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Missouri Public Service Commission  
Attn: Secretary of the Commission  
200 Madison Street, Suite 100  
P.O. Box 360  
Jefferson City, Mo. 65102-0360

**FILED<sup>3</sup>**

JUN 03 2003

RE: Case No. EO-2003-0271

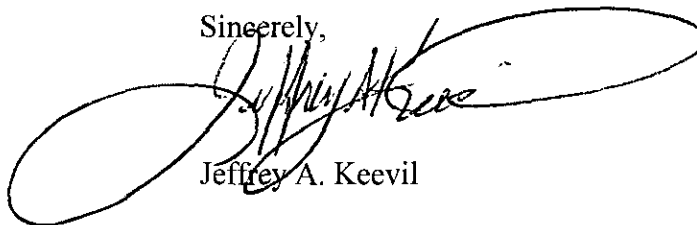
Missouri Public  
Service Commission

Dear Mr. Roberts:

Enclosed for filing in the above-referenced case is an original and the appropriate number of copies of the surrebuttal testimony of Mr. Paul J. Halas on behalf of National Grid USA. As reflected in the enclosed surrebuttal testimony, Mr. Halas is also adopting the direct testimony of Mr. Nicholas P. Winsor which was previously submitted in this proceeding on March 10, 2003, on behalf of National Grid USA.

Copies of this filing have on this date been mailed, hand-delivered, transmitted by facsimile or emailed to counsel of record. Thank you for your attention to this matter.

Sincerely,



Jeffrey A. Kevil

JAK/er  
Enclosures  
Cc: counsel of record

**ORIGINAL**

Exhibit No.:  
Issue: Transmission  
Witness: Paul J. Halas  
Type of Exhibit: Surrebuttal Testimony  
Sponsoring Party: National Grid USA  
Case No.: EO-2003-0271  
Date Testimony Prepared: May 30, 2003

**FILED<sup>3</sup>**

**JUN 03 2003**

**Missouri Public  
Service Commission**

**MISSOURI PUBLIC SERVICE COMMISSION**

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

**SURREBUTTAL TESTIMONY**

**OF**

**PAUL J. HALAS**

**ON**

**BEHALF OF**

**NATIONAL GRID USA**

**May 30, 2003**

**SURREBUTTAL TESTIMONY**

**OF**

**PAUL J. HALAS**

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

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

2           A.     My name is Paul J. Halas. My business address is Key Tower, 50<sup>th</sup>  
3 Floor, 127 Public Square, Cleveland, Ohio 44114.

4           **Q.     Have you previously submitted testimony in this proceeding?**

5           A.     No, I have not. However, in addition to submitting this surrebuttal  
6 testimony, I am adopting the Direct Testimony of Nicholas P. Winser submitted in this  
7 proceeding on March 10, 2003, on behalf of National Grid USA, as if it were my own  
8 testimony.

9           **Q.     What is your educational background and work experience?**

10          A.     I graduated with honors from both Harvard College (Economics) and  
11 Harvard Law School. My work experience includes serving as Vice President of  
12 Business Development for National Grid USA and as Special Counsel, where my  
13 primary focus has been on the developing marketplace for regional and national  
14 transmission of electricity. Prior to joining National Grid, I served as Vice President and  
15 General Counsel of AllEnergy Marketing Company, an unregulated power marketer; as  
16 Senior Vice President and General Counsel of Oak Industries, a NYSE listed

1 conglomerate; and as Assistant General Counsel and Treasurer of Timex Group Ltd., an  
2 international manufacturer and distributor of timepieces and other horological products.

3 **Q. What is your present position with National Grid and what are your**  
4 **responsibilities?**

5 A. My present position with National Grid is Senior Vice President and  
6 General Counsel for GridAmerica LLC ("GridAmerica"). I have been deeply involved in  
7 the development of the GridAmerica Independent Transmission Company ("ITC") and  
8 will be primarily focused on its further development from a regulatory and contractual  
9 standpoint.

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

11 A. The purpose of my surrebuttal testimony is to address some of the  
12 comments made by other parties to this proceeding in their rebuttal testimony.

13 **Q. Please explain.**

14 A. The Office of Public Counsel ("OPC"), through its Witness Kind,  
15 submitted rebuttal testimony with concerns regarding ITCs since there have not been  
16 "any studies which documents benefits of using a for profit ITC business model in the  
17 U.S.". As stated in Mr. Winsor's direct testimony, which I am adopting as my own, ITC-  
18 like structures have provided a significant benefit to consumers elsewhere in the world,  
19 and it is National Grid USA's intention to provide those benefits in the U.S. as well.

20 **Q. Can you provide any examples of similarities that might exist?**

21 A. Yes. For example, in the United Kingdom, National Grid increased the  
22 transmission system transfer capability by 44%, and in the last ten years, reduced the real  
23 cost of transmission by over 40%. Here in the U.S., GridAmerica's ability to calculate

1 the ATC/AFC on its own system, coordinate maintenance of generators and non-critical  
2 transmission facilities in its area, physically operate the transmission within its footprint,  
3 and develop expansion plans in its footprint all lead towards increasing the capability of  
4 the transmission system. Obviously, increasing the capability of the transmission system  
5 may lead to increased throughput on the system, increased reliability, and increased  
6 access to broader markets – the benefits of which all accrue to the users of the system.  
7 Certainly, for-profit business models exist throughout the world, and many economic  
8 studies and textbooks clearly denote the benefits of the use of incentive-based models to  
9 create economic efficiencies. The fact is that the transmission system in the U.S. “has  
10 not kept pace with the growth in generation and the increasing demand for electricity.  
11 Transmission bottlenecks threaten reliability and cost consumers hundreds of millions of  
12 dollars each year.”<sup>1</sup> Additionally, “investment in new transmission facilities has declined  
13 steadily for the last 25 years, (an average of \$117 Million per Year from 1975 levels) and  
14 projected growth is not adequate to ensure reliability and sustain continued growth of  
15 competitive regional wholesale electricity markets”<sup>2</sup>. With the right incentives, this  
16 aging transmission infrastructure can be updated and/or replaced with efficient and  
17 technologically-advanced systems which can provide market benefits, and a regulatory  
18 screening process will exist alongside those incentives to ensure overall market  
19 efficiencies are gained.

20 **Q. Do you agree with Mr. Kind’s statement that the “snake-like**  
21 **appearance” of GridAmerica does not lend itself to an effective and efficient ITC**  
22 **operation under an RTO umbrella?**

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<sup>1</sup> National Transmission Grid Study, Department of Energy, May 2002.

<sup>2</sup> Ibid.

1           A.     No, I do not. Regardless of the configuration of GridAmerica, the benefits  
2     and efficiencies of the ITC structure mentioned above will exist within any existing  
3     footprint. To be sure, a larger footprint will provide even greater opportunities for  
4     improvements, and GridAmerica will be working to expand its footprint.

5           **Q.     Please continue.**

6           A.     OPC also expressed concern with GridAmerica's commitment to  
7     implement FERC's SMD rule. While it is true that GridAmerica committed to  
8     "implement any necessary modification to its operations to support...locational margin  
9     pricing and other aspects of standard market design," OPC should not be concerned. The  
10    implementation of any such aspect within the MISO is subject to full stakeholder review  
11    at MISO and is not simply a unilateral decision made by the MISO. Obviously, it is the  
12    result of the full stakeholder process that enables beneficial aspects to come to fruition.  
13    GridAmerica is obligating itself to carry forward and implement those processes which  
14    pass the test of stakeholder review.

15          **Q.     Please address OPC's concern regarding GridAmerica being an**  
16    **"extra layer" between the Transmission Owners ("TOs") and MISO, and the**  
17    **inefficiencies of such an ITC.**

18          A.     GridAmerica is not an extra layer between the TOs and MISO. Rather, it  
19    is a focused funnel for transmission management between the TOs and MISO. The  
20    function of this GridAmerica "funnel" is to direct the attention to detail that is required to  
21    enable the transmission system to operate at its best in terms of efficiency and  
22    effectiveness, and to allow the TOs to more efficiently manage their other operations,  
23    knowing that the transmission system is in the best of hands. In fact, it appears that the

1 Staff's witness, Dr. Michael Proctor, recognized the benefits of allowing Ameren to join  
2 MISO through GridAmerica in that (a) GridAmerica's transmission rates will more  
3 directly relate to costs in GridAmerica's footprint and not those in the broader MISO  
4 footprint (Ex. Proctor at 11 ll. 1-11); and (b) GridAmerica's for-profit status will create  
5 earnings incentives to improve the operation of the transmission grid (Ex. Proctor at 13,  
6 ll. 1-12);

7 **Q. Does National Grid USA have further comments on the rebuttal**  
8 **testimony of Staff and OPC?**

9 A. Yes. Both OPC and the Staff cite the FERC's recent White Paper  
10 regarding RTOs. As indicated in Staff Witness Proctor's rebuttal testimony, the White  
11 Paper alleviates many of the jurisdictional ratemaking concerns raised in this proceeding.  
12 Specifically, the White Paper provides much credence to State authority in matters that  
13 may appear before FERC on Standard Market Design, notably decisional authority to  
14 regional state committees on pricing, planning and the unbundling of state ratemaking.

15 **Q. Are there other areas of Dr. Proctor's rebuttal testimony that you**  
16 **would like to address?**

17 A. Yes. Dr. Proctor states his preference for ITC structures in that they  
18 provide an advantage to consumers since the incentives in place will provide the basis for  
19 improving the operation of the grid, and thus, increasing the efficiency of the energy  
20 markets with a concomitant benefit to consumers. We could not agree more.

21 **Q. How do you respond to Dr. Proctor's discussion, in his rebuttal**  
22 **testimony, of National Grid USA's response to one of his data requests?**

1           A.     On Page 28-30 of his rebuttal testimony, Dr. Proctor appears to take issue  
2     with National Grid USA's response to one of the Commission Staff's data requests  
3     regarding GridAmerica's strategy to expand physical transmission capability in order "to  
4     provide sufficient FTRs to cover AmerenUE's bundled retail load." I would like to  
5     make clear that National Grid USA and GridAmerica agree with Dr. Proctor's position  
6     regarding construction of transmission to alleviate congestion, and National Grid USA  
7     may not initially have understood the thrust of the data request.

8           **Q.     Please explain.**

9           A.     In answering the data request referenced by Dr. Proctor, National Grid  
10    USA sought to emphasize the fact that GridAmerica would certainly expand the system  
11    to reduce congestion, but would not expand the transmission system just to receive FTRs.  
12    FTRs are financial hedges against congestion and not physical capacity rights. As such,  
13    GridAmerica as an independent transmission company would not be motivated to expand  
14    transmission capacity solely for the creation of FTRs. Nevertheless, as the data request  
15    response explained, "GridAmerica's focus is to employ aggressive approaches to mitigate  
16    congestion," which means that where congestion exists and is resulting in market  
17    dislocations, GridAmerica will employ cost effective solutions, whether they be upgrades  
18    to the transmission system or operational solutions, to reduce or eliminate such  
19    congestion costs. I believe this is entirely in line with Dr. Proctor's views and those of  
20    Ameren UE. (*See Ex. Proctor at 28 ll 7-22.*) To the extent that Dr. Proctor is concerned  
21    that GridAmerica may not seek to mitigate congestion costs for AmerenUE and its  
22    customers, we wish to alleviate any such concern. GridAmerica intends to align its  
23    interests with those of the consumers in reducing the market distortions caused by



1 congestion. Moreover, given GridAmerica's incentives as a for profit entity (which  
2 Doctor Proctor cites as a beneficial attribute), there is little concern that GridAmerica will  
3 choose solutions to congestion costs when the costs of such solutions are greater than the  
4 congestion costs themselves.

5 **Q. Dr. Proctor also mentions as a condition for approval in this**  
6 **proceeding that GridAmerica will submit proposals in response to RFPs from**  
7 **AmerenUE and make increased transmission capability available to AmerenUE**  
8 **under specified terms and conditions. What is your response to this proposed**  
9 **condition?**

10 A. GridAmerica will work alongside with AmerenUE and propose where  
11 expansions should be made on the system; however, the suggestion that GridAmerica  
12 should be only reactive rather than proactive to such needs would limit its ability to  
13 ensure transmission efficiencies are provided in a timely manner. In addition, having to  
14 comply with unknown "specified terms and conditions" could significantly restrict the  
15 parties' ability to make good economic decisions on such expansions--which decisions  
16 necessarily must be based on the circumstances at hand.

17 **Q. Does this conclude your surrebuttal testimony?**

18 A. Yes, it does.

(seal)