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reasons for RTO
participation via
relationship with
GridAmerica versus
other RTO options
Witness: David A. Whiteley
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MISSOURI PUBLIC SERVICE COMMISSION

Case No. EO-2003-0271

DIRECT TESTIMONY

OF

DAVID A. WHITELEY

ON BEHALF OF

UNION ELECTRIC COMPANY

d/b/a AmerenUE

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

DIRECT 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, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. What is your educational background and work experience?

A. I have a Bachelor of Science Degree in Electrical Engineering from Rose-Hulman Institute of Technology, Terre Haute, Indiana and a Master of Science Degree in Electrical Engineering from the University of Missouri-Rolla. I am also a registered Professional Engineer in the states of Missouri, Illinois, and Iowa. I have worked for Ameren Services and its predecessor Union Electric Company since 1978. During that period I have held various engineering and management positions in planning, design and operations.

Q. What is your present position with Ameren Services and what are your responsibilities?

A. My present position is Senior Vice-President, Ameren Services Company. During the 2001 and 2002 timeframe, my responsibilities included the oversight of the Energy Delivery Technical Services organization that is responsible for the operations, maintenance, planning, engineering design, and construction of all transmission facilities for AmerenUE and AmerenCIPS, the utility operating subsidiaries of Ameren Corporation¹. In addition to those

¹ Recently, the Energy Delivery Technical Services organization was moved under the oversight of Tom Voss, Senior Vice President, Customer Services. However, I have maintained responsibility for Ameren's transmission policy.

responsibilities, I also oversee the Corporate Planning and Supply Services Functions at Ameren Services Company.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide the Missouri Public Service Commission ("Commission") with: (I) information regarding the issues and events prompting AmerenUE to file its Application in this case; and (II) our reasoning for pursuing membership in the Midwest ISO through a contractual relationship with GridAmerica versus other Regional Transmission Organization ("RTO") options that were available to AmerenUE.

Q. Why did AmerenUE file an Application seeking the Commission's approval to participate in the Midwest ISO through a contractual relationship with GridAmerica?

A. In 2001, AmerenUE sought the Commission's approval to withdraw from the Midwest ISO to participate in the Alliance RTO by application in Commission Case No. EO-2001-684. AmerenUE sought the Commission's approval to withdraw from the Midwest ISO pursuant to the terms and conditions contained in the Commission's order in Case No. EO-98-413. However, on December 20, 2001, prior to the Commission rendering a decision in Case No. EO-2001-684, the Federal Energy Regulatory Commission ("FERC") issued an order denying RTO status to the Alliance RTO. As a result of this FERC order, AmerenUE's pending application with this Commission became moot. Following the FERC order, AmerenUE requested the Commission dismiss Case No. EO-2001-684, which the Commission granted. In the Commission's order dismissing case No. EO-2001-684, the Commission stated that it was the Commission's belief that if AmerenUE wanted to participate in the Midwest ISO on any basis other than that approved in Case No. EO-98-413, AmerenUE would be required to file a further application with the Commission, supported by written testimony, requesting the Commission's authority for such participation. More specifically, the Commission indicated that a new

application would be required for AmerenUE's participation in the Midwest ISO through membership in GridAmerica.

Q. Will AmerenUE be participating in the Midwest ISO as a member of GridAmerica?

A. No, AmerenUE will not be participating in the Midwest ISO through membership in GridAmerica. In order for AmerenUE to be a member of GridAmerica, AmerenUE would have to acquire an ownership interest in the limited liability company through the acquisition of shares. AmerenUE could acquire shares in the GridAmerica through divestiture of its transmission assets or other contributions. However, because AmerenUE is a market participant (i.e. it owns generation), AmerenUE's membership interest would have to be a passive interest. AmerenUE has no plans for divesting its transmission assets and has no intention of acquiring an ownership interest in GridAmerica.

Q. What will AmerenUE's relationship be with GridAmerica?

A. AmerenUE will have a contractual relationship with GridAmerica. The contractual relationship will provide GridAmerica with functional control of AmerenUE's transmission assets in accordance with the requirements set forth in FERC Order No. 2000. The functional control transferred to GridAmerica will not be exclusive. The Midwest ISO will also have functional control over certain aspects of AmerenUE's transmission assets via GridAmerica's participation in the Midwest ISO through Appendix I of the Midwest ISO ITC Agreement. AmerenUE witness, Dan Godar, is providing a more detailed explanation of the contractual relationship that AmerenUE will have with GridAmerica in his direct testimony and regarding the division of responsibilities between GridAmerica and the Midwest ISO.

Q. Is AmerenUE's relationship with GridAmerica any different than the relationship AmerenUE would have had as a “transmission owner” member of the Midwest ISO?

A. Not really. AmerenUE would have had the same contractual relationship with the Midwest ISO as it will have with GridAmerica. The only difference is that the Midwest ISO would have had exclusive functional control over AmerenUE's transmission assets. On the other hand, as I mentioned earlier in my testimony, GridAmerica's functional control will not be exclusive.

Q. Who determined what functions could be exclusively performed by GridAmerica and which ones needed to be performed under the oversight of the Midwest ISO?

A. The FERC. The FERC made this determination in orders issued in In re: Alliance, No. EL02-65-000 (April 25, 2002) and In re: Translink, No. EC01-156-000 (April 25, 2002), which delineated the functions that could be administered by an independent transmission company and those that must be administered directly by the RTO. The division of functions set forth in the ITC Agreement that GridAmerica will be executing with the Midwest ISO is consistent with the FERC's orders in the Alliance and Translink cases.

Q. If AmerenUE's relationship with GridAmerica is not significantly different than the relationship AmerenUE would have if it were a direct member of the Midwest ISO, why does AmerenUE want to participate in the Midwest ISO through GridAmerica?

A. There are a number of reasons why AmerenUE has chosen to pursue participation in the Midwest ISO through a contractual relationship with GridAmerica. First of all, when FERC issued its order on December 20, 2001 rejecting the Alliance RTO's request to become a FERC approved RTO, FERC recommended that the Alliance Companies pursue incorporating

the business model of the Alliance under the umbrella of the Midwest ISO. For some time after the FERC order was issued, the Alliance Companies attempted to achieve this objective. After conducting a number of meetings with the Midwest ISO, several of the Alliance Companies decided that it would be better to pursue RTO membership in the PJM RTO. In fact, there was a good deal of pressure placed on AmerenUE to pursue this course of action as well. However, AmerenUE recognized, during the course of litigating the Midwest ISO withdrawal case before the Missouri Commission, that the Missouri Commission had a strong desire to see all Missouri electric utilities in the same RTO. Mindful of this desire, AmerenUE broke away from the PJM movement. Instead, AmerenUE began discussions with the Midwest ISO on an individual basis. These discussions led to the Midwest ISO and Ameren executing a Memorandum of Understanding ("MOU") that was filed with FERC. This MOU committed AmerenUE to participate in the Midwest ISO as an transmission owning member or through an ITC. In exchange for this commitment, the Midwest ISO agreed to return, with interest, the \$18 million Ameren paid (\$12.5 million was paid by AmerenUE) to the Midwest ISO to exit the organization. In addition, the Midwest ISO agreed to reimburse Ameren for the cost it incurred to form the Alliance RTO.².

Q. Aside from the Midwest ISO returning the \$18 million and reimbursing some of the Alliance RTO startup costs incurred by Ameren, were there any other reasons AmerenUE chose to pursue membership in the Midwest ISO through GridAmerica?

A. Yes. AmerenUE's participation in GridAmerica allows AmerenUE and the other GridAmerica participants to pursue a revenue-neutral rate design. A revenue-neutral rate design continues to assess those who benefit from the use of the AmerenUE transmission system a

² During negotiations with the Midwest ISO, the companies participating in GridAmerica and the Midwest ISO reached tentatively agreement to cap the Alliance RTO start-up cost reimbursement at \$36.2 million for

corresponding cost for such use. Absent a revenue-neutral rate design, the entire cost of the AmerenUE transmission system would have to be borne by those customers directly connected to the system. In other words, AmerenUE's bundled retail load would have to bear almost the entire cost of the AmerenUE transmission assets even though the assets would continue to be used by other transmission customers. Ameren has estimated that it would lose approximately \$20 million per year in third party transmission revenues absent a revenue neutral rate design. As Mr. Linton states in his Direct Testimony, if Ameren were to directly participate in the Midwest ISO, Ameren would not be able to recover these lost revenues unless it could convince all of the other Midwest ISO participants to approve a lost revenue rate design. Ameren's attempt to do this prior to seeking permission to withdraw from the Midwest ISO back in 2001 was unsuccessful. There is no reason to believe that the outcome would be any different today.

Q. Since AmerenUE's bundled retail load is currently subject to a rate freeze through June 2006, will the additional revenues obtained by AmerenUE through a revenue neutral rate design have any impact on the cost of service for AmerenUE's bundled retail load?

A. Actually, the positive effects of a revenue neutral rate design have already been factored into AmerenUE's bundled retail rates. Since the test year used during AmerenUE's most recent rate case included revenues from third party transmission use, those third party revenues were deducted from the cost of service used during the rate case proceedings for AmerenUE's bundled retail load. Therefore, the revenue AmerenUE would continue receiving from third parties through the revenue-neutral rate design is equivalent to the transmission revenue credit reflected in the bundled retail rate settlement reached between AmerenUE and the Commission.

Q. Are there any other reasons why AmerenUE prefers to participate in the Midwest ISO through GridAmerica?

A. Yes. AmerenUE also believes in the for-profit business model that will be employed by GridAmerica. With properly structured performance based incentives³, AmerenUE believes that GridAmerica will have a greater incentive to functionally control AmerenUE's transmission assets in the most efficient way possible. On the other hand, the Midwest ISO, a not-for-profit organization, will not benefit from similar incentives.

Q. Will AmerenUE's participation in the Midwest ISO through GridAmerica result in higher zonal transmission rates for AmerenUE?

A. No. The cost that will be incurred by AmerenUE for transmission service to serve its bundled retail customers will be the same whether AmerenUE participates in the Midwest ISO directly or through GridAmerica. Ameren intends to use the same rate that it currently charges for transmission service under the Ameren OATT for its zonal rate.

Q. Will AmerenUE's participation in the Midwest ISO through GridAmerica result in a higher schedule 10 charge being assessed to AmerenUE?

A. No. AmerenUE will be required to pay the same schedule 10 charge to the Midwest ISO that all other Midwest ISO participants pay. The schedule 10 charge will be based on the load AmerenUE serves. This schedule 10 charge is assessed to all load under the Midwest ISO tariff, including AmerenUE's bundled retail load.

Q. How will GridAmerica acquire funding to run its operations?

A. GridAmerica will fund its operations through payments received directly from the Midwest ISO. The Midwest ISO has agreed to enter into an agreement with GridAmerica for

³ While specific performance based incentives have not been developed, Ameren firmly believes that only incentives that truly reward the users in proper proportion with the reward obtainable by GridAmerica would be acceptable.

various services in exchange for an annual payment of \$12 million. In addition to this \$12 million annual payment from the Midwest ISO, the GridAmerica participants will collectively pay GridAmerica an additional management fee of \$3.5 million per year for the first three years, with the fee being reduced to \$2.5 million in years four and five. The management fee will be allocated to the GridAmerica participants on the basis of net transmission plant, and AmerenUE's after-tax share of that fee is only approximately \$315,000 in years 1-3, and \$225,000 in years 4-5.

Q. Did AmerenUE conduct any formal “cost-benefit” analyses to validate its decision to participate in the Midwest ISO via its relationship with GridAmerica?

A. We did more formal studies when we were considering joining the Alliance RTO, but given the opportunity for a revenue-neutral rate design as discussed above and in Mr. Linton's Direct Testimony, our belief in the ITC business model and the proper incentives it provides, and AmerenUE's relatively small share of the management fee to be paid to GridAmerica, we made what we think is a very reasonable business judgment that the benefits of participating in GridAmerica not only are not detrimental to AmerenUE or the public interest, but are in the public interest. We are also mindful of the potential to realize AmerenUE's share of the revenues generated by incentive arrangements that GridAmerica intends to pursue. As noted by Mr. Godar in his direct testimony, the transmission owners in GridAmerica such as AmerenUE will receive 75% of all such incentive revenues.

Q. Do the agreements between AmerenUE and GridAmerica permit AmerenUE to divest its transmission assets to GridAmerica?

A. Yes. There are provisions in these agreements that provide GridAmerica with an option to purchase transmission assets from one or more of the GridAmerica participants if one or more of the GridAmerica participants wants to sell their transmission assets.

Q. Does AmerenUE have any plans for selling its transmission assets?

A. No. AmerenUE has no plans for selling its transmission assets.

Q. If AmerenUE decided to sell its transmission assets, would it be required to obtain Commission approval?

A. Yes. AmerenUE would be required pursuant to Section 393.190 of the Revised Statutes of Missouri to obtain Commission approval prior to selling its transmission assets to GridAmerica or any other party.

Q. Does this conclude your testimony?

A. Yes.