

Exhibit No.:  
Issues: Opportunity to  
recover lost  
transmission revenues  
and related downward  
rate pressure via  
AmerenUE's  
participation in  
GridAmerica  
Witness: David C. Linton  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Union Electric  
Case No.: EO-2003-0271  
Date Testimony Prepared: February 24, 2003

**MISSOURI PUBLIC SERVICE COMMISSION**

**Case No. EO-2003-0271**

**DIRECT TESTIMONY**

**OF**

**DAVID C. LINTON**

**ON BEHALF OF**

**UNION ELECTRIC COMPANY  
d/b/a AmerenUE**

**St. Louis, Missouri  
February 24, 2003**



**DIRECT TESTIMONY OF  
DAVID C. LINTON**

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

A. My name is David C. Linton and my address is 1901 Chouteau Avenue,  
St. Louis, Missouri 63103.

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

A. I am employed by Ameren Services Company (“Ameren Services”) as a  
Consulting Engineer in the Corporate Planning Function. I am testifying on behalf of  
Union Electric Company d/b/a AmerenUE (“AmerenUE or the “Company”).

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

A. I received a Bachelor of Science Degree in Chemical Engineering from  
the University of Missouri at Rolla in 1981. I then received a Juris Doctor Degree from  
the University of Missouri at Columbia in 1984. In 1985, I joined the Union Electric  
Legal Department where my primary role was a lobbyist for the Company before the  
Missouri Legislature. Four years later I became an Attorney in the Legal Department  
where my responsibilities included primarily regulatory matters. In 1995, I took a  
position in the Corporate Planning Function as an Engineer to assist Union Electric in  
developing its Open Access Transmission Tariff (“OATT”) and in its wholesale  
unbundling efforts. Since that time I have held positions as a Regulatory Specialist in the  
Energy Supply Operations, Regulatory Planning Function and the Corporate Planning  
Function again. In such positions, my primary responsibilities have involved advising  
Union Electric Company and then Ameren Services and its operating companies, Union  
Electric Company d/b/a AmerenUE and AmerenCIPS on wholesale and retail  
deregulation policy. More specifically, I have participated on the Alliance RTO

1 (“Alliance) and the Midwest ISO Tariff Working Groups on behalf of AmerenUE and  
2 AmerenCIPS.

3 **Q. What is the purpose of your testimony?**

4 A. AmerenUE in its Application in this case has requested the Commission’s  
5 approval to join the Midwest ISO via a contractual relationship with GridAmerica, LLC  
6 (“GridAmerica”). GridAmerica is an independent transmission company (“ITC”) within  
7 the meaning of FERC Order No. 2000. The purpose of my testimony is to discuss one of  
8 the benefits that AmerenUE will derive from participating in the Midwest ISO through  
9 GridAmerica, namely the opportunity for lost revenue recovery on AmerenUE’s  
10 transmission system. I also discuss how this benefit may create downward pressure on  
11 retail electric rates for AmerenUE customers.

12 **Q. Please describe AmerenUE’s transmission system.**

13 A. AmerenUE’s transmission system is a part of the combined AmerenUE  
14 and Ameren CIPS<sup>1</sup> transmission system (collectively, the “Ameren Transmission  
15 System”), and is strategically located in the heart of mid-America. The Ameren  
16 Transmission System is interconnected with approximately 16 other transmission owners  
17 in the Midwest. AmerenUE’s transmission assets comprise more than 50% of  
18 transmission miles in the Ameren Transmission System, and as a company with  
19 significant interconnections, many electric power traders have moved their power across  
20 the Ameren Transmission System, including AmerenUE’s system, to serve various loads  
21 throughout the country.

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<sup>1</sup> Now including the Central Illinois Light Company, now AmerenCILCO, transmission system which was acquired by Ameren Corporation effective January 31, 2003.

1           **Q.     Please discuss the opportunity for lost revenue recovery as it relates to**  
2 **the Ameren Transmission System, as you mentioned above.**

3           A.     After FERC Order No. 888 (and even before the FERC issued that Order)  
4 AmerenUE sold a significant amount of transmission service out of and through the  
5 Ameren Transmission System. That transmission service produced significant revenues  
6 for AmerenUE. That revenue benefits AmerenUE's native load customers because it  
7 contributes to AmerenUE's revenue requirement needed to earn a reasonable rate of  
8 return at lower retail electric rates.

9           Shortly after the issuance of Order No. 888, several companies in the Midwest,  
10 including Ameren Services, on behalf of AmerenUE and AmerenCIPS, entered into  
11 discussions to form the Midwest ISO. From the very beginning, the FERC expressed a  
12 policy to eliminate rate pancaking, that is the elimination of the ability of the  
13 transmission providers to charge multiple transmission access charges for transactions  
14 that exited or crossed the transmission providers' systems. Unfortunately, during those  
15 early days, neither FERC nor the transmission owners discussing the formation of the  
16 Midwest ISO discussed any mechanism for recovering the revenues lost due to the  
17 elimination of the rate pancakes. As a result, all of the documents forming the Midwest  
18 ISO, and particularly the Midwest ISO Transmission Owners' Agreement, fail to address  
19 the recovery of these lost revenues.<sup>2</sup>

20           **Q.     What efforts has AmerenUE made to address this earlier failure to address**  
21 **the recovery of these lost revenues?**

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<sup>2</sup> This Commission has supported AmerenUE's RTO participation, and has ordered AmerenUE to participate in an RTO meeting the guidelines of Order 888, including the elimination of pancaked rates. See Mo. P.S.C. Report and Order, February 21, 1997, Case No. EM-96-149.

1 A. Prior to the Midwest ISO going live in early 2002, Ameren Services made another  
2 assessment of the impact that the elimination of the revenues from pancaked rates would  
3 have on the Ameren operating companies as a whole and on AmerenUE in particular,  
4 including on AmerenUE's native load customers. At that time, it decided to become  
5 involved with another group of companies forming the Alliance RTO (Alliance). The  
6 Alliance proposal was to recover the lost revenue through an adjustment or an adder to  
7 the rate that was applied to the load in each transmission owner's zone, which is  
8 generally coincident with the transmission owner's control area. The adder was designed  
9 to collect the value of the transmission services that the load in the zone historically  
10 derived from the multiple access charges on the remainder of the transmission system.  
11 By collecting the charge on all load without regard to the source of the power, the charge  
12 eliminated the distance sensitivity that the FERC sought and made the Transmission  
13 Owners whole.

14 The FERC has since adopted the Alliance proposal as policy. In an April 25,  
15 2002 Order, the FERC made the following comment:

16 In the Alliance III Order, we conditionally approved a license plate rate  
17 methodology, like that proposed by Petitioners, that took into account cost  
18 responsibility and revenue flows under the prior system of pancaked rates, while  
19 at the same time establishing a single non-pancaked charge for use of the grid.  
20 We believe that this methodology represents an improvement upon the license  
21 plate rate concept because, by recovering revenues from each zone proportionate  
22 to the benefit that each zone receives from the elimination of rate pancaking, it  
23 better controls cost-shifting and, thus, better eliminates ratemaking disincentives  
24 to RTO participation, while avoiding the injurious effects on efficient use of the  
25 grid associated with the rate pancaking (Docket No. EL02-65, 99 FERC ¶  
26 61,105, April 25, 2002).  
27

28 **Q. How do you anticipate AmerenUE's participation in the Midwest ISO**  
29 **via its relationship with GridAmerica will help to recover such lost revenues as**

1 **opposed to AmerenUE simply participating in the Midwest ISO without**  
2 **GridAmerica?**

3 A. As I said before, all of the documents forming the Midwest ISO, and  
4 particularly the Midwest ISO Transmission Owners' Agreement, fail to address the  
5 recovery of these lost revenues. The agreements require the transmission customers to  
6 pay the zonal rate of the zone in which the transaction sinks, without regard to the  
7 number of transmission systems or zones which the transaction traverses. And there are  
8 no other provisions to recover those lost revenues. This by definition precludes the  
9 recovery of the lost revenue from wholesale customers.

10 If AmerenUE joined the Midwest ISO as an individual Transmission Owner, it  
11 must sign the Midwest ISO Transmission Owners' Agreement. And the Transmission  
12 Owners' Agreement requires that before a change may be made to the rate design or the  
13 revenue distribution, there must be unanimous approval of the change by the  
14 Transmission Owners. It is a virtual certainty that there would not be unanimity of the  
15 Transmission Owners to make the change to the rate design and revenue distribution to  
16 recover lost revenues because other Midwest ISO Transmission Owners have previously  
17 opposed recovery of those revenues. As a member of GridAmerica, AmerenUE will not  
18 sign the Transmission Owners' Agreement. Therefore, AmerenUE will not be bound by  
19 the conditions in the Transmission Owners' Agreement that would prevent the recovery  
20 of its lost revenues. As Daniel J. Godar discusses in his Direct Testimony, AmerenUE  
21 will participate in the Midwest ISO, but within the framework of its contractual  
22 relationship with GridAmerica, an ITC operating within the Midwest ISO as  
23 contemplated by FERC Order 2000. As Mr. Godar also discusses, GridAmerica's

1 relationship with the Midwest ISO is defined by the ITC Agreement between  
2 GridAmerica and the Midwest ISO. And the ITC Agreement requires the Midwest ISO  
3 to support the GridAmerica Companies' recovery of lost revenue.

4 **Q. Will this distinction between being a signatory to the Midwest ISO**  
5 **Transmission Owners Agreement versus participating via a contractual relationship**  
6 **with GridAmerica affect the duration of AmerenUE's participation in the Midwest**  
7 **ISO?**

8 A. No. As Mr. Godar discusses in more detail in his testimony, the ITC  
9 Agreement between GridAmerica and the Midwest ISO requires AmerenUE (and the  
10 others who will cede functional control to GridAmerica) to remain in the Midwest ISO  
11 for the same duration as they would be required to remain had they been signatories to  
12 the Midwest ISO Transmission Owners Agreement

13 **Q. What is the magnitude of the lost revenue recovery?**

14 A. That is a hard question to answer. In 2000, Ameren Corporation as a  
15 whole (its operating companies AmerenUE and AmerenCIPS) had approximately forty-  
16 six million dollars in transmission revenues alone, not including any ancillary services  
17 revenues, from transactions going out and through the Ameren Transmission System. In  
18 2001 and 2002, the potential lost revenues were forty-seven and forty-one million dollars,  
19 respectively. This is the potential lost revenue for all transactions without regard to the  
20 sink. Some of those transactions eventually sank in PJM and some sank in the Midwest  
21 ISO. Some of them sank in control areas that do not have an RTO, such as TVA.



1           The problem with being able to predict a more precise dollar figure for the loss is  
2           that it depends on several factors, including on what entities become members of which  
3           RTO and the outcome of litigation at FERC regarding the rate design.

4           **Q.     Despite these problems, has there been study of the lost revenue issue?**

5           A.     Yes. The Midwest ISO engaged in a study that provides some useful  
6           information on what we could expect the loss to be. The Midwest ISO study used the  
7           2001 lost revenue and Open Access Technologies International, Inc. (OATi) data to  
8           determine the transactions that went through Ameren's Transmission System and where  
9           they sank. The study was filed with FERC in order to justify the rates for the lost  
10          revenue recovery mechanism within the Midwest ISO. The study allocated  
11          approximately twenty-six million dollars to transactions sinking in the Midwest ISO,  
12          including the GridAmerica parties and the SPP parties that are not yet under the Midwest  
13          ISO tariff. The study shows that Ameren would owe approximately six million dollars in  
14          lost revenue payments to other Midwest ISO Transmission Owners. As a result, the net  
15          lost revenue recovery is on the order of twenty million dollars per year for the entire  
16          Ameren Transmission System, and approximately 60% of that would be borne by  
17          AmerenUE and ultimately its customers.

18          The Midwest ISO filed with the FERC tariff sheets that would recover lost  
19          revenues for a transitional period of three years consistent with that study. The ultimate  
20          lost revenue recovery may be different for several reasons. It may be different if the  
21          transitional period is changed. The transitional period is designed to allow for the  
22          industry to determine another method for collecting charges from those who use the  
23          system. In addition, if 2000 and 2002 revenues and data are factored into the calculation

1 the lost revenues recovered would be different. It may be different if there is a phase out  
2 of the recovery as some parties are proposing in other cases. It may be different  
3 depending on the companies that eventually do and do not join the Midwest ISO. It may  
4 be different also depending on how FERC implements the Standard Market Design. All  
5 in all, however, the study does show that AmerenUE receives millions of dollars of  
6 benefit in lost revenue recovery from the participation in GridAmerica if it is successful  
7 before FERC in obtaining the lost revenue recovery.

8 **Q. Is this lost revenue recovery in the public interest?**

9 A. Yes. One of the hallmarks of rate design is cost causation, having those who  
10 benefit from the service pay for the service. The lost revenue recovery rate is consistent  
11 with cost causation in that it imposes the cost of the transmission system on those who  
12 have historically benefited from using the system. To do otherwise would eliminate the  
13 revenue stream that Ameren has been receiving from wholesale customers which has  
14 traditionally been used as a credit to reduce retail customers' rates and traditionally has  
15 been considered in setting retail rates as an offset to costs. This would create a  
16 significant revenue shortfall that AmerenUE would eventually have to recover from its  
17 retail customers. In light of the various changes going on in the industry, including the  
18 evolution of standard market design, it is certainly in the public interest to institutionalize  
19 a lost revenue recovery methodology that follows cost causation. AmerenUE's  
20 participation in the Midwest ISO via its agreements with GridAmerica provides  
21 AmerenUE the best, most practical, and most realistic opportunity to realize this lost  
22 revenue recovery for its benefit and the ultimate benefit of its ratepayers.

23 **Q. Does that conclude your direct testimony?**

1     A.     Yes, it does.