

Exhibit No.:
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Integration with Midwest ISO
Witness: James P. Torgerson
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Case No.: EO-2003-0271
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EO-2003-0271

SURREBUTTAL TESTIMONY

OF

JAMES P. TORGERSON

ON

BEHALF OF

MIDWEST ISO

**Carmel, Indiana
June 2, 2003**

Surrebuttal Testimony of

JAMES P. TORGERSON
On behalf of Midwest ISO

Case No. EO-2003-271

1 Q. Please state your name and occupation.

2 A. My name is James P. Torgerson. I am the President and Chief Executive Officer of
3 Midwest Independent Transmission System Operator, Inc. ("Midwest ISO" or "MISO").

4 Q. Please summarize your background and experience.

5 A. I have served as Vice President and Chief Financial Officer of DPL, Inc., the parent of
6 Dayton Power & Light Co., Dayton, Ohio; Vice President and Chief Financial Officer of
7 Puget Sound Energy, Inc.; and Executive Vice President of Washington Energy Co.,
8 Seattle, Washington. From 1999 to 2000 I was Vice President and Chief Financial
9 Officer of Midwest ISO.

10 Q. Are you familiar with the conditions that Staff witness Dr. Michael S. Proctor has set
11 forth on pages 39-41 of his Rebuttal Testimony, under which Staff would recommend
12 AmerenUE joining Midwest ISO through the GridAmerica arrangement?

13 A. Yes, I am.

14 Q. What are those conditions?

15 A. Conditions 2 through 4 call for MISO's agreement with Ameren and/or with Staff to
16 protect the interests of AmerenUE's bundled retail load, to perform financial analysis of
17 the risks of the Financial Transmission Right ("FTR") process, and to develop least-cost
18 methods in managing the FTR process as the transmission system is upgraded and
19 expanded. Condition 1 concerns the AmerenUE Joint Dispatch Agreement with Ameren

20 Energy Generating Co. which MISO is not a party to and is not requested to play any role
21 by Staff.

22 Q. Regarding Conditions 2 through 4, will Midwest ISO agree to those conditions?

23 A. Yes. Although details must be developed, and time deadlines established to permit their
24 implementation, these conditions are acceptable to the Midwest ISO.

25 Q. What is your response to Staff's proposed Condition 2?

26 A. Condition 2 of Dr. Proctor, described on page 40, lines 3-8 of his Rebuttal Testimony,
27 requires that Ameren and MISO develop a plan to assure that AmerenUE's bundled retail
28 customers continue to pay a transmission rate that is determined by this Commission.
29 MISO is agreeable to developing such a plan or "contract." Such a contract between an
30 RTO or ISO and a transmission owner is discussed with approval in the Wholesale Power
31 Market Platform "White Paper" that the Federal Energy Regulatory Commission
32 ("FERC") issued on April 28, 2003, specifically on pages 4-5 of its Appendix A. See
33 Schedule JPT-1, FERC Wholesale Power Market Platform (hereafter "FERC WPM
34 Platform"); Schedule JPT-2, Appendix A to FERC WPM Platform ("Comparison of the
35 Proposed Wholesale Market Platform With the RTO Requirements of Order No. 2000")
36 (hereafter "Appendix A").

37 Q. What is your response to Staff's proposed Condition 3?

38 A. Condition 3 of Dr. Proctor, described on pages 40-41 of his Rebuttal Testimony, requires
39 that Ameren and Midwest ISO agree to work with Staff to develop a plan involving the
40 allocation of Financial Transmission Rights ("FTR's") to AmerenUE's Missouri bundled
41 retail customers to ensure they retain their existing rights and obtain FTR's for future

42 load growth. Midwest ISO will provide as part of its filing to FERC on FTR allocations
43 an analysis of the financial risks faced by AmerenUE, and will provide AmerenUE
44 information available to Midwest ISO that AmerenUE requires to complete the
45 independent analysis requested by Staff. Midwest ISO is agreeable to working with
46 Ameren and Staff to develop a methodology that will permit Ameren to conduct such a
47 financial analysis.

48 Q. Is Condition 3 at odds with FERC's recent statements in the WPM Platform?

49 A. No. To the contrary, it is entirely consistent. The WPM Platform indicated in Appendix
50 A that if an RTO or ISO uses locational pricing to manage congestion (as Midwest ISO
51 plans to do), the RTO or ISO "must ensure that each existing firm customer (including
52 transmission owners with a service obligation for native load) has the opportunity to
53 obtain FTRs equivalent to that customer's existing firm rights." See Schedule JPT-2,
54 Appendix A at 7. Such protection, FERC stated, includes "the ability to obtain rights for
55 future load growth." See Schedule JPT-2, Appendix A at 7-8.

56 Q. Are there aspects of this kind of agreement that the Midwest ISO must negotiate
57 carefully?

58 A. Yes. As the impartial operator of the electric transmission grid, Midwest ISO must be
59 careful to maintain its independence from all market participants, including transmission
60 owner members like AmerenUE. While the Midwest ISO owes certain fiduciary duties
61 to the owners of the transmission assets over which it exercises functional operational
62 control, it must take care to encourage wholesale market trading competition and remove
63 opportunities for discriminatory transmission practices. Consistent with these

obligations, I believe Midwest ISO can work with Staff and AmerenUE to develop the components of an appropriate financial analysis that can assess the risk of FTR's.

Q. What is your response to Dr. Proctor's Condition 4 set forth at page 41 of his Rebuttal Testimony?

A. Condition 4 requires that Ameren and MISO develop a least-cost method for managing the financial risks from FTR's in conjunction with the upgrades or expansions of the transmission infrastructure in AmerenUE's service territory. As I stated above, such a method is consistent with the FERC WPM Platform that acknowledged more clearly than ever before the important interest that both state and federal utility regulators have in using FTR's to protect retail bundled load as transmission infrastructure is built and upgraded. See Schedule JPT-1, FERC WPM Platform at 5; Schedule JPT-2, Appendix A at 7-8. Such a concept also embraces a balanced notion of participant funding, and the distinction between upgrades for reliability purposes and those for commercial or economic purposes. Reliability upgrades that are financed by revenue streams from ratepayers should not cause additional burdens to be placed solely upon those ratepayers if congestion occurs at some future time. However, upgrades that are proposed for economic or commercial purposes would be subject to participant funding criteria developed with the Regional State Committees that fairly allocate the costs between the party causing the upgrade to occur and the ratepayer who may benefit incidentally. See Schedule JPT-2, Appendix A at 12-14. Midwest ISO recognizes this type of participant funding concept in its Tariff and its Attachment N.

85 Q. On page 41 of his Rebuttal Testimony, Dr. Proctor recommended that if the Staff
86 conditions cannot be met, the Commission consider the alternative of directing Ameren
87 to join Southwest Power Pool, Inc. ("SPP"), which he stated "has recently announced its
88 intention to meet the requirements of FERC Order No. 2000 without the initial downside
89 risk that AmerenUE customers will face under the Midwest ISO market design." Please
90 comment on this alternative.

91 A. First, I believe that the conditions can be met so that such an alternative does not need to
92 be considered. If the Commission were to deny AmerenUE's application, then I would
93 recommend that the Commission consider all opportunities or courses of action available,
94 not just SPP. I do not believe SPP would meet the requirements of an RTO as currently
95 organized and configured. The structure of SPP's Board of Directors does not meet the
96 "independence" requirements of Order 2000. SPP's "scope and configuration" has been
97 found insufficient in the past to meet Order 2000's requirements. It is my understanding
98 that SPP's Board has not yet determined what kind of market it wishes SPP to institute or
99 the pace at which SPP is planning to move forward. I have no information to indicate
100 that SPP wishes to change its Board structure.

101 Second, I do not believe that the MISO market design would place AmerenUE
102 bundled retail customers at risk. From a price standpoint, those customers' bundled rates
103 are subject to the regulatory authority of this Commission. From a reliability and
104 operational standpoint, Midwest ISO is providing services that are second to none in the
105 transmission industry.

106 Additionally, the large footprint of the Midwest ISO enables it to spread the costs
107 of its state-of-the-art grid operations among more users and customers, which ultimately
108 reduces costs. Today, the Midwest ISO adder is in the 13-cent per megawatt hour range.
109 If one includes the deferral of \$25 million in costs as agreed to in the recent FERC
110 settlement in Case No. ER02-111, the Schedule 10 cost adder is approximately 9.6 cents
111 during the year 2003. A recent U.S. Department of Energy study, "Report to Congress:
112 Impacts of the FERC's Proposal for Standard Market Design" (April 30, 2003), showed
113 the SPP RTO/SMD costs to be 41 cents per megawatt hour. MISO's were listed at 20
114 cents per megawatt hour, the lowest in the nation.

115 Q. Will Midwest ISO be responsive to the concerns of this Commission and of transmission
116 owners who are currently members of SPP?

117 A. Yes. Since its establishment, the Midwest ISO has been sensitive to the concerns of
118 states in the western Midwest. From January 1999 through December 2000, Missouri's
119 Office of the Public Counsel, through Mr. Ryan Kind, represented the interests of
120 ratepayers by occupying the Public Consumer Group seat on the Midwest ISO Advisory
121 Committee. The three seats assigned to State Regulatory Authorities on the Advisory
122 Committee are currently held by Iowa Utilities Board Chair Diane Munns, Commissioner
123 Kevin Wright of the Illinois Commerce Commission, and Commissioner Gaw of this
124 Commission. My senior staff and I have held meetings with regulators from Missouri,
125 Kansas, Oklahoma and Arkansas in recent months. We will continue to work with the
126 Missouri Commission, its Staff, and the Missouri Office of the Public Counsel to address
127 their concerns.

128 Q. Mr. Ryan Kind in his Rebuttal Testimony at page 19, lines 10-12, stated that Midwest
129 ISO began providing transmission service on February 21, 2002. Is that correct?

130 A. No. Midwest ISO began operations on December 15, 2001, providing reliability
131 coordination to Midwest ISO transmission owners and their customers. At that time,
132 Midwest ISO also initiated its procedures for operations planning, generation
133 interconnection, maintenance coordination, long-term regional planning, market
134 monitoring and dispute resolution. On February 1, 2002, Midwest ISO fully
135 implemented its tariff by providing regional transmission service for the movement of
136 bulk power throughout the MISO footprint.

137 Q. Mr. Kind in his Rebuttal Testimony at page 6, lines 12-16, stated that Midwest ISO
138 retained its current name after FERC approved it as a Regional Transmission
139 Organization ("RTO"). Is this true?

140 A. Yes. The name of the corporation from its incorporation in March, 1998 has been
141 Midwest Independent Transmission System Operator, Inc., and it has been known as
142 "Midwest ISO" or "MISO," even prior to receiving FERC's conditional acceptance later
143 in 1998 permitting it to act as an ISO. As noted above, Midwest ISO did not begin
144 operating as an ISO until December 15, 2001.

145 When FERC granted MISO status as an RTO on December 20, 2001, pursuant to
146 Order 2000, Midwest ISO did not change its name. At that time it was pursuing a
147 proposed business combination with SPP. The Boards of both MISO and SPP had
148 resolved to change the name of the successor corporation, but with the mutual
149 termination of the merger in March 2003, a name change has not been a high priority.

150 No transmission owner, customer, regulator or other industry participant has ever
151 complained to me or otherwise critically commented that MISO's failure to change its
152 name since being granted RTO status in December, 2001 was either inappropriate or
153 misleading.

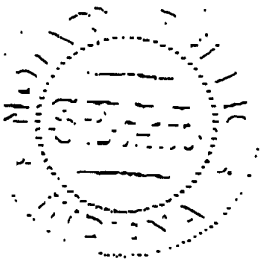
154 Q. Does this conclude your testimony?

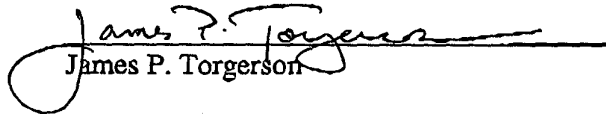
155 A. Yes.

STATE OF INDIANA)
) SS:
COUNTY OF HAMILTON)

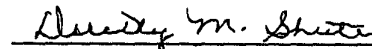
AFFIDAVIT

I, James P. Torgerson, being first duly sworn, state that the foregoing Testimony was prepared by me or under my direction. I have reviewed the foregoing Testimony and it is true to the best of my knowledge, information and belief.




James P. Torgerson

Subscribed and sworn to before me this 2nd day of June, 2003.


Dorothy M. Shute
Notary Public, State of Indiana
My County of Residence: Hendricks
My Commission Expires: May 8, 2009