, in consultation with the Staff.

G. Price Decrements

In a descending clock auction, as long as there is excess supply for a product at the end of a round, the auctioneer reduces the price for that product for the next round. The price decrement could be constant (for instance, always 1 ¢ per MWH), or a constant proportion (for instance, always 1% of the previous price). However, for expedience, there is something to be said for having higher price decrements when excess supply is high

and lower price decrements when excess supply is low. That is, when bidders are willing to offer 1000 tranches, but you only want to obtain 100 tranches, you can be relatively assured that the going price is much too high. A significant price decrease is warranted. But when the price eventually gets to the point where bidders are offering 103 tranches (excess supply is only 3%), you should be fine tuning the price with relatively small price decrements.

One consequence of using this type of approach, though, is that it provides feedback to bidders about the size of excess supply. The Commission acknowledged in its procurement docket orders that providing information to bidders about excess supply has good points and bad points. On the one hand, providing too much feedback may empower a bidder to stop the auction prematurely at an elevated price. On the other hand, providing too little feedback may lead to more timid bidding, as bidders fall under the influence of the “winner’s curse.” Thus, the Commission determined that the Auction Manager should consult with Staff in finalizing price decrement formulas to balance these two competing consequences of providing excess supply feedback. The resulting formulas were to be revealed to bidders prior to the auction in an Auction Manual.

The Auction Manager worked with the Staff in devising appropriate price decrement formulas, which were included in the Auction Manual available to bidders prior to the auction. In Staff’s view, the process worked well and the price decrement formulas that were adopted enabled bidders to infer product-specific ranges of possible excess supply as wide as 20 tranches, but did not enable bidders to infer the precise level of excess supply at any point in the auction.

Recommendation:

- Commission should continue to permit the Auction Manager, after consulting with the Staff, to devise price decrement formulas that provide bidders with some but not complete information concerning the state of excess supply during the auction. Such formulas would continue to be included in the Auction Manual.

H. Auction Volume Reductions

One competitive safeguard that was built into the Illinois Auction design was enabling the Auction Manager, after consulting with the Staff, to declare volume reductions (i.e., reductions in the tranche targets). As the Commission noted in its procurement docket orders, this would allow the Auction Manager to reduce the amount of power to be acquired in the auction if bidder participation was lower than expected and generally insufficient to competitively fill the original tranche targets. The Commission also determined that the detailed protocol for declaring volume reductions should not be revealed to potential bidders, so they would find it more difficult to deceive the Auction Manager and Staff into believing that an volume reduction was unneeded.

The detailed protocol for declaring volume reductions was developed prior to the auction taking place, and, during the September auction, these protocols were strictly followed. While a volume reduction was not triggered for the Fixed Price Section, a generally low level of interest in the Hourly Price Section led to a volume reduction of 19 tranches (from 90 to 71) between rounds 1 and 2.

Recommendation:

- The Commission should continue to permit the Auction Manager, after consulting with the Staff, to devise protocols for the Auction Manager to declare volume reductions at certain points during the auction and to determine which portion of such protocols to make known to bidders in advance of the auction.

I. Bidder Applications

Recommendations:

- In order to facilitate the Part 2 Application process for suppliers, all modifications to pre- and post-auction security instruments that were accepted for the 2006 auction should also be accepted in the next auction so that only new revisions will be considered during the application process for the next energy auction.
- In order to facilitate the Credit and Application Team's Part 1 and Part 2 application review process, the Part 1 Application should be modified to require suppliers to provide their Tangible Net Worth, show how they calculated it, and provide citations to their financial statements for each component of that calculation.

J. Enrollment Windows and Other Switching Rules

As noted earlier in this report, suppliers in the Illinois Auction accept all risk of volume fluctuations. Some volume fluctuations are due to the time of day, day of the week, and changing weather. Other fluctuations are due to ComEd and Ameren customers having the right to select among several options for obtaining electricity: from alternative suppliers, from the utility at fixed rates, and from the utility at hourly rates.

In Staff's view, switching rules are a double-edged sword for customers. More "liberal" switching rules provide customers with greater freedom (in terms of timing) to choose among the various service options available to them. However, such freedom is likely to come at a cost to those who choose electricity service from the utility, as it leaves wholesale suppliers with more uncertainty about the level of load they will be serving during the term of their wholesale contracts with the utility. That uncertainty is likely to translate into risk premiums embedded in the prices generated through the Illinois Auction. Of course, finding the right balance between the two competing goals of facilitating customer choice and obtaining low utility costs requires the application of judgment.

Staff's recommendations attempt to rediscover such a balance, given the results of the first Illinois Auction.

It is Staff's opinion that at least some of the prices from the September auction reflected considerable risk premiums for volumetric uncertainty faced by suppliers. Furthermore, Staff believes that the effect of volume uncertainty was felt mainly in the products for the large customer groups, where the prices were 41% (ComEd) and 31% (Ameren) higher than the prices for each utility's analogous smaller customer product. However, it was probably also a factor, albeit less pronounced, for the smaller customer group products. As explained below, Staff proposes to modify enrollment windows and other switching rules (which are defined in ComEd and Ameren's tariffs) in order to reduce the volume uncertainty and risk premiums prior to the next Illinois Auction (in January 2008).

One particular period of time when suppliers are at risk due to customers exercising choice is during the enrollment period following the Illinois Auction. According to the current tariffs, different customers have different enrollment periods. For residential customers and small to medium size non-residential customers, there are no enrollment periods. That is, if they are currently buying their electricity from the utility, they can choose to switch to an alternative supplier at any time, or they may do nothing and they will continue to receive their electricity from the utility at the beginning of the next contract cycle.

Some larger customers, though, are required to make their elections during an enrollment window. The enrollment period for larger nonresidential customers begins when the utilities file the applicable electricity rates, within 9 days of a declaration of a successful auction. Following the September auction, the enrollment period was 50 calendar days for customers under 3 MW (peak demand) in size and 30 calendar days for customers at or above 3 MW in size. Following subsequent auctions, the current tariffs reduce the enrollment period for the under 3 MW customers to 45 calendar days.

In general, the longer the enrollment window, the more time elapses between the time that suppliers become committed to serve the universe of eligible customers and the time that suppliers learn of the set of actual customers that will be on the applicable service. During this time period, market prices for power can change, while the final Illinois Auction prices remain the same. Hence, before the end of the enrollment period, suppliers find it difficult to lock in their costs (if buying from the market) and cannot lock in alternative revenues (if selling to the market), due to the unknown quantity of load that may opt in or out of the utility's fixed price service during the enrollment period.

Based on the significant difference between the resulting auction prices for the large customer fixed price products and the small to medium customer fixed price products, it is Staff's belief that the premium due to volume uncertainty was primarily an issue associated with large customers, perhaps because large customers are assumed by the auction suppliers to be more likely to be courted and more likely to switch to alternative suppliers. Thus, Staff's recommendations for mitigating this volume uncertainty for bidders will be

focused on the products used to serve the large non-residential customers. Specifically, shortening the enrollment period, all else equal, should reduce the size of the risk premium embedded in the auction price for these products. An even more effective approach, in terms of reducing risk faced by bidders, may be to require customers, prior to the auction, to pre-commit to being on or off the utility’s fixed price electricity service. This has the obvious drawback of requiring customers to choose to make a decision about a service without knowing the price.

In addition to enrollment windows, the existing tariffs possess various rules pertaining to switching to and from the various electricity options, outside of enrollment windows. ComEd’s switching rules are somewhat more liberal than Ameren’s, which could conceivably account for some of the additional premium embedded in ComEd’s large customer fixed price product price (41% relative to Ameren’s 31%). In particular, ComEd permits relatively large nonresidential customers who automatically renew fixed price electricity service from ComEd to elect to obtain electric supply service from an alternative supplier **prior to** the end of such customer’s following May monthly billing period, while Ameren does not permit such flexibility. ComEd’s tariff places additional risk on suppliers, since suppliers have no way to determine how many customers will leave throughout the year. Thus, to reduce the premium embedded in the price of ComEd’s large customer fixed price supply service, Staff recommends that ComEd’s tariff be modified to eliminate this additional flexibility, rendering ComEd’s tariff like Ameren’s tariffs.

Recommendations:

- In order to reduce the risk premiums included in auction prices, we recommend that the Commission require an enrollment window for smaller non-residential customers and either require pre-commitment or shorten the enrollment period for large non-residential customers. See table, below:

Enrollment Windows for FP Service Following the Auction for Bundled Service

	Residential	Non-Residential			
		<400 kw	400 kw – 1 MW	1 MW – 3 MW	> 3 MW
Current					
Ameren	None	None	None	45 days	30 days
ComEd	None	None	45 days	45 days	n/a
Proposed					
Ameren	None	< 45 days	Pre-commit to 20 days		
ComEd	None	< 45 days	Pre-commit to 20 days		n/a

- Also, in order to reduce the risk premiums included in auction prices, we recommend that the Commission modify ComEd customers’ rights to leave fixed price electricity (or “power and energy”) service, as shown in the following modifications to ComEd’s tariff:

Proposed Changes to ComEd's RATE BES-NRA -- BASIC ELECTRIC SERVICE-NONRESIDENTIAL (ANNUAL), Sheets 326-328

Subsequent Terms of Service

The provisions of this Subsequent Terms of Service subsection are applicable for terms of service that begin on or after the start of the June 2008 monthly billing period.

1. A term of service extends for twelve (12) monthly billing periods. A term of service commences at the beginning of the nonresidential retail customer's June monthly billing period and expires at the end of such nonresidential retail customer's following May monthly billing period.

~~For a situation in which the nonresidential retail customer's term of service hereunder commences at the start of a June monthly billing period following a request to switch from Rate RDS or Rate BES-H, effective at the end of the immediately preceding May monthly billing period, such nonresidential retail customer must continue to take service hereunder through the end of the following May monthly billing period.~~

~~For a situation in which the nonresidential retail customer's term of service hereunder commences at the start of a June monthly billing period following an automatic renewal of service hereunder, such nonresidential retail customer may (a) continue to take service hereunder through the end of such nonresidential retail customer's following May monthly billing period, or (b) elect to obtain electric power and energy supply service from a RES prior to the end of such nonresidential retail customer's following May monthly billing period. In making such election, the provision of service hereunder terminates and the provision of service from the Company under Rate RDS commences, provided the nonresidential retail customer complies with the applicable provisions in the Termination of Service subsection of this Term of Service section.~~

2. ~~Notwithstanding paragraph 1., above,~~ For a situation in which the nonresidential retail customer's term of service hereunder commences at the start of a June monthly billing period following an automatic switch from Rate BES-NRB - Basic Electric Service-Nonresidential (Blended) due to the fact that the Large Load Customer Group or the Very Large Load Customer Group becomes applicable to such nonresidential retail customer, such nonresidential retail customer may (a) continue to take service hereunder through the end of such nonresidential retail customer's following May monthly billing period, or (b) elect to obtain electric power and energy supply service from a RES prior to the end of such nonresidential retail customer's following May monthly billing period. In making such election, the provision of service hereunder terminates and the provision of service from the Company under Rate RDS commences, provided the nonresidential retail customer complies with the applicable provisions in the Termination of Service subsection of this Term of Service section. Notwithstanding the previous provisions of this item (b), the nonresidential retail customer is allowed to make such election only after such nonresidential retail customer has received bundled electric service from the Company on a continuous basis for a period of at least twelve (12) monthly billing periods. Service taken under Rate BES-H is not allowed for inclusion in such period.

3. Notwithstanding paragraph 1., above, Ffor a situation in which an applicant for electric service at a premises (a) has never received any tariffed service from the Company; (b) requests electric service from the Company to begin after the start of the June monthly billing period, but prior to the end of the following May monthly billing period; (c) has expected electric power and energy requirements such that, in the Company's judgment, the Large Load Customer Group or the Very Large Load Customer Group would be applicable to such applicant; (d) has not requested service under Rate BES-H, and (e) has not requested or is not in compliance with the prerequisites of service under Rate RDS, such applicant commences service hereunder, and is designated as a nonresidential retail customer when the Company begins to provide electric service to such applicant. Such nonresidential retail customer must continue to take service hereunder through the end of the May monthly billing period following commencement of service hereunder.

4. Notwithstanding the provisions of ~~the previous~~ paragraph 3. above, if such applicant requests service at a premises for which electric service had been provided under Rate RDS or Rate BES-H immediately prior to the date that the Company begins to provide electric service to such applicant, the applicant is not allowed to take service hereunder. Instead, such applicant commences service under Rate BES-H, and is designated as a nonresidential retail customer when the Company begins to provide electric service to such applicant.

5. The term of service for a nonresidential retail customer taking service hereunder through the end of its May monthly billing period automatically renews for a period of twelve (12) monthly billing periods, unless such nonresidential retail customer provides notification to the Company of its decision to terminate service hereunder, effective at the beginning of such nonresidential retail customer's June monthly billing period. In terminating service hereunder, such nonresidential retail customer must comply with the applicable provisions of the Termination of Service subsection of this Term of Service section.

K. Fixed Price Product Supplier Contract Durations for Residential and Small Commercial Customer Groups

In the September auction, equal percentages of 17-month, 29-month, and 41-month contracts were solicited to procure 100 percent of the load of residential and small to medium non-residential customers, with delivery beginning January 2007. Thus, one-third of those contracts will be expiring at the end of each of the next three years. The current plan, as embodied in both the Commission's Orders in the Procurement Dockets and in the utilities' tariffs, is to replace the expiring contracts each year with new 36-month contracts, as shown in the following diagram.

**PORTFOLIO OF FIXED PRICE CONTRACTS
SECURED THROUGH THE ILLINOIS AUCTION
FOR SMALL TO MEDIUM SIZE CUSTOMERS**

		Delivery Periods							
Auction dates	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			36-month						
Jan-2009			36-month						
Jan-2010				36-month					
Jan-2011					36-month				
Jan-2012						36-month			

Note in the above diagram that there are always three vertical layers of contracts, with each layer accounting for one-third of the total load to be served. In the first auction, held in September, this was accomplished by simultaneously buying a combination of 17-month, 29-month, and 41-month contracts. Starting with the next auction, however, 100% of the load will always be served by a combination of one-third new contracts and two-thirds old contracts. All new contracts will be for 36-months periods.

Staff is concerned, however, that utilizing only 3-year contracts may have the unintended effect of deterring some suppliers from bidding in future Illinois Auctions. It is quite conceivable that some suppliers have a comparative advantage in making shorter-term commitments, while other bidders have a comparative advantage in making longer-term commitments.

In addition, Staff notes that there seemed to be a positive relationship between the length of contracts and the risk premium embedded in the price of the contracts. To take advantage of the diversity among bidders, and to reduce the cost of electricity purchased on behalf of ratepayers, one approach would be to continue using a mix of varying length contracts, such as 12-month, 24-month, and 36-month.

However, there is an alternative approach that may be easier to implement, while still enticing competition in the auction and minimizing ratepayers' exposure to any single year's market conditions. Specifically, in each auction, contracts could be secured covering only twelve months worth of deliveries, but they would cover different time periods: specifically one-third starting in June of the **present** year, one-third starting June of the **next** year, and June of the **year after that**, as shown in the following diagram.

		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

With this alternative approach, bidders that prefer a short-term commitment could bid on the first of the 12-month contracts. Bidders that have capacity tied up for the first 12 months, but not the last 24 months, could bid on the last two 12-month periods. Bidders that want a long-term commitment could bid on all three of the products. Meanwhile, as under the existing tariffs, ratepayers obtain fixed price contracts covering one-third of their needs for the next three years ahead.

Recommendations:

- In the next auction, for small to medium size customers, each utility should continue to secure multiple contract types. For example, such multiple contract types could include either overlapping time periods of three different lengths or sequential time periods of the same 12-month length, as described above.

L. Fixed Price Product Supplier Contract Durations for Larger Customers

Under the current tariffs, the first set of large-customer fixed price supplier contracts contained 17-month terms and all future contracts would contain one year terms. Staff notes that the prices for the 17-month large customer contracts were significantly higher than the 17-month contracts for small to medium customer load. Staff believes this is due to the greater risk of large customers switching to delivery services or back to bundled service as market prices fall and rise. Extending the term of supplier contracts, in all likelihood, would render the contracts even riskier to suppliers, since future switching opportunities for large customers will be primarily limited to annual enrollment windows. Thus, under two or three year supplier contracts, suppliers would have to take into account the possibility that customers would switch on or off of the service during, not only the upcoming enrollment period, but the one after that, as well. Of course, much can happen to market prices in the course of a year, hence such two and three-year contracts can be expected to contain even larger risk premiums than the 17-month contracts of the September 2006 auction. Staff also believes that shortening the contracts to less than 12

months would be administratively burdensome and would not lead to lower risk premiums, given the changes to switching rules that were discussed earlier.

Recommendations:

- Utilities should attempt to purchase 100% of the expected demand of larger customers (over 400 kW for ComEd and 1 MW for Ameren) through one-year contracts only, as currently contemplated within the tariffs.

M. Customer Supply Group Definitions

In the Procurement Dockets, the Commission accepted recommendations from Staff and other parties to combine ComEd's 400 kw to 1 MW customer group with ComEd's 1 MW to 3 MW customer group. Together, these two groups made up ComEd's CPP-A group.

In Ameren's case, due to the lack of universal load profile metering on 400 kw to 1 MW customers, the Commission found that the analogous proposal to combine these customers with larger customers would be impractical. However, the Commission agreed with Staff that given the relatively low cost of installing the necessary metering, the Ameren Companies should be required to begin the process of installing such meters, and to complete that process within two years. The Commission further concluded that the proposal to combine the 400 kw to 1 MW customers with the larger customers may appropriately be revisited in subsequent auctions when the necessary data is available by virtue of metering or other means.

Recommendation:

- To the extent to which load data and switching data are available, Staff recommends that the issue of combining 400 kw to 1 MW customers with larger customers be reexamined in the first available investigation.

N. Post-Auction Commission Review of Results

The current tariffs provide for a Staff Report and an Auction Manager Report at the end of 2 business days following the completion of each auction. The tariffs also call for a Commission decision to approve or reject the results of the auction at the end of an additional three business days. Following the September auction, Staff found its two-day review period to be too restrictive, primarily with respect to the portion of its report that provides an assessment of the Auction Manager Report.

Recommendation:

- Give Staff one additional business day to provide its report, so it can evaluate the Auction Manager Report. Also, provide the Commission with one additional

business day, so that Staff’s additional day does not reduce the amount of time available to the Commission to review Staff’s report. To summarize:

Business Days from End of Auction

	Auction Manager Report	Staff Report	ICC Decision
Current	2	2	5
Proposed	2	3	6

APPENDIX A: GOING PRICES AND EXCESS SUPPLY RANGES BY ROUND

Section	Going Prices										Reported Excess Supply Ranges			
	Small Fixed Price Section Products						Large FP Section Products		Hourly Price Section Products		Fixed Price Section		Hourly Price Section	
	Units (\$/MWH)						Units (\$/MWH)		Units (\$/MW-Day)		Units (Tranches)			
	Utility	ComEd			Amrn			ComEd	Amrn	ComEd	Amrn	Lower Bound	Upper Bound	Lower Bound
Product	B 17	B 29	B 41	FP 17	FP 29	FP 41	A 17	LFP 17	H 17	L RTP 17				
Round														
1	100.00	100.00	100.00	100.00	100.00	100.00	104.00	104.00	290.00	310.00	501	510	41	50
2	95.00	99.39	98.30	95.00	97.90	97.04	104.00	104.00	276.98	308.45	451	460	31	40
3	90.25	98.79	96.55	90.40	95.57	94.73	104.00	103.48	263.13	306.14	441	450	31	40
4	85.93	97.11	93.91	86.58	92.92	92.64	104.00	102.37	249.97	304.61	411	420	31	40
5	82.14	95.13	91.17	86.15	88.27	89.70	104.00	101.86	237.47	303.09	411	420	0	30
6	79.03	92.02	88.51	85.29	85.47	86.70	104.00	101.35	231.53	303.09	381	390	0	30
7	78.07	88.05	85.64	81.94	82.76	83.14	103.48	100.84	225.74	303.09	381	390	0	30
8	77.20	84.12	82.84	79.11	80.13	79.80	103.48	100.27	220.10	303.09	341	350	0	30
9	76.04	80.28	79.99	77.84	77.67	77.02	103.48	98.87	214.60	303.09	331	340	0	30
10	73.38	78.50	77.00	75.45	75.62	74.74	103.48	97.42	209.24	303.09	281	300	0	30
11	70.78	76.54	74.55	72.60	73.86	72.82	103.48	95.65	204.01	303.09	256	280	0	30
12	68.61	74.16	71.83	70.96	72.57	71.55	102.96	93.71	198.91	303.09	226	255	0	30
13	67.30	70.76	69.69	69.57	71.25	70.97	102.45	92.13	193.94	303.09	176	225	0	30
14	66.22	69.36	68.10	68.09	68.58	69.81	100.39	89.09	189.09	303.09	0	175	0	30
15	66.05	67.80	66.57	67.92	68.41	69.64	99.89	88.87	184.36	303.09	0	175	0	30
16	66.05	66.27	66.24	67.75	68.24	69.29	98.52	88.65	181.59	303.09	0	175	0	30
17	66.05	66.10	66.07	67.58	68.07	68.94	96.30	88.43	180.68	303.09	0	175	0	30
18	66.05	65.93	65.90	67.41	67.90	68.60	94.98	88.21	179.78	302.33	0	175	0	30
19	66.05	65.77	65.74	67.24	67.73	68.26	94.51	87.99	179.33	299.31	0	175	0	30
20	65.88	65.44	65.58	67.07	67.56	67.92	94.04	87.77	179.33	293.32	0	175	0	30
21	65.72	65.28	65.42	66.90	67.39	67.75	93.80	87.55	178.88	292.59	0	175	0	30
22	65.56	65.12	65.09	66.57	67.22	67.58	93.57	87.33	178.43	291.86	0	175	0	30
23	65.40	64.96	64.93	66.40	67.05	67.41	93.57	87.11	177.98	291.13	0	175	0	30
24	65.24	64.96	64.77	66.23	66.88	67.24	93.57	86.89	177.54	290.40	0	175	0	30
25	65.08	64.96	64.61	66.06	66.71	67.07	93.34	86.67	177.10	289.67	0	175	0	30
26	64.92	64.80	64.45	65.89	66.54	66.90	93.34	86.45	176.66	288.95	0	175	0	30
27	64.76	64.80	64.29	65.73	66.37	66.73	93.34	86.23	176.66	286.06	0	175	0	30
28	64.76	64.80	64.13	65.57	66.20	66.56	93.11	86.01	176.66	283.20	0	175	0	30
29	64.76	64.80	63.97	65.41	66.03	66.39	92.64	85.79	176.66	280.37	0	175	0	30
30	64.76	64.64	63.97	65.25	65.86	66.39	92.18	85.58	175.78	280.37	0	175	0	30
31	64.60	64.48	63.97	65.09	65.70	66.39	91.72	85.37	175.78	279.67	0	175	0	30
32	64.44	64.32	63.81	64.93	65.54	66.39	91.49	85.16	175.78	278.97	0	175	0	30
33	64.28	64.16	63.81	64.93	65.38	66.39	91.26	84.95	175.78	278.27	0	175	0	30
34	64.12	64.00	63.81	64.93	65.22	66.39	91.03	84.74	175.78	277.57	0	175	0	30
35	64.12	64.00	63.65	64.77	65.06	66.22	90.80	84.74	175.78	276.88	0	175	0	30
36	63.96	63.84	63.49	64.77	64.90	66.22	90.57	84.74	175.78	276.19	0	175	0	30
37	63.80	63.84	63.33	64.77	64.74	66.22	90.34	84.74	175.78	275.50	0	175	0	30
38	63.80	63.84	63.33	64.77	64.74	66.22	90.11	84.74	175.34	275.50	0	175	0	30
39	63.80	63.84	63.17	64.77	64.74	66.05	90.11	84.74			0	175		
Final Clearing Prices	63.96	64.00	63.33	64.77	64.75	66.05	90.12	84.95	175.35	276.19	0	0	0	0