

Exhibit No.:  
Issues: Response to OPC Witness  
Ryan Kind and Staff  
Witness Dr. Michael Proctor  
Witness: David A. Whiteley  
Type of Exhibit: Surrebuttal Testimony  
Sponsoring Party: Union Electric Company  
Case No.: EO-2003-0271  
Date Testimony Prepared: June 3, 2003

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. EO-2003-0271**

**SURREBUTTAL TESTIMONY**

**OF**

**DAVID A. WHITELEY**

**ON BEHALF OF**

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

**St. Louis, Missouri  
June, 2003**

**\*\*Denotes Highly Confidential Information\*\***

**NP**

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

Application of Union Electric Company )  
for Authority to participate in the Midwest )  
ISO through a contractual relationship )  
with GridAmerica )


Case No. EO-2003-0271

**AFFIDAVIT OF DAVID A. WHITELEY**

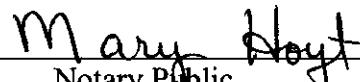
**STATE OF MISSOURI**     )  
                                      ) ss  
**CITY OF ST. LOUIS**     )

David A. Whiteley, being first duly sworn on his oath, states:

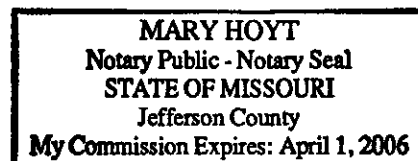
1.     My name is David A. Whiteley. I work in St. Louis, Missouri, and I am employed by Ameren Services Company as a Senior Vice President.
2.     Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Union Electric Company d/b/a AmerenUE consisting of 19 pages, which 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.

  
\_\_\_\_\_  
David A. Whiteley

Subscribed and sworn to before me this 2<sup>nd</sup> day of June, 2003.

  
\_\_\_\_\_  
Notary Public

My commission expires: 4-1-2006



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**SURREBUTTAL TESTIMONY**

**OF**

**DAVID A. WHITELEY**

**CASE NO. EO-2003-0271**

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

A. My name is David A. Whiteley. My business address is Ameren Services Company, One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

**Q. Are you the same David A. Whiteley who provided direct testimony in this proceeding?**

A. Yes, I am.

**Q. Has your position or areas of responsibility at Ameren Services changed since you filed direct testimony in this proceeding?**

A. No, they have not.

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

A. I will be responding to the rebuttal testimony filed by OPC witness Ryan Kind and Staff witness Dr. Michael Proctor. The fact that I have not responded in this surrebuttal testimony to a particular issue raised or position taken by other witnesses who have filed rebuttal testimony in this case, or to all of the issues raised or positions taken by Mr. Kind or Dr. Proctor, should not be construed to mean that I agree with or support such issues or positions.

**I. RESPONSE TO OPC WITNESS KIND'S REBUTTAL  
TESTIMONY**

**A. Response to Issues relating to the scope of this case.**

**Q. What is Mr. Kind's basis for alleging that AmerenUE's participation in the Midwest ISO through a contractual relationship with GridAmerica is detrimental to the public interest?**

A. Mr. Kind claims that by virtue of AmerenUE taking service from any Regional Transmission Organization ("RTO"), including the Midwest ISO, the MoPSC will lose its jurisdiction over the transmission component of bundled retail rates. He also expresses concerns about bundled load losing its priority use of the transmission system.

**Q. Does Mr. Kind have any other important bases for opposing the Company's application?**

A. Mr. Kind's rebuttal testimony strongly suggests that nearly all of his concerns arise from uncertainty with regard to what final FERC rules and policies governing RTOs in general will look like in the post-SMD NOPR period. Mr. Kind essentially advocates deferring all RTO participation by all Missouri utilities until numerous, future issues are resolved.

**Q. Do Mr. Kind's concerns about these uncertainties in final FERC rules and policy have anything to do with GridAmerica?**

A. No. Aside from a few ITC-specific comments, including five points I discuss below that relate specifically to GridAmerica (or to ITCs in general), almost all of Mr. Kind's concerns or criticisms are directed at RTO policy in general, or Midwest ISO participation in general, and have absolutely nothing to do with GridAmerica.

1           **Q.     What is your understanding of the permission sought by the**  
2           **Company's application in this case?**

3           A.     For years I have understood that the Commission had ordered the  
4           Company to participate in an ISO, and had approved the Company's participation in the  
5           Midwest ISO as a direct transmission owner. It was my belief that after the Commission  
6           issued its order in November, 2002, dismissing our previous request to withdraw from the  
7           Midwest ISO to join the Alliance, that we were free to resume our direct participation in  
8           the Midwest ISO as a transmission owner without further MoPSC approval. But if we  
9           wanted to participate in another way (i.e., via an ITC), the Commission ordered us to  
10          seek its permission.

11          **Q.     Did Mr. Kind's rebuttal testimony impact your understanding of the**  
12          **Commission's prior orders?**

13          A.     No, but it indicates that Mr. Kind believes such orders should be  
14          substantially modified or that prior authorizations should be withdrawn because, as I  
15          noted above, nearly all of his criticisms and concerns deal with participation in the  
16          Midwest ISO (or any RTO) as a transmission owner and have nothing to do with  
17          GridAmerica (or ITCs).

18          **Q.     Do you believe such criticism and concerns belong in this case?**

19          A.     No, and we have indicated our position on these issues in the Motion our  
20          lawyers recently filed with the Commission dealing with the proper scope of this case and  
21          with objections to previously filed rebuttal testimony. FERC rules and policies regarding  
22          transmission in general, and RTOs and ISOs in particular, have been evolving for several  
23          years. If anything, there exists greater certainty about the direction FERC is headed in

1 this regard today than existed when the Company's participation in the Midwest ISO was  
2 previously approved. We believe this case is about whether participation in the Midwest  
3 ISO via GridAmerica as opposed to membership as a direct transmission owner is  
4 somehow detrimental to the public interest. Given that these broader issues have been  
5 raised, however, I will address Mr. Kind's specific points below.

6 **B. Response to Mr. Kind's specific points.**

7 **Q. Do you agree that the MoPSC will lose jurisdiction over bundled rates**  
8 **as a result of AmerenUE's participation in the Midwest ISO through a contractual**  
9 **relationship with GridAmerica?**

10 A. No. FERC has recently clarified that it will not assert jurisdiction over the  
11 transmission component of bundled retail rates. However, prior to this clarification, as  
12 Mr. Kind indicates in his rebuttal testimony, FERC has indicated through a number of  
13 orders that it will require all load, including bundled retail load, to be served under the  
14 RTO tariff. As a result, the rate set forth in the RTO tariff, absent FERC's recent  
15 clarification, could have become the transmission cost for bundled retail customers. And  
16 since the rate set in the RTO tariff is FERC jurisdictional, it follows that FERC would  
17 obtain jurisdiction over this aspect of the bundled retail rate. In fact, as a result of these  
18 prior orders requiring load to be served under the RTO tariff, AmerenUE also was unsure  
19 about the extent of the FERC's jurisdiction relative to bundled retail load.

20 \*\* \_\_\_\_\_

21 \_\_\_\_\_

22 \_\_\_\_\_

23 \_\_\_\_\_ \*\*

1           **Q.     What clarification has FERC provided that now leads AmerenUE to**  
2           **believe that FERC will not assert jurisdiction over the transmission component of**  
3           **bundled retail load?**

4           A.     On April 28, 2003, FERC issued a White Paper on Wholesale Power  
5           Market Platform (“WPMP Paper”) that clarified FERC’s position with regard to  
6           jurisdiction over the transmission component of bundled retail rates. In that WPMP  
7           Paper, FERC indicated that it “will not assert jurisdiction over the transmission rate  
8           component of bundled retail sales of electricity.” (WPMP Paper, Appendix at p. 4)

9           **Q.     Even though it appears that FERC will not assert jurisdiction over the**  
10          **transmission component of bundled retail rates, do you agree with Mr. Kind’s**  
11          **assertion that there will be upward pressure on the transmission cost incurred by**  
12          **bundled retail customers as a result of AmerenUE’s participation in an RTO, more**  
13          **specifically the Midwest ISO?**

14          A.     Yes, upward pressure on transmission costs to bundled retail customers  
15          could occur. AmerenUE will be assessed administrative fees by the Midwest ISO  
16          pursuant to Schedules 10, 16 and 17 under the Midwest ISO Open Access Transmission  
17          Tariff (“OATT”) for all load served under the Midwest ISO OATT. Even though FERC  
18          clarified that it will not assert jurisdiction over the transmission component of bundled  
19          retail rates, it indicated in the WPMP Paper that all load would still need to take service  
20          under the RTO OATT.

21          **Q.     What is the amount of additional costs AmerenUE expects to incur as**  
22          **a result of these Midwest ISO administrative charges?**



1           A.     AmerenUE expects to incur approximately \$11.3 million per year in  
2     Schedules 10, 16 and 17 charges in order to serve its bundled retail customers in  
3     Missouri.

4           **Q.     Does AmerenUE expect to recover these Midwest ISO administrative**  
5     **costs to serve its bundled retail customers under the Midwest ISO OATT from its**  
6     **bundled retail customers through bundled rates established by the MoPSC?**

7           A.     Yes. If the MoPSC approves our application in this proceeding to  
8     participate in the Midwest ISO through a contractual arrangement with GridAmerica, we  
9     expect the MoPSC to consider all of the administrative fees that AmerenUE is assessed  
10    for serving its bundled retail load under the Midwest ISO OATT to be a prudently  
11    incurred expense (i.e., all administrative fees pursuant to Schedules 10, 16 and 17 and  
12    any other schedule established in the future for the purpose of funding the Midwest ISO's  
13    operations). As a result, these costs would be included by the MoPSC in the cost of  
14    service for rate-making purposes for bundled retail customers in AmerenUE's next  
15    MoPSC rate case.

16          **Q.     Aside from the administrative fees described above, are there any**  
17    **other rates, fees or charges that AmerenUE may incur to provide service to its**  
18    **bundled retail customers under the Midwest ISO OATT that AmerenUE would**  
19    **expect the MoPSC to deem as a prudent expense and thereby included in the cost of**  
20    **service for bundled retail customers?**

21          A.     Yes. AmerenUE expects that the MoPSC would deem all cost AmerenUE  
22    incurs from the Midwest ISO to make prudent purchases of capacity and/or energy to

1 serve its bundled retail customers to be considered a prudent expense and thereby  
2 included in the cost of service for bundled retail rate-making purposes.

3 **Q. Please describe what these other costs may be.**

4 A. The other costs would include congestion charges, charges to cover energy  
5 losses or other ancillary services, and lost revenue adders. Whenever AmerenUE  
6 purchases power to serve its bundled retail load it may incur one or more of these charges  
7 from the Midwest ISO.

8 **Q. Mr. Kind also claims that AmerenUE's participation in an RTO will**  
9 **cause bundled load to lose its priority use of the transmission system. Do you agree?**

10 A. No. I do not think that AmerenUE's participation in an RTO will cause  
11 bundled retail load to lose the priority use of the transmission system granted to it  
12 initially by FERC Order No. 888. However, that initial priority granted under Order No.  
13 888 no longer exists for new bundled retail load growth. In my opinion FERC Order No.  
14 888 requires AmerenUE to provide non-discriminatory access to all users of its  
15 transmission system pursuant to its FERC approved OATT. Ameren has been providing  
16 this type of transmission service to all of its transmission service customers since the  
17 enactment of Order No. 888. Hence, today bundled retail load is provided the same  
18 access to the transmission system as all other users. If we provided our own bundled load  
19 with priority access to the transmission system (i.e., preserve transmission capability for  
20 serving retail load growth), we would be in violation of our own OATT and subject  
21 ourselves to complaint and potential damages.

22 **Q. How could AmerenUE be subject to damages as a result of providing**  
23 **priority access to its bundled retail load?**

1           A.     If Ameren denied another transmission customer access to its transmission  
2     system to preserve transmission capacity for its bundled retail load growth, the other  
3     transmission customer would have a basis for filing a complaint at FERC. If the FERC  
4     ultimately determined that the transmission customer was denied access to preserve  
5     transmission capacity for AmerenUE's bundled customers, the FERC would likely  
6     require immediate remedial action to take place (i.e., release the reserved capacity to the  
7     other transmission customer.) However, if the delay in reaching that conclusion caused  
8     the other user to lose a long-term power sale, Ameren also would be subject to damages.  
9     And, because there is no limitation of liability provision in the OATT, such damages  
10    would be unlimited.

11           **Q.     You mentioned above that Mr. Kind did raise a few issues that deal**  
12    **with GridAmerica or ITCs. What detriments to the public interest does Mr. Kind**  
13    **assert are associated directly with AmerenUE participating in the Midwest ISO**  
14    **through a contractual relationship with GridAmerica rather than as a direct**  
15    **transmission owner as previously approved by the MoPSC?**

16           A.     Mr. Kind lists five things associated with AmerenUE's contractual  
17    relationship that he alleges are detrimental to the public interest.

18           **Q.     What are the five things he lists?**

19           A.     1)     Mr. Kind alleges that the two-tier structure of GridAmerica  
20    operating as an independent transmission company within the Midwest ISO is less  
21    efficient and less effective and GridAmerica is poorly configured;

22                   2)     Mr. Kind alleges that the lost revenue retention that AmerenUE  
23    states as a benefit of its contractual relationship with GridAmerica is purely speculative

1 since FERC has not issued a final order regarding GridAmerica's lost revenue retention  
2 proposal;

3 3) Mr. Kind alleges that the Independent Transmission Company  
4 ("ITC") business model has no track record of providing benefits to electric consumers in  
5 the United States;

6 4) Mr. Kind alleges that the FERC's and the MoPSC's decisions to  
7 allow AmerenUE to participate in an ITC or in an RTO constitutes a "significant change  
8 in federal or state utility laws or regulation" that would release AmerenUE from its  
9 obligations under Section 3 of the Stipulation and Agreement in Case No. EC-2002-1 to  
10 not file a general rate increase case before January 1, 2006; and

11 5) Mr. Kind alleges that there is an increased risk that AmerenUE will  
12 seek to benefit its shareholders by divesting its transmission assets pursuant to the  
13 arrangements set forth in the GridAmerica Master Agreement.

14 **Q. Are any of Mr. Kind's allegations of potential detriment valid?**

15 A. No, they are not as I discuss below.

16 **Q. Mr. Kind asserts that GridAmerica is poorly configured because it**  
17 **looks like a big-headed snake. Why is GridAmerica's configuration not a public**  
18 **detriment as alleged by Mr. Kind?**

19 A. While the configuration of the Midwest ISO could have a significant  
20 impact on the efficacy of the wholesale power market in the Midwest, the configuration  
21 of the GridAmerica ITC operating within the Midwest ISO will not. The configuration of  
22 the GridAmerica ITC will not create any market barriers within the Midwest ISO, nor  
23 will it exacerbate loop flows or impose market barriers between RTOs. In fact, the

1 GridAmerica ITC's primary purpose is to ensure that the transmission assets of the ITC  
2 are utilized at optimum efficiency levels when integrated with the operations of the other  
3 transmission assets functionally controlled by the Midwest ISO. The "shape" of an ITC  
4 operating within an RTO does not affect the scope and configuration of the RTO, which  
5 is important to promoting an effective and efficient wholesale power market within the  
6 RTO. Mr. Kind's criticism of the appearance of the GridAmerica footprint is therefore  
7 irrelevant and unfounded.

8 **Q. Does Mr. Kind provide a detailed explanation in his rebuttal**  
9 **testimony regarding why he thinks the configuration of the GridAmerica ITC is**  
10 **problematic?**

11 A. No, not really. Mr. Kind merely states in his rebuttal testimony that "it's  
12 difficult [for him] to imagine how an ITC would add rather than detract from the RTO's  
13 ability to perform [a number of] functions." (Kind Rebuttal at p. 40) However, Mr. Kind  
14 does not elaborate on why he believes that the GridAmerica ITC would be a detraction.

15 **Q. Do you agree with Mr. Kind's assumption that GridAmerica will**  
16 **detract from the Midwest ISO's operational effectiveness?**

17 A. No, I do not. The Midwest ISO and GridAmerica have carefully allocated  
18 their respective responsibilities consistent with FERC's prior orders. This allocation of  
19 responsibilities has been codified in the Appendix I ITC agreement executed by  
20 GridAmerica and the Midwest ISO and filed with FERC. It is my understanding that  
21 neither the Office of Public Counsel nor Staff of the MoPSC protested or even  
22 commented on the agreed upon allocation of responsibilities at FERC. Furthermore, if  
23 the allocation of responsibilities by and between the Midwest ISO and GridAmerica was

1 in fact detrimental to the functionality of the Midwest ISO as alleged by Mr. Kind, the  
2 FERC would not have accepted the allocation.

3 **Q. Mr. Kind also alleges that Missouri consumers will be adversely**  
4 **impacted due to the additional layer created by the presence of GridAmerica**  
5 **operating under the umbrella of the Midwest ISO. Moreover, Mr. Kind alleges that**  
6 **Missouri consumers will have to pick up the tab for what he describes as duplicative**  
7 **services being performed by GridAmerica. Do you agree with Mr. Kind's**  
8 **allegations?**

9 A. No, I do not. For the critical Midwest ISO operational issues,  
10 GridAmerica will not be an additional layer providing duplicative services as alleged by  
11 Mr. Kind. To the contrary, GridAmerica will be performing unique services as a  
12 contractor to the Midwest ISO. Absent GridAmerica, the Midwest ISO would have to  
13 allocate or acquire additional resources to perform the services to be performed by  
14 GridAmerica. Moreover, the presence of GridAmerica will not adversely impact the  
15 Midwest ISO's administrative cost adders. Thus, there will be no increase in the  
16 Midwest ISO's administrative cost to be imposed on Missouri's consumers as a result of  
17 AmerenUE's contractual relationship with GridAmerica.

18 **Q. Mr. Kind alleges that the lost revenue retention benefit touted by**  
19 **AmerenUE is purely speculative so therefore it cannot be considered beneficial. Do**  
20 **you agree?**

21 A. It is true that the lost revenue retention rate approach filed by the  
22 GridAmerica companies has not received final acceptance by FERC. However, the  
23 GridAmerica companies are actively engaged in settlement discussions with all of the

1 interested parties and believe that a settlement preserving a majority of AmerenUE's  
2 potential lost revenues is likely obtainable. I also find it interesting that Mr. Kind on one  
3 hand considers the lost revenue retention too speculative to be considered a benefit. On  
4 the other hand, Mr. Kind does not consider the originally proposed jurisdictional shift for  
5 the transmission component of bundled retail rates contained in the original Standard  
6 Market Design Notice of Proposed Rulemaking ("NOPR") to be speculative at all. Mr.  
7 Kind seems to believe it is a virtual certainty when, in reality, especially in light of the  
8 WPMP Paper where FERC has clarified that it will not assert jurisdiction over the  
9 transmission component of bundled retail rates, the jurisdictional concerns expressed by  
10 Mr. Kind appear to be far more speculative than AmerenUE's ability to retain lost  
11 revenues.

12 **Q. Mr. Kind questions the effectiveness of providing incentives to a for-**  
13 **profit ITC to encourage enhanced efficiency of transmission operations.**  
14 **Furthermore, Mr. Kind asserts that he is not aware of any studies documenting**  
15 **benefits created by a for-profit ITC business model in the U.S. Do you agree with**  
16 **these assertions?**

17 A. I agree that operational data documenting the success of for-profit ITCs is  
18 limited in the U.S. However, this is not due to any inherent flaw in the business model  
19 itself. It is due to the fact that the majority of transmission assets in this country continue  
20 to be owned by vertically integrated utilities. In Europe, where National Grid owns and  
21 operates the transmission system as a for-profit ITC, National Grid has greatly enhanced  
22 the operations of the transmission system. We believe that National Grid's successful  
23 experience in Europe will carry over to the transmission systems in the U.S.

1           **Q.     Mr. Kind further asserts that even if the for-profit ITC enhances the**  
2           **efficiency of the transmission system as a result of an incentive program, the savings**  
3           **will not flow through to consumers. Do you agree?**

4           A.     No, I do not. Keeping the cost of operating the transmission system down  
5           by efficiently alleviating congestion will certainly result in savings that are passed  
6           through to the consumer. Moreover, it does not matter whether the FERC or the MoPSC  
7           regulates the transmission component of bundled retail load for these savings to pass  
8           through. For example, if congestion is cost-effectively removed from the transmission  
9           system, that means the cost of removing the congestion was less than the cost of  
10          obtaining power from an alternate source. Creating cost-effective access to lower-cost  
11          power will in turn reduce the cost of service to the consumer. By reducing the cost of  
12          service to consumers, the consumers should also enjoy a corresponding reduction in the  
13          calculation of their rates.

14          **Q.     Another potential detriment identified by Mr. Kind is that the**  
15          **approval of AmerenUE's request to participate in the Midwest ISO through a**  
16          **contractual relationship with GridAmerica could constitute a significant change in**  
17          **federal or state utility laws or regulations that may allow AmerenUE to end the rate**  
18          **moratorium approved by the MoPSC in Case No. EC-2002-1. Do you agree?**

19          A.     I do not understand how Mr. Kind comes to this conclusion. AmerenUE  
20          has requested that the MoPSC approve AmerenUE's new form of participation in the  
21          Midwest ISO. Instead of participating in the Midwest ISO directly as a transmission  
22          owner, as previously approved by the MoPSC, AmerenUE intends to participate in the  
23          Midwest ISO through a contractual arrangement with GridAmerica. If the MoPSC



1 authorizes this form of participation by AmerenUE, AmerenUE will receive what it has  
2 requested from the MoPSC. It defies logic for AmerenUE to then assert, by virtue of  
3 getting what it requested, that there has been a significant change in federal or state utility  
4 laws or regulations. In fact, the more logical scenario is that AmerenUE could seek an  
5 end to the rate moratorium if the MoPSC fails to allow it to participate in the Midwest  
6 ISO, given the MoPSC's previous order authorizing AmerenUE to do so. This change in  
7 authorization could be construed to constitute a significant change in state utility  
8 regulation (i.e., AmerenUE is no longer allowed to participate in the Midwest ISO as  
9 previously approved). Irrespective of the outcome of this proceeding, due to the  
10 significant regulatory uncertainty that exists at FERC, AmerenUE cannot predict whether  
11 FERC may at some point impose a regulation that causes AmerenUE to request an end to  
12 the rate moratorium.

13 **Q. Mr. Kind has alleged that AmerenUE's participation in an ITC will**  
14 **increase the risk that AmerenUE will divest its transmission assets. Do you agree?**

15 A. Absolutely not. AmerenUE is free at any time to pursue divestiture or sale  
16 of any of its utility assets regardless of the provisions Mr. Kind references in the  
17 GridAmerica Master Agreement. However, Missouri statute is clear about the need for  
18 acquiring MoPSC approval prior to selling a utility asset that is necessary or useful in  
19 performing its duties to provide electric service to the public (See RSMo. 393.190). The  
20 mere fact that the Master Agreement provides a mechanism for divesting transmission  
21 assets to GridAmerica does not mean that any of the GridAmerica companies actually  
22 intends to divest its transmission. The put right contained in the Master Agreement is  
23 designed to encourage the GridAmerica companies to divest their transmission assets to

1 GridAmerica, if any of the GridAmerica companies have a desire to divest, versus  
2 divesting the assets to a third-party acquirer.

3 **II. RESPONSE TO STAFF WITNESS PROCTOR'S REBUTTAL**  
4 **TESTIMONY**

5  
6 **Q. In general, do you disagree with any aspects of the rebuttal testimony**  
7 **filed by Dr. Proctor?**

8 A. Since Dr. Proctor's testimony essentially supports the request made by  
9 AmerenUE in this proceeding, in general, I do not. However, I would like to respond to  
10 some of the conditions Dr. Proctor recommends that the MoPSC impose for final  
11 approval.

12 **Q. Will you be responding to all of the conditions recommended by**  
13 **Dr. Proctor?**

14 A. No, I will not. Company witnesses James Blessing and Richard Voytas  
15 will be responding to Dr. Proctor's recommendation to terminate the Joint Dispatch  
16 Agreement. I will be responding to the other conditions.

17 **Q. Dr. Proctor recommends that AmerenUE and the Staff of the MoPSC**  
18 **work together to develop a contract that will ensure that AmerenUE's bundled**  
19 **retail customers in Missouri continue to pay a transmission rate that is determined**  
20 **by the MoPSC. Once the contract is finalized, AmerenUE would submit the**  
21 **contract to the MoPSC and the FERC for approval. Dr. Proctor recommends that**  
22 **only after approval of the contract rate by FERC and the MoPSC is received should**  
23 **AmerenUE be granted final approval to participate in the Midwest ISO through a**  
24 **contractual relationship with GridAmerica. Do you have concerns with this**  
25 **approach?**

1           A.       Conceptually, I do not disagree with entering into some sort of contract as  
2 recommended by Dr. Proctor. However, I have significant concerns with conditioning  
3 AmerenUE's approval upon receipt of final orders accepting the contract from FERC and  
4 the MoPSC. In my opinion, determining the appropriate transmission rate applicable to  
5 Missouri's bundled retail customers will not be a simple task. It could take many months  
6 before a final structure is agreed to. Then, once a contract rate is developed, obtaining  
7 approval from FERC and the MoPSC could take several more months assuming the  
8 requested approval meets with little resistance in either regulatory jurisdiction. If  
9 AmerenUE has to wait until all of these approvals are received, it could be a year or more  
10 from the end of this case until AmerenUE would know whether it can proceed with its  
11 contractual arrangement with GridAmerica. Such a protracted delay in participation  
12 would cripple the integration of GridAmerica's operations into the Midwest ISO.  
13 Moreover, Dr. Proctor clearly states in his rebuttal testimony that he prefers that the  
14 Company participate in the Midwest ISO via GridAmerica. We believe the timing  
15 concerns expressed above may prevent that from happening.

16           **Q.       Dr. Proctor also recommends that AmerenUE and the Midwest ISO**  
17 **agree to work with Staff of the MoPSC to develop a plan for allocating Financial**  
18 **Transmission Rights ("FTRs") to cover AmerenUE's bundled retail customers.**  
19 **According to Dr. Proctor, the FTRs should cover the existing rights of bundled**  
20 **customers, including the ability to use generation resources outside of economic**  
21 **dispatch, and the FTRs should also cover future load growth. Do you have concerns**  
22 **with this recommendation?**

1           A.     Again, I have no problem with the objective of this recommendation.  
2     However, I am not sure that AmerenUE or the MoPSC can require the Midwest ISO to  
3     provide the level of FTRs that Dr. Proctor is requesting. I am sure the Midwest ISO will  
4     be cooperative in this regard. But the Midwest ISO also has to treat AmerenUE and its  
5     other transmission customers consistently. In other words, what the Midwest ISO agrees  
6     to do for AmerenUE it must be prepared to do for all of its other transmission customers.  
7     Furthermore, committing an amount of FTRs to cover future load growth may not be  
8     technically feasible or desirable from a market operations standpoint. At some point  
9     there just may not be enough FTRs available to cover bundled retail load. If this occurs,  
10    the only way to prevent the imposition of congestion charges would be to enhance the  
11    throughput of the transmission system to alleviate the anticipated congestion.

12           **Q.     To facilitate this recommendation, Dr. Proctor has requested that the**  
13    **MoPSC condition its final approval on AmerenUE performing an analysis of the**  
14    **financial risks it faces from the initial allocation of FTRs from the Midwest ISO.**  
15    **Dr. Proctor requests that the analysis be completed and submitted to the MoPSC for**  
16    **review and approval at least 30 days before comments are due at the FERC. The**  
17    **comments are due at FERC by August 1, 2003. Are you concerned with this**  
18    **requirement?**

19           A.     Yes, I am. While we agree that such an analysis is appropriate, we do not  
20    believe that the specific analysis Dr. Proctor requested can be meaningfully completed in  
21    the time requested. We are working with the Midwest ISO to identify the level of FTRs  
22    we believe will be needed to appropriately hedge our native load against the imposition  
23    of congestion charges. However, in the event that we are not able to acquire FTRs to

1 cover all of the dispatch permutations for serving bundled retail load, AmerenUE may be  
2 exposed initially or in the future to congestion charges. The magnitude and frequency at  
3 which such charges could occur would be impossible to predict at this early stage of  
4 market development. Thus, to impose on us at this early stage of market development an  
5 obligation to affirmatively predict our potential financial exposure to congestion charges  
6 is premature and may prove misleading. And in any event, this condition presents some  
7 of the same timing considerations and concerns discussed above relating to the  
8 development of a contract with the Midwest ISO.

9 **Q. Do you have a better approach than the one suggested by Dr.**  
10 **Proctor?**

11 A. Yes. A better approach would be to work with MoPSC Staff and the  
12 Midwest ISO to determine the optimum level of FTRs we all believe will provide  
13 AmerenUE with an appropriate hedge against potential congestion charges. Once the  
14 optimum level of FTRs is determined and the official allocation is complete, we can work  
15 with Staff to evaluate the potential financial risk as a result of this initial allocation.  
16 Importantly, there will be no immediate harm to Missouri's bundled customers as a result  
17 of this initial FTR allocation given the bundled retail rate moratorium that is in place in  
18 Missouri. Therefore, as more market data becomes available, we can work with Staff, the  
19 Midwest ISO and Grid America to determine whether additional FTRs are needed for  
20 periods beyond the rate moratorium. This sort of annual risk analysis is captured by Dr.  
21 Proctor's fourth condition in his rebuttal testimony, which we support.

22 **Q. Dr. Proctor also has suggested a condition be imposed on the Midwest**  
23 **ISO to provide as part of its filing on FTR allocations the analysis of financial risk**

1   **faced by AmerenUE. Furthermore, Dr. Proctor requests that the Midwest ISO**  
2   **provide AmerenUE with whatever information AmerenUE will require to complete**  
3   **its financial analysis. Do you have any concerns with this condition?**

4           A.     Yes, I do. My concerns with this condition are essentially the same as  
5   those I expressed regarding Dr. Proctor's previous condition set forth above. While I am  
6   sure the Midwest ISO will be cooperative and provide AmerenUE with information it  
7   possesses, the information that the Midwest ISO actually has may be limited at this time.  
8   Furthermore, since AmerenUE does not think it will be able to complete an analysis that  
9   meaningfully defines the financial risk it faces as a result of the initial FTR allocation, it  
10   follows that the Midwest ISO would not be able to submit such an analysis in its  
11   August 1, 2003 filing at FERC.

12           **Q.     Dr. Proctor also requests that the MoPSC condition its approval on**  
13   **AmerenUE's commitment to perform an ongoing analysis of the least-cost method**  
14   **for managing the financial risks from FTRs, including options from internal**  
15   **upgrades or expansions of AmerenUE's transmission system as well as options from**  
16   **responses to RFPs from GridAmerica for increasing transmission capability. Do**  
17   **you have any concerns with this condition?**

18           A.     No, I do not. The annual analysis requested by Dr. Proctor is reasonable.

19           **Q.     Does this conclude your Surrebuttal Testimony?**

20           A.     Yes, it does.