

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

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FEDERAL ENERGY
REGULATORY COMMISSION

Alliance Cos., et al.) Docket Nos. EL02-65 and
) and RT01-88

**MOTION OF AMEREN SERVICES COMPANY
REQUESTING PROMPT COMMISSION ACTION ON SEAMS ISSUES**

Pursuant to Rule 212 of the Federal Energy Regulatory Commission's ("Commission" or "FERC") Rules of Practice and Procedure, 18 C.F.R. § 385.212, Ameren Services Company ("Ameren"), as agent for its electric utility affiliates Union Electric Company ("AmerenUE") and Central Illinois Public Service Company ("AmerenCIPS"), hereby submits this Motion Requesting Prompt Commission Action on Seams Issues that would result from the Commission's expected decision to conditionally permit Commonwealth Edison Company ("ComEd") and Illinois Power Company ("Illinois Power") to join the Pennsylvania-Jersey-Maryland Interconnection ("PJM" or the "PJM Interconnection") rather than the Midwest Independent Transmission System Operator, Inc. ("Midwest ISO"), the same Regional Transmission Organization ("RTO") that Ameren has proposed to join. If appropriate measures are not implemented prior to the operation of the new RTO configuration, this configuration has the potential to cause substantial and irreparable harm to Ameren, its customers and others in the Midwest. These proposed measures are discussed below.

I. Introduction.

Ameren, ComEd and Illinois Power all serve customers, including bundled retail customers located in Illinois. Ameren is concerned that while the Commission seems willing to honor the voluntary choices made by the other Illinois companies, which are clearly less than ideal, seams issues may not be adequately addressed prior to operation of the new RTO configuration. Having the Illinois companies in different RTOs will create a huge seam in Illinois, which without immediate mitigation, will make things substantially worse than having the Illinois companies not participate in any RTO at all. Specifically, the proposed configuration will make it more difficult to manage congestion and address loop flows in and around Illinois, will increase rate pancaking and distort markets, and raises reliability concerns. While the Midwest ISO and PJM have indicated that they intend to have a common market design in place by 2005 that is intended to address many of these issues, this will not be soon enough. In order to protect customers, markets and reliability today, these seams issues, including rate issues, must be addressed prior to the operational date of the new configuration, and cannot wait until 2005.

The solution is simple, but needs immediate action. As part of the settlement in Illinois Power Company, Docket No. E01-123, members of the Midwest ISO and the Alliance RTO agreed to an Inter-RTO Cooperation Agreement ("IRCA") for the creation of seamless markets in the Midwest, and which obliged the parties to develop a single Super-Regional Rate mechanism that would eliminate rate pancaking between the Midwest ISO and the Alliance RTO, along with appropriate mechanisms to address seams issues, including operational, reliability and market interface issues, between the Midwest ISO and Alliance RTO. The Commission should condition the proposed new configuration upon the development and

implementation of similar agreements, including resolution of the rate pancaking issues, to be approved by the FERC prior to implementation, but no later than December 1, 2002. If agreements are not reached by that time, FERC should consider other remedial actions, including different RTO configurations. Under no circumstance should implementation begin without final resolution of these issues. If the Commission does not address these issues promptly and upfront to protect ratepayers and consumers in Illinois and elsewhere in the Midwest, Ameren may be forced to consider each of its other options including, but not limited to, withdrawing our intention to join the Midwest ISO.

II. Background.

Prior to December, 2001, Ameren, ComEd and Illinois Power, along with American Electric Power Company ("AEP") and other utilities in the Midwest (collectively, the "Alliance Companies"), had planned to form the Alliance Regional Transmission Organization ("Alliance RTO") as a regional transmission organization conforming to FERC Order No. 2000. Ameren is directly interconnected with ComEd, Illinois Power and AEP. Formation of the Alliance RTO would have created a transmission grid that appropriately protected system reliability while permitting the Alliance Companies and their marketing affiliates to participate in competitive wholesale and retail markets throughout the entire Midwest region without paying multiple transmission charges. The FERC rejected the formation of the Alliance RTO and in Alliance Companies, et al., 99 FERC ¶ 61,105 (2002), required the Alliance Companies to explore folding the Alliance business plan under the Midwest ISO through Appendix I of the Midwest ISO agreement. Notably, one of the reasons for the Commission's rejection of the Alliance RTO was the failure of the Midwest ISO and Alliance RTO configuration and failure to fully implement

the IRCA, which demonstrates the importance of such an agreement in developing properly configured RTOs.

Pursuant to that requirement, Ameren advised the FERC by letter dated May 28, 2002 that it intended to participate in the Midwest ISO either as an individual transmission owner or as part of an Independent Transmission Company ("ITC").¹ Thereafter, on June 20, 2002, Ameren announced that it had entered into a letter of intent with FirstEnergy Corp., and Northern Indiana Public Service Company (collectively "GridAmerica Three"), and National Grid USA to establish terms for formation of GridAmerica, LLC to operate as an ITC within the Midwest ISO. On July 3, 2002, the GridAmerica Three, along with National Grid USA and the Midwest ISO, filed with FERC definitive agreements codifying the terms set forth in the letter of intent. In accordance with the agreements, National Grid USA or a subsidiary would manage the transmission assets of the GridAmerica Three, including Ameren, and would participate in the Midwest ISO on behalf of GridAmerica.

In contrast to Ameren, AEP, Com Ed and Illinois Power have elected to join PJM. As a result of these decisions, the efficacy of retail competition in Illinois and Ohio, two states that have adopted retail competition, will be drastically diminished, as Illinois and Ohio will be segmented multiple times by the seams between the Midwest ISO and PJM. Frankly, Ameren did not expect the other Illinois companies to be permitted to join PJM, given the location of the companies, and existing interconnections and trading patterns.

¹ Central Illinois Light Company ("CILCO"), which also serves customers in Illinois, previously joined the Midwest ISO. Ameren recently entered into an agreement to acquire CILCO, and has filed the necessary applications with the FERC to effectuate this acquisition.

As evidenced by its comments at the June 26, 2002 and July 17, 2002 open meetings, the Commission is fully aware of the urgency that all parties in the Midwest ISO (transmission customers and transmission owners alike) and the state commissions place on the goal of a seamless market. This motion for prompt action is being filed to inform the Commission of the potential pitfalls of not remedying the seams issues prior to the operational date of the new configuration.

III. Having the Illinois Companies In Multiple RTOs Will Create Significant Seams Issues Which The Commission Must Rectify Immediately, Prior To Implementation.

As discussed above, authorizing the proposed RTO configuration will significantly impact customers in Illinois and the development of retail competition in that state, and will result in a situation that is worse than the status quo, and much worse than what would have resulted had the IRCA, including the Super-Regional Rate, been implemented as proposed by the Alliance Companies. The protests and comments filed various intervenors including American Municipal Power-Ohio, Inc. ("AMP-Ohio") and Illinois Municipal Electric Agency ("IMEA") point to the difficulty of having load in two different RTOs and facing the through and out rate barrier of moving their own generation resources from the RTO wherein it is sited to load in the other RTO.² These parties have also filed a supplemental protest indicating that the FERC must impose meaningful and timely conditions to eliminate rate pancaking and other seams issues between the Midwest ISO and PJM at the outset, not some point years from now.³ If seams pricing issues are not resolved prior to implementation, these customers will be significantly

² Motion to Leave to Intervene and Protest of American Municipal Power - Ohio, Inc., Docket Nos. EL02-65, et al., at 4-5 (filed July 10, 2002); Motion to Intervene and Protest of Ameren Energy Marketing Company, the Illinois Municipal Electric Agency and Wabash Valley Power Association, Inc., Docket Nos. EL02-65, et al., at 5-6 (filed June 18, 2002).

³ Supplemental Protest of Ameren Energy Marketing Company, the Illinois Municipal Electric Agency, Wabash Valley Power Association, Inc. and American Municipal Power - Ohio, Inc., Docket Nos. EL02-65, et al., at 3 (filed July 13, 2002).

impacted from day one and each day thereafter until these issues have been resolved. It is evident that those who benefit from rate-pancaking will be slow to remedy this situation.

The through and out rates of each of the RTOs also raises a barrier to full-blown competition to serve retail and wholesale customers as the most competitive generation may be in the other RTO and thus "handicapped" by the cost of transmission required to reach the retail or wholesale load. Economics aside, the current situation is also administratively complex. There is no one-stop shopping if customers seek to cross the seams. Customers must deal with (and pay) more than one RTO.

Ameren fully sympathizes with many of the concerns expressed in these comments and protests with regard to the potential for lingering adverse effects of the irregular and extensive seam between the Midwest ISO and PJM. Ameren also welcomes the verbal guidance expressed by the Commissioners at the Commission's meeting of July 17, 2002 and pledge to work with the Midwest ISO, National Grid and other parties, including Midwest ISO stakeholders, to help eliminate the impact of the seam prior to implementation.

However, if the Illinois companies are in two RTOs, and steps are not taken to eliminate rate pancaking on Day One of the new configuration, Ameren's customers would be required to pay pancaked transmission charges in order to be able to participate in competitive wholesale and retail electric markets throughout much of Illinois and Ohio. Thus, the establishment of these significant market barriers is contrary to the intent FERC set forth in Order No. 2000 as the basis for RTO formation. The decisions of certain former Alliance Companies to participate in the PJM Interconnection while Ameren and others participate in the Midwest ISO also raises significant reliability concerns with which the Commission is well aware.

In a letter dated July 12, 2002, Ameren urged the Commissioners to move swiftly towards resolution of seams issues between the Midwest ISO and the PJM Interconnection in order to induce formation of robust and efficient wholesale and retail electricity markets without adversely affecting system reliability. As discussed in that letter, the resolution of such issues would require development of a super-regional rate for transmission service between RTOs and an adequate operational agreement to mitigate potential reliability concerns and other market interface issues such as one-stop shopping. It was Ameren's hope that if the Commission required the parties to implement any such mechanisms to be in place prior to the Illinois companies' transferring functional control or ownership of their facilities to an RTO, the significant adverse effects as a result of the market separating RTO seam in Illinois where competition is developing would be mitigated. The effective participation of Ameren and all Midwestern utilities in those markets, if properly permitted to do so, would significantly enhance competition and help to reduce and stabilize electricity prices throughout those markets and the Midwest as a whole.

The decisions of AEP, Com Ed, Illinois Power, and other utilities previously participating in the Alliance RTO to join the PJM Interconnection instead of the Midwest ISO were discussed at length during the FERC meeting on July 17. Nothing said by participants during that meeting allayed Ameren's concerns that participation of Illinois and Ohio utilities in different RTOs without prompt and reasonable resolution of seams issues would significantly impair retail competition and create reliability concerns in the region. Nevertheless, despite the concerns expressed by Chairman Wood regarding transmission rate pancaking, it appears as though the FERC is willing to accept the decisions of each of the former Alliance Companies to join the Midwest ISO or the PJM Interconnection subject to certain conditions. Delaying resolution of

these complex seams issues for any amount of time into the future is unacceptable to both Ameren and its customers (as witnessed by protests and comments filed by these customers), would hinder the development of retail competition in Illinois and other states segregated by these seams, and would be contrary to the public interest. In addition, failure to address these issues at this point may also lead to a patchwork solution, and improperly configured RTOs that will be difficult to unravel.

Ameren's decision to transfer functional control of its transmission facilities to GridAmerica, which would operate as an ITC within the Midwest ISO, was based on its expectation that the FERC would seek prompt and reasonable resolution of seams issues between the Midwest ISO and the PJM Interconnection if the designations stand. Unless the FERC acts appropriately to protect Ameren's interest in being able to supply competitive electricity markets throughout Illinois and Ohio while participating in GridAmerica, and assuring reliable and seamless market operations, it will be necessary for Ameren to reconsider its prior decision as to which RTO to participate in, and when that participation should begin. While Ameren would not make any such decisions lightly, it is important that the Commission understand the impact of any failure to address these issues in a prompt and timely manner.

Throughout this process, Ameren has cooperated with and supported the FERC's policy to further competition in the wholesale and retail electricity markets through logical and effective formation of RTOs. This Commission has been well-aware, for some time, of these minimal requisites of the market-place. Nevertheless, the failure of the Commission to require prompt and reasonable resolution of these seams issues in a manner that appropriately resolves potential operational and reliability concerns and eliminates the significant competition-harming market barriers sends a strong message to all companies regulated by this Commission – i.e., companies

that are recalcitrant (and not those that cooperate and support) will have their demands satisfied, even at the expense of market participants and effective competition. If these issues are not addressed, Ameren will be compelled to reconsider all of its alternatives including, but not limited to, withholding its participation in the Midwest ISO until such time as these issues are addressed to Ameren's satisfaction, joining PJM, or such other further alternatives as may be in the interest of Ameren, its affiliates and its customers.

Finally, Ameren is aware of the recent decision by the United States Court of Appeals in Atlantic City Elec. Co. v. FERC, D.C. Cir. No. 97-1709 (July 12, 2002). However, this decision does not interfere in any way with the Commission's ability and duty to ensure that RTOs are structured correctly, and that the necessary mechanisms are in place to ensure that consumers and other parties are not harmed by the implementation of these RTOs. Ameren understands this Commission's desire to take a step, however small, toward the initial operation of the parties' designated RTOs, however, there can be no doubt that without immediate resolution of the aforementioned issues, this first step could be off the edge of a cliff instead of a meaningful enlightened step toward final implementation of the RTOs.

IV. Conclusion.

The Commission must take prompt and meaningful action to address the seams that will result from having the Illinois companies participate in multiple RTOs. Ameren believes that the Commission's approval of the Alliance Companies choices must be conditioned upon:


- I. Development of an inter-RTO agreement between the Midwest ISO and PJM similar to that called for in the IRCA that specifies operational relationships that have been approved by NERC to assure reliability, as well as market interface

relationships, such as one-stop shopping, to assure seamless market access to both RTOs, and

2. Application of a Super-Regional Rate to dissolve the harmful rate barrier between the two RTOs. The Super-Regional Rate methodology filed by the Alliance Companies and previously reviewed by the Commission would be an appropriate solution.

These conditions must be satisfied prior to the Companies' initial operation in their designated RTO. In order to continue to move toward effective RTOs in a timely manner, the Commission should require that the Midwest ISO, PJM, and the former Alliance Companies meet these conditions prior to December 1, 2002. Otherwise, the Commission should take action to reconfigure the RTOs in a more logical manner to resolve the seam, or take such other action as the Commission deems appropriate at the time to resolve the seams issue.

Respectfully submitted,

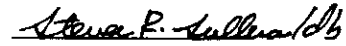

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July 25, 2002

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at St. Louis, Missouri, this 25th day of July, 2002.


Steven R. Sullivan
Ameren Services Company