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**MISSOURI
PUBLIC SERVICE COMMISSION**

Exhibit No.:
Witness: Daniel F. Cole
Type of Exhibit: Direct Testimony
Sponsoring Party: Union Electric Company

MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. EO-98-95

DIRECT TESTIMONY

OF

DANIEL F. COLE

St. Louis, Missouri
August 29, 1997

UNION ELECTRIC COMPANY

CASE NO.

DIRECT TESTIMONY OF DANIEL F. COLE

Q. Please state your name and business address.

A. My name is Daniel F. Cole. My business address is 1901 Chouteau, St. Louis, Missouri.

Q. What is your position with Union Electric Company (UE or Company)?

A. I am the General Manager of Union Electric's Corporate Planning Department. In this position I oversee the Company's Corporate Analysis, Rate Engineering, Business Analysis, and Energy Services activities.

Q. Please describe your educational and professional experience.

A. I received a Bachelor of Science Degree in Engineering Management in 1975 and a Master of Science Degree in Engineering Management in 1976, both from the University of Missouri - Rolla. I was employed by Union Electric Company in 1976 as an Assistant Engineer in the Nuclear Services Cost and Scheduling group. I was promoted to Engineer in 1979 in the same group and in 1983 was promoted to Supervising Engineer. In 1985 I transferred to the position of Supervising Engineer of Load Research in the Rate Engineering Department. In 1989 I became Supervising Engineer of Demand-Side Planning in the Corporate Planning Department. I became Supervising Engineer of Regulatory Planning in 1991. In July of 1993 I became Manager of Resource Planning. I assumed my present position in January of 1997.

I have testified before the Illinois Commerce Commission, the Missouri Public Service Commission, the Iowa State Utilities Board, and the Federal Energy Regulatory Commission in dockets on utility resource

1 planning, demand-side planning, forecasting, and prudence issues. I
2 have served on the EEI Economics Committee and currently serve on the
3 EEI Strategic Planning Committee. I am a member of the Institute of
4 Electrical and Electronics Engineers and the American Society for
5 Engineering Management. I am a registered professional engineer in
6 Missouri and Illinois.

7
8 **Q. What is the purpose of your testimony?**

9 A. I will provide an overall description of UE's experimental retail wheeling
10 pilot (ERWP) proposal and discuss the objectives of that proposal.

11
12 **Q. Why is UE proposing an experimental retail wheeling pilot?**

13 A. As part of the stipulation approving Union Electric Company's merger with
14 Central Illinois Public Service Company, UE agreed to file a proposal for
15 an experiment in retail wheeling. This proposal fulfills that obligation and
16 provides an opportunity for our customers, UE, and other stakeholders to
17 gain experience in various aspects of competition in the electric utility
18 industry.

19
20 **Q. In what form are you proposing the pilot?**

21 A. Included as Schedule 1 to my testimony is an outline of our proposal.

22
23 **Q. What are the objectives of UE's proposed ERWP?**

24 A. Our objectives are as follows:

- 25 1) Identify potential effects of competition on customers and Union
26 Electric.
- 27 2) Develop a better understanding of the infrastructure necessary to
28 support competition.
- 29 3) Identify and explore issues surrounding rate unbundling necessary
30 to support competition.
- 31 4) Identify utility/alternative supplier interface issues.

- 1 5) Identify barriers to customer participation.
2 6) Identify procedures and policies that ensure alternative suppliers
3 comply with control area reliability requirements.
4 7) Develop better understanding of customer knowledge and attitudes
5 toward competition in the electric industry.

6
7 **Q. How did UE develop its ERWP proposal?**

8 A. UE formed a task force of employees from various areas of expertise
9 within the company. This group considered the objectives, methods,
10 structural considerations, and customer issues related to implementing
11 the pilot. The group was also responsible for reviewing comments and
12 suggestions on our proposal made by other parties.

13
14 **Q. How did UE solicit the input of other parties on the pilot?**

15 A. On June 5, 1997, UE conducted a meeting of interested parties to solicit
16 comments on various pilot design issues. A list of the attendees is
17 included as Schedule 2. Minutes were developed and issued to the
18 attendees.

19
20 In addition, in early June, UE hosted a series of focus groups with a
21 selection of residential (RES) and small general service (SGS) customers
22 to discuss various aspects of electric competition and possible experiment
23 features.

24
25 On August 1, 1997, UE sent out a draft of its proposed pilot with a request
26 for comments. Several comments were received, and UE made a number
27 of significant changes to the proposal in response to those comments.

1 **Q. What are the principle features of the pilot proposal?**

2 **A. I will discuss the following principle features of the pilot proposal:**

3 1) Market structure.

4 2) Allocation of MW to and number of participants for each class.

5 3) Solicitation of participants.

6 4) Billing.

7 5) Customer education.

8 6) Pilot evaluation.

9

10 **Market Structure**

11

12 **Q. What type of market structure is UE proposing in its pilot?**

13 **A. We are proposing to test two market structures—a "power exchange"**
14 **structure and a "direct access" structure.**

15

16 **Q. Why is UE proposing two market structures?**

17 **A. The "direct access" portion of our proposal resembles retail pilots around**
18 **the U. S. Including direct access will allow UE and other parties to gain**
19 **experience in this form of competition.**

20

21 The "power exchange" portion of our proposal is unique in that it has not
22 been extensively tested in other pilots. We wish to examine whether this
23 structure will provide the benefits of competition while avoiding many of
24 the costs, customer concerns, and operational issues associated with
25 direct access.

26

27 **Q. Please describe the "power exchange" structure.**

28 **A. Under the power exchange portion of the pilot, UE will serve as the**
29 **aggregator for those customers who participate. In that capacity, UE will**
30 **solicit bids to provide power for those participants. The price paid by the**
31 **customer for power will be that of the winning bid or bids. Some parties**

1 refer to this as a "poolco" or a "virtual access" market structure.

2

3 **Q. Will UE or an affiliate be allowed to submit bids in response to this**
4 **solicitation?**

5 A. Yes. However, in the event UE or an affiliate chooses to submit a bid, UE
6 will employ a neutral third party to recommend the successful bidder(s).

7

8 **Q. Please describe the "direct access" portion of the pilot.**

9 A. Under the direct access portion of the pilot, participants will be allowed to
10 deal directly with alternative suppliers to arrange for their power
11 requirements.

12

13 **Q. Will UE or an affiliate be allowed to make specific alternative supplier**
14 **offers to direct access participants?**

15 A. Yes. UE or an affiliate would be allowed to compete with other alternative
16 suppliers to supply power through direct access.

17

18 **Q. Will UE be involved in the direct access transactions with other**
19 **suppliers?**

20 A. Yes. As I discuss below, UE will be the billing party for all pilot
21 participants, under both the power exchange and direct access portions of
22 the pilot. In addition, under our proposal all alternative suppliers providing
23 power for the direct access portion of the pilot will be required to enter into
24 a power "buy/resell" agreement with UE.

25

26 **Q. Why will these "buy/resell" agreements be required?**

27 A. These agreements will be used to permit this experiment to go forward
28 while avoiding complicated legal issues. Without these agreements, it is
29 possible that the direct access portion of the pilot could not be
30 implemented.

1 Q. Will pilot participants be allowed to choose in which portion of the
2 pilot, either power exchange or direct access, they will participate?

3 A. Under our proposal, RES and SGS customers will not be allowed to
4 choose in which portion they will participate. Instead, we will
5 geographically separate the two portions of the pilot. The remainder of
6 the classes will be allowed to choose. The details of how that choice will
7 be made are outlined in Schedule 1.

8

9

Allocation/Participation

10

11 Q. How was the number of RES and SGS participants determined?

12 A. The UE task force first looked at possible factors including sales,
13 revenues, and peak demand that could be used to allocate a portion of
14 the 100 MW to the RES and SGS classes. Allocating the MW by these
15 factors would result in a large number of participants. For example, were
16 annual kWh used to allocate the MW, there would be approximately
17 14,000 RES and SGS participants. It is the task force's opinion that this
18 number of participants is not necessary to meet the established pilot
19 objectives. Consequently, as the administrative costs of a pilot are
20 directly related to the number of participants, allowing this many
21 participants would unnecessarily increase the cost of the pilot. The task
22 force is proposing that 2,000 RES and 500 SGS customers participate in
23 each portion of the pilot, for a total of 4,000 RES and 1,000 SGS
24 customers.

25

26 Q. How many MW does this represent?

27 A. Based on 1996 average system coincident demand per customer, we
28 estimate this represents about 20 MW.

1 Q. How were the remaining 80 MW allocated and participation
2 determined for the other classes?

3 A. The remaining 80 MW were allocated to the other classes based upon
4 1996 MWh sales. The number of customers for these classes was
5 determined by balancing the load per participant and the total number of
6 participants. In other words, while we wanted a reasonable number of
7 participants, we also wanted a load per participant that was large enough
8 to attract volunteers for the pilot.

9
10 Q. Will all of a participant's load be supplied through the pilot?

11 A. We propose that the total load for RES and SGS participants be provided
12 through the pilot. For the remainder of the classes, we propose that
13 participants select a "flat block" of load to be supplied through the pilot.
14 The maximum "flat block" of load that can be supplied through the pilot
15 varies by class, as set forth in Schedule 1.

16
17 Q. Please provide a summary of the total number of participants by
18 class.

19 A. The following is the total number of participants by class:

	<u>Power Exchange</u>	<u>Direct Access</u>	<u>Total</u>
20 Residential	2,000	2,000	4,000
21 Small General Service	500	500	1,000
22 Large General Service	combined		140
23 Small Primary Service	combined		25
24 Large Primary and	combined		10
25 Interruptible Service			
26			
27			
28 Total			5,175

1 Q. Which governs in the pilot proposal—the number of MW allocated to
2 a class or the participants?

3 A. For all classes, we propose that the number of participants should govern.
4 Therefore, the actual number of MW in the pilot could be lower or higher
5 than the 100 MW target.
6

7 Solicitation of Participants

8

9 Q. How will potential participants be solicited?

10 A. Solicitation for RES and SGS participants will be limited to specific
11 geographic areas located outside the St. Louis metropolitan area. Two
12 geographic areas will be selected—one for the power exchange portion
13 and one for the direct access portion.
14

15 Q. Why would you locate the geographic areas away from metropolitan
16 St. Louis?

17 A. As I discuss below, our research indicates substantial customer education
18 is critical to the success of the pilot, particularly for the RES and SGS
19 classes. By locating the pilot away from metropolitan St. Louis, it will be
20 possible to include mass media in the customer education program
21 without misleading or confusing a large number of our customers who
22 would not be allowed to participate.
23

24 Q. Have you selected the geographic areas which you would use for the
25 pilot?

26 A. We have investigated some possibilities but have not reached any final
27 conclusions.
28

29 Q. Which RES and SGS customers in the geographic areas would be
30 solicited to participate in the pilot?

31 A. All RES and SGS customers in the specified geographic areas will be

1 solicited for participation.

2

3 Q. Is there any guarantee that exactly 2,000 RES and 500 SGS
4 customers will be enrolled in each portion of the Competition Pilot?

5 A. As customers will not be required to join the experiment, there can be no
6 guarantee of a specific number of participants. If there are more
7 volunteers than the specified limits, then the participants will be randomly
8 selected from the volunteers.

9

10 Q. What customers will be solicited from the other classes?

11 A. We propose that all Missouri customers with a maximum 1997 demand
12 over a specified threshold be solicited for participation. This threshold
13 varies by class. Again, if the number of volunteers is greater than the
14 maximum allowed participation, participants will be randomly selected
15 from the volunteers.

16

17 Q. What will happen if any class is undersubscribed?

18 A. There are provisions in our proposal that if any class is significantly
19 undersubscribed after a six-month solicitation period, the undersubscribed
20 load will be reallocated to other classes, based upon the MW originally
21 allocated to those classes. However, unsubscribed loads will not be
22 reallocated to the RES or SGS classes. After this six-month adjustment,
23 no further reallocations will be made for undersubscribed loads.

24

25 Billing

26

27 Q. How will participants be billed?

28 A. Participants will receive a credit on their UE bill for that portion of their
29 load supplied through the pilot. This credit will be based upon the
30 average embedded fixed and variable generation costs for each class.
31 The cost of market-based generation for that portion of participants' load

1 supplied through the pilot will be added to their bills.

2

3 **Q. Will billing differ between power exchange participants and direct**
4 **access participants?**

5 A. The only difference will be in the cost of market-based generation
6 purchased through the pilot.

7

8 **Q. Does UE intend to bill participants for the administrative costs**
9 **associated with the pilot?**

10 A. UE does not intend to bill participants for the administrative costs
11 associated with the pilot. However, our proposal does include provisions
12 to bill all alternative suppliers for a share of the pilot's administrative costs.

13

14 **Q. Does UE intend to bill participants for any stranded or transition**
15 **costs resulting from the pilot?**

16 A. We do not. While we are very concerned that this may send wrong
17 messages about potential savings to pilot participants, we do not believe
18 this pilot is the proper forum to resolve issues surrounding transition costs.
19 Our willingness to forgo collection of these costs in the pilot should in no
20 way be taken to indicate that UE believes anything less than full recovery
21 of transition costs are appropriate.

22

23 Customer Education

24

25 **Q. Will the pilot include a customer education feature?**

26 A. Yes. Our early research on RES and SGS customers' knowledge on
27 matters related to competition in the electric utility industry suggests that
28 education is essential. We will design a customer education program for
29 these customer classes with the goal of maximizing the number of
30 volunteers for the pilot and keeping participants informed of the progress
31 of the pilot. The program will make a special effort to target low income

1 RES customers.

2

3 **Q. Will education programs be designed for the other classes?**

4 A. Yes. For all other classes, UE will develop targeted programs that explain
5 the pilot and provide the information necessary for customers to choose to
6 participate or request more information.

7

8

Pilot Evaluation

9

10 **Q. How does UE intend to evaluate the results of the pilot?**

11 A. Our proposal includes provisions to develop evaluation reports at various
12 pilot milestones, including a final report that addresses each program
13 objective. Both the MPSC Staff and OPC Staff have specifically
14 requested that they be allowed to participate in design of the evaluation
15 process. We have no objection to participation by these or any other
16 parties.

17

18

Other Issues

19

20 **Q. Does UE intend to file tariff sheets for the ERWP?**

21 A. Yes. We believe the pilot should be offered through tariff sheets.
22 However, it is our intent to develop these tariffs at a later date.

23

24 **Q. Why did UE choose to file its ERWP proposal in this manner?**

25 A. There are several reasons. First, tariff sheets in and of themselves could
26 not provide all the information necessary to describe our proposal. While
27 we have endeavored to provide a significant level of detail in Schedule 1
28 on our proposal, we anticipate there will be detailed questions in several
29 areas that interested parties may wish to discuss. Second, based on
30 those discussions, we may elect to make further changes to our proposal.
31 Third, there are several areas that have not been included in our proposal

1 where input from other parties will be essential. These would include:

2

- 3 • Form and content of the "buy/resell" agreement between UE and
- 4 alternative suppliers.
- 5 • Supplier codes of conduct.
- 6 • Geographic location of the RES/SGS portions of the pilot.
- 7 • Selection of suppliers to participate in the RES/SGS direct access
- 8 portion of the pilot.

9

10 **Q. Is UE requesting any specific deadline for the approval of its pilot?**

11 A. No, we are not. As we have not established any date when we will file
12 tariff sheets for the pilot, we do not believe it is appropriate to request a
13 date for approval of these tariffs. Moreover, there is no scheduled date for
14 commencement of the experiment. While we do not want to unduly delay
15 the start of the experiment, we prefer to take the time to structure the
16 experiment correctly and in the best interests of all customers.

17

18 **Q. How do you envision this process will move forward?**

19 A. We would propose to identify areas of agreement and disagreement in our
20 proposal with other parties, as well as issues such as the above which
21 also need to be addressed, and hold a series of meetings to discuss
22 those issues. We believe that holding these meetings in parallel with the
23 Missouri Public Service Commission Restructuring Task Force and the
24 Missouri Legislatures' Joint Committee on Telecommunication and Energy
25 will also allow parties to identify other issues that may need to be
26 addressed.

27

28 **Q. In the end, is UE responsible for the final pilot proposal?**

29 A. Yes, we are. While we welcome input from other parties, we are the party
30 obligated to propose to the Commission a pilot we believe will best
31 achieve our objectives. Reasonable people can disagree; and while we

1 certainly hope to minimize disagreements, we may not be able to resolve
2 all issues. For any issues that do remain, we will make our best case
3 before the Commission, and we would expect others to do the same.

4

5 **Q. Does this conclude your testimony?**

6 **A. Yes, it does.**

MISSOURI PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

In The Matter Of The Application)
Of Union Electric Company For)
Approval Of An Experimental)
Retail Wheeling Pilot.) Case No.

AFFIDAVIT OF DANIEL F. COLE

State of Missouri)
) SS.
City of St. Louis)

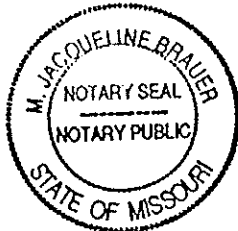
Daniel F. Cole, being first duly sworn on his oath, states:

1. My name is Daniel F. Cole. I work in the City of St. Louis, Missouri, and I am General Manager of the Corporate Planning Department at Union Electric Company.
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony consisting of pages 1 through 13, inclusive, all of which testimony has been prepared in written form for introduction into evidence in the above-referenced docket.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

Daniel F. Cole

Daniel F. Cole

Subscribed and sworn to before me this 20TH day of August 1997.



M. JACQUELINE BRAUER
NOTARY PUBLIC - STATE OF MISSOURI
ST. LOUIS COUNTY
MY COMMISSION EXPIRES 9/16/97

M. Jacqueline Brauer
Notary Public