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October 30, 2003

Dale Hardy Roberts  
Secretary/Chief Regulatory Law Judge  
Public Service Commission  
P.O. Box 360  
Jefferson City, Missouri 65202

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

**OCT 31 2003**

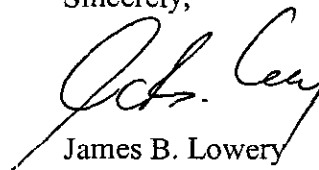
**Missouri Public  
Service Commission**

RE: In re: Application of Union Electric Company  
for Authority to Participate in the Midwest ISO through  
a contractual relationship with GridAmerica  
Case No. EO-2003-0271

Dear Secretary Roberts:

Enclosed are nine copies of the exhibits to the Company's Status Report filed electronically with the Commission on October 30. Copies of these exhibits have been served on all parties of record. Please include these exhibits with the appropriate copies of the status report as filed in your office and as distributed to the Commissioners. Thank you for your assistance.

Sincerely,



James B. Lowery  
Attorney for AmerenUE

Cc: Parties of Record (via email)

# **EXHIBIT 1 TO STATUS REPORT**

Statement of David A. Whiteley on Behalf of Ameren Services Company  
Supplementing Pre-Filed Testimony

**JONES DAY**

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WRITER'S DIRECT NUMBER:

202-879-5426

October 1, 2003

Magalie R. Salas  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington DC 20426

Re: **Ameren Services Company,**  
**Docket No. EL02-65-006**

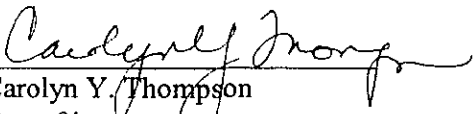
Dear Ms. Salas:

On September 29, 2003, David A. Whiteley, Senior Vice President, Ameren Services Company read into the record in the above-referenced proceeding the attached Statement of David A. Whiteley on behalf of Ameren Services Company Supplementing Pre-Filed Testimony.

Respectfully submitted,

**Ameren Services Company**

By

  
Carolyn Y. Thompson  
One of its attorneys

attachment

WAI-2078813v1

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

The New PJM Companies	)	Docket Nos.	ER03-262-001
American Electric Power Service Corp.	)		ER03-262-004
on behalf of its operating companies	)		ER03-262-005
Appalachian Power Company	)		ER03-262-007
Columbus Southern Power Company	)		
Indiana Michigan Power Company	)		
Kentucky Power Company	)		
Kingsport Power Company	)		
Ohio Power Company, and	)		
Wheeling Power Company;	)		
Commonwealth Edison Company and	)		
Commonwealth Edison Company of	)		
Indiana, Inc.;	)		
The Dayton Power and Light Company;	)		
and PJM Interconnection, LLC	)		
	)		
American Electric Power Company, Inc., and	)	Docket Nos.	EC98-40-000
Central and South West Corporation	)		ER98-2770-000
	)		ER98-2786-000
	)		
Ameren Services Company	)	Docket No.	EL02-65-006
	)		
Illinois Power Company	)	Docket Nos.	EL02-65-000 et al.
	)		RT01-88-016

**STATEMENT OF  
DAVID A. WHITELEY  
ON BEHALF OF  
AMEREN SERVICES COMPANY  
SUPPLEMENTING PRE-FILED TESTIMONY**

I would like to take this opportunity to provide a more focused assessment of Ameren's views on the appropriate scope and configuration for any Midwest RTO.<sup>1</sup>

A significant portion of Ameren's service territory is situated between territories served by Commonwealth Edison Company ("ComEd") and Illinois Power Company ("Illinois Power"). While Ameren would have preferred to have its neighbors join the Midwest ISO, it has

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<sup>1</sup> "Midwest RTO" means Midwest Regional Transmission Organization.

not yet protested the choices of ComEd and Illinois Power. Why? Because Ameren believed that the conditions that the Commission placed on the proposed PJM-Midwest ISO configuration would solve any reliability or market fragmentation issues. Notably, the promise of a joint PJM-Midwest ISO operational plan, a reliability plan approved by NERC, and the promise of a joint and common market without pancaked rates has promise for alleviating any operational and financial concerns that Ameren may have had. Additionally, in late 2002, Illinois Power announced an intention to join the Midwest ISO rather than PJM. This eliminated a significant portion of the seams on Ameren's borders.

We now believe, however, that it is appropriate to re-assess the state of affairs in this region given new and important developments, most notably the announcement by Ms. Moler today that, if Exelon acquires IP, it intends to take IP into PJM. This is a reversal of IP's previously stated intention to join MISO.

Let me start by saying that I remain confident that market and rate issues will be resolved within a reasonable time-frame. What then has changed to cause the need for a fresh assessment? Exelon has now publicly stated that it intends to take IP into PJM at the eleventh hour. This is a significantly destabilizing event at this time. The impact of this RTO membership change is exacerbated by two additional factors. First, the joint PJM-Midwest ISO operational plan has not yet been filed and, perhaps more significantly, NERC<sup>2</sup> has not approved a reliability plan.

Second, the August 14 blackout -- affecting 50 million people over a huge swath of the Eastern Interconnection -- requires the Commission to take action now which will ensure to the greatest extent possible that such an event will not happen again. Based on initial indications,

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<sup>2</sup> "NERC" stands for the North American Electric Reliability Council.

the August 14 blackout seems to highlight the fact that reliability will not be enhanced, but may be significantly hindered by having an intertwined PJM and MISO configuration. Even if a reliability plan can be devised and approved by NERC, isn't the point of RTO formation to *enhance* reliability and make coordination *less* complicated?

The aforementioned developments (or lack of developments in the case of the NERC reliability plan), taken together, present Ameren with the reality of being "sandwiched" between two PJM members within the State of Illinois. We cannot responsibly institutionalize these reliability seams on the heels of the largest blackout in the nation's history and, certainly, given these developments, Ameren cannot expeditiously proceed to settlement in the Missouri proceeding.

Ameren's preference frankly, would be to have the entire State of Illinois in the Midwest ISO. Having said that, ComEd has remained steadfast on its insistence in joining PJM, and Ameren could live with that choice. Unfortunately, if ComEd *and* Illinois Power were to join PJM, Ameren would have to re-assess its RTO decisions. To do otherwise would be irresponsible from a reliability perspective.

The Commission should, therefore, at the least, call on Illinois Power to re-affirm its commitment to join the Midwest ISO regardless of the results of Exelon and Dynegy's discussions regarding the acquisition of IP. Once this commitment has been re-affirmed, a timetable for expeditious integration should be constructed. In addition, I would note for this Commission that, under the terms of the Midwest ISO agreement, if IP were to join the Midwest ISO now, Exelon would be able to remove IP from the Midwest ISO once its acquisition had closed. Since Ameren is looking for long-term solutions to the RTO process we would

respectfully request that IP and Exelon make a long-term commitment for IP to remain in the Midwest ISO regardless of the outcome of their M&A activities.

Since Ameren's election in May 2002 to join the Midwest ISO, Ameren has done everything asked of it by the Commission and has diligently sought to fulfill its voluntary commitment to participate in an RTO. Ameren has even refrained from protesting the RTO choices of its neighbors, even if that may have proven to be quite problematic. Ameren cannot refrain from protesting any longer. The stakes are too high. Therefore, Ameren respectfully requests that the Commission use this forum to confirm Illinois Power's commitment to join the Midwest ISO regardless of the subsequent ownership of IP. We believe this is in the public interest. Otherwise, Ameren may be forced to re-assess its own good faith RTO commitments and, unfortunately, this re-assessment would be the direct result of the actions of other Illinois utilities.

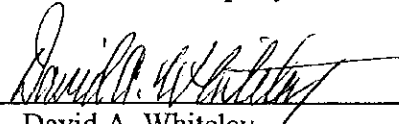
Ameren wishes to clarify that its statement here today should not be construed in any way by the Commission as an attempt to delay joining an RTO. Nothing could be further from the truth. Ameren remains committed to RTO membership and joining an RTO as expeditiously as possible. In sum, however, significant changes have recently occurred. Ensuring that Illinois Power joins the Midwest ISO -- as well as continued progress on other conditions as required by

the Commission in an expeditious manner -- should clear the way for Ameren's prompt integration into the Midwest ISO.

Respectfully submitted,

**Ameren Services Company**

By

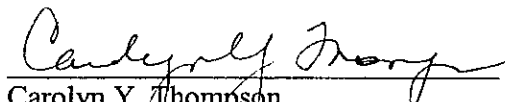
  
\_\_\_\_\_  
David A. Whiteley  
Senior Vice-President

WAI-2078287v2



**CERTIFICATE OF SERVICE**

I hereby certify that the foregoing document has been this day served on each party designated on the official service list compiled by the Secretary in Docket No. EL02-65-000.

  
\_\_\_\_\_  
Carolyn Y. Thompson  
Jones Day  
51 Louisiana Avenue, NW  
Washington DC 20001-2113  
(202) 879-5426

Dated this 1st day  
of October, 2003

## **EXHIBIT 2 TO STATUS REPORT**

**Excerpts from the Transcript of Proceedings Before the  
Federal Energy Regulatory Commission**

Excerpts from the Transcript of  
Proceedings Before the Federal Energy Regulatory Commission  
The Honorable William J. Cowan  
FERC Inquiry -- September 29, 2003

**Testimony of Elizabeth Anne Moler, Exelon Corporation, Executive Vice-President**

**Page 146, l. 22 through Page 147, l. 12**

Q. Thank you, Ms. Moler. Do you have anything to add to your testimony?

A. I would like to comment on two matters. First, after my testimony was filed, on Friday, Exelon Corporation and Dynegy issued a press release after the market closed on Friday, announcing that Exelon and Dynegy are in a period of exclusive discussions regarding the possible acquisition of Illinois Power by Exelon Corporation. It is a 45-day period from the time that the agreement was signed.

We are very hopeful that that negotiation will come to a successful conclusion. If that negotiation does come to a successful conclusion, and we hope it will, we would intend to file to put Illinois Power under PJM, rather than under MISO, thereby bringing the vast majority of Illinois into the same RTO, which we think would be a step forward.

**Page 164, l. 7 through Page 166, l. 9**

Q. Ms. Moler, I just have a couple of questions, if I could, to try to understand the Illinois Power transmission assets, if I could. You announced earlier that you are in discussions with Dynegy[sic] to purchase the Illinois Power Transmission Company assets.

A. Not just the transmission assets, the Illinois Power and transmission and distribution systems.

Q. And, if successful in that transaction, you would plan to take those to PJM, is that correct?

A. Yes sir.

Q. Could you give me some time line or some idea, if you were successful, how that would occur?

A. Mr. McGlaughlin, I really can't give you specifics about that now. We would obviously file an application to do the acquisition with this Commission. We are very circumscribed in what we are describing publicly right now. There's a press release. Mr. Altenbaumer will be appearing later. He has copies of the press release I believe he will submit for the Commission's record in this case.

But our goal would be to accomplish it as soon as we possibly could, obviously.

Q. I was curious and you may not be able to answer this, but I was curious, you stated that Exelon or Commonwealth Edison is ready to go. I just wasn't sure of the state of affairs with Illinois Power and I plan on asking them, but since Exelon may be the new owner, I thought I would at least ask.

A. Our goal would be as I said, to integrate Illinois Power, if the transaction, if satisfactory agreement is reached, and we get the necessary approvals from the Illinois officials and it may not only involve the Illinois Commerce Commission, as well as potentially the Illinois legislature, then our goal would be to integrate Illinois Power as quickly as possible.

Q. Would it be fair to assume, I think you stated the Commonwealth Edison transmission assets, you would plan on March 1 now of 2004. Do you have any idea, assuming you would be successful? I think you stated you had a 45 day period in which to negotiate now.

A. I am sorely tempted to give a date but it would simply be a plugged date. I could call it something else but I'm not in a position to say how quickly that would occur. It would depend on how quickly the Illinois Commerce Commission acts, how long it takes us to do definitive agreements between the two companies, how soon the ICC acts, how soon the Illinois legislature acts, quickly, importantly, how soon this Commission acts as well.

Q. So I shouldn't necessarily assume much other than the March 1 date or any other date at this time?

A. Not yet. We would be delighted to give you an update as soon as we have one.

Mr. McLaughlin: Nothing further.

**Testimony of Larry F. Altenbaumer, Illinois Power Company, President**

**Page 176, l. 19 through Page 177, l. 8**

Q. Before I ask you to summarize your testimony, are there any changes or corrections that you would like to make to your prepared direct testimony at this time?

A. Yes, there is, in light of the public announcements that were made on Friday by Dynergy [sic] and Exelon regarding discussions relating to the possible sale of Illinois Power to Dynergy [sic].

We will modify our activities with regard to RTO participation to take into consideration developments related to those discussions.

Consequently I want to amend my testimony on page 6 by stating that Illinois Power will continue to position itself to move forward with RTO membership as expeditiously as possible in a manner that is appropriately consistent with developments related to the Dynergy [sic] -Exelon discussions.

**Page 179, l. 6 through Page 180, l. 1**

In another effort that we also believe to be generally consistent with Commission objectives, Illinois Power reached agreement in the fourth quarter of 2002 to sell its transmission assets to TransElect.

As part of this agreement, and in deference to the desire of TransElect, we agreed to the process that would have placed Illinois Power's transmission assets back in the MISO RTO. That transaction, however, was not completed by the required July closing date, July of this year.

Correspondingly, during the period in the middle of this year, we have considered appropriate next steps related to IPE's transmission system. These considerations included simply joining an approved RTO, in a renewed effort to sell the transmission assets and, as announced Friday, a consideration for the sale of all of Illinois Power, including its transmission assets.

Clearly the decisions and actions taken by Illinois Power to become part of an approved TRO must be subordinated to other corporate decisions relating to all of Illinois Power company.

**Testimony of David A. Whiteley, Ameren Services Company, Senior Vice-President**

**Page 210, l. 25 through Page 212, l. 4**

You stated earlier that, given Illinois Power's decision to engage in discussions with Exelon, if ultimately that was fruitful and Exelon proposed to take Illinois Power to PJM, you'd have to reconsider your choices.

I take it that it's too soon to speculate on what choices you would have to reconsider? Can you give me some idea?

A. (Whiteley) I believe I said we'd need to reassess our RTO options. Yes, indeed, it is very early to understand what that would be.

What I could assure you is that all options would be reassessed. It doesn't necessarily mean there would be a chance[sic] in our direction, but it could.

Q. Then kind of just to summarize, do I understand correctly that right now with any luck, if all things go well, you should know within a month or two if you can reach an agreement within the Missouri proceeding. And then at that point, assuming that was successful, you'd need further authorization from the Illinois Commerce Commission at the FERC and, also during that period of time, I assume you would be assessing the situation with Illinois Power so that you could make a decision relative to moving forward with Grid America.

Is that a fair kind of summation?

A. (Whiteley) I believe that's a fair summation, with one exception. Given the announcements today and what we believe is the significant aspect that they cause in destabilizing the RTO footprints in the Midwest, we may not even be able to sign the Missouri stipulation, which would indeed hold up the process and necessarily delay it.

**Page 212, l. 11 through l. 21**

Q. I'd like to start with Illinois Power. When the Commission basically found that the Alliance companies-- that that was not a sufficient RTO, did Illinois Power elect to go to MISO or PJM?

A. (Whiteley) The first election was to PJM. That was in the late spring early summer of 2002 and before any of the conditions which this Commission correctly placed on those choices. Before any of those conditions could be met, Illinois Power changed direction and said they would join the Midwest ISO. That is the direction that they have held since late 2002.

Excerpts from the Transcript of  
Proceedings Before the Federal Energy Regulatory Commission  
The Honorable William J. Cowan  
FERC Inquiry -- September 30, 2003

**Testimony of James P. Torgerson, The Midwest Independent System Operator, Inc.,  
President**

**Page 266, l. 22 through Page 273, l. 19**

Q. Thank you. I'd like to shift gears a little bit and kind of maybe get a little closer to home and discuss some questions relative to Ameren's participation in the Midwest ISO.

Assuming Ameren was successful-- and they testified yesterday that they are working on a potential settlement in Missouri to address the Missouri Commission's and the parties' concerns there-- assuming that's successful and that they do reach settlement, could you give us some idea, from the Midwest ISO's perspective, how long it would take to integrate AEP, or are there any steps-- excuse me, I apologize. I think I said AEP. I meant Ameren.

A. I heard Ameren.  
(Laughter.)

The Witness: Actually the timeframe we need is really about 60 days, and 30 of those would be because the customers would schedule service, start scheduling 30 days in advance, so we really only need about 30 days, maybe even less than that to get them operational at this point.

Most of the work has been done to have them fully operational. The same is actually true for Illinois Power. We have been working with them for a long time, and we would only need about 30 days to get either one of them operational, because they are already modeled in our system.

The only thing we've got left to do is train some people at both ends to take care of data transfers and finalize some things related to cost matrices that have to occur right before they go live. So you're looking at 30 days and then another 30 days to start the scheduling.

Q. You raised the issue of Illinois Power. Just so I can understand, incorporating Ameren into the MidwestISO would not be contingent on Illinois Power's decision to participate in the Midwest ISO or in PJM; is that correct from the Midwest ISO's perspective?

A. From our perspective, it is not, that is correct. But I think Illinois Power-- Ameren is very key to the Midwest ISO. You have to understand that. We do not have connectivity between the eastern and western portions of the Midwest ISO without Ameren there.

If they aren't part of the Midwest ISO, you have to start looking at other options, perhaps doing a dynamic schedule across them or something, but they are very key to the Midwest ISO.

Q. When you say Ameren is key to the Midwest ISO, from the east and west, could you give me a little bit better understanding of what you're talking about there?

A. Sure. The companies on the other side of Ameren, the only lines that connect, let's say, Cinergy, the companies in Indiana, with those to the west of the Iowa companies, and then all the ones up in Wisconsin and Minnesota, Ameren is the only connection we have between them.

Without Ameren, you've bifurcated the Midwest ISO.

Q. Thank you. I appreciate that. Yesterday, I asked Mr. Whitely[sic] a question relative to the Missouri proceedings, and if a settlement was not able to be reached in that proceeding and they ended up having to go to litigation, or ended up taking a long time to work that out, the idea of potentially phasing Ameren's participation and having Ameren join the Midwest ISO now and Ameren UE join at a later date, I believe he identified some potential barriers to doing that.

I think one of them was the central dispatch in their control room. But from the Midwest ISO's perspective, would that make sense? Does it help? Could you give me some understanding of how that would play?

A. Without Ameren UE, that part of it creates the connectivity between the east and western portions of the Midwest ISO. Ameren CIPS, being in Illinois, doesn't provide all of that.

So, from our perspective, we really need them both, and, you know, I'd have to defer to Mr. Whitely [sic] on the economics of it. I don't know if they have been two separate control areas. I presume that at one time, they probably were. I assume that they have consolidated that since then.

From our perspective, is it feasible to bring in Ameren CIPS ahead of Ameren UE? It's feasible if we have the information and the data and they are able to give it to us.

That's going to be more the key, from Ameren CIPS alone. I don't even know that we've even looked at that as a possibility. I know we haven't looked at it.

I think it would be best to have Ameren in totality. Clearly, that's the best answer, and, as I said, with just Ameren CIPS, we still wouldn't have the connectivity we need from the east to the west.

Q. If I can understand it then, it's my understanding that Ameren CILCO is already a member of the Midwest ISO; is that correct?

A. That is true, yes.

Q. But to kind of take what I will call the potential incremental phased step of having Ameren CIPS participate in the Midwest ISO, really does not address the fundamental concerns, problems, or issues of the Midwest ISO, and that's connectivity between its east and west because of Ameren UE.

A. That's right.

(Pause.)

Q. I just have a couple more questions. Yesterday, it was discussed that the potential sale of Illinois Power and the purchase by Exelon, if that occurred, Exelon's proposal or view that it would want Illinois Power to participate in the PJM market, how, if at all, would that impact the Midwest ISO in its establishment of its energy markets or in other ways?

A. Well, I think it's more what the impact is going to be on Ameren just from establishing the energy markets. My concern there is, again, if people are given an option every time something changes, to change their decision on what RTO they are going to be in, it creates a lot of uncertainty.

I mean, Wall Street is going to be wondering what's going on. At least from the Midwest ISO's perspective, we're doing financings, and then to have things change again where there's more uncertainty, that's going to create a problem for me.

You end up with who's in, who's out. Are you going to be able to complete the market? Are you going to have a market if Ameren is not there?

So the decision of taking Illinois Power to PJM on the surface, it sounds like, well, that's okay.

But when you dig down deeper into it, it will create some problems. At least perceptions are going to have to be overcome if that occurs. Ameren's going to have some problems with it, as they stated yesterday.

So as soon as there is a perception of a problem, it creates uncertainty in the financial markets, which is going to be problematic for me when we try to finance the balance of our market options.

The question you asked was, will it impact the market? I think from that perspective it will because other companies are starting to look at, well, what if we do this or that? It just creates more uncertainty and then they start deciding maybe I want to be somewhere else or do something differently now.

So I think it could very well impact the market being put in. But from an operational standpoint solely, can we put a market in without Illinois Power? I guess the answer is yes. Are we going to be able to get it done is another issue just because of all the other issues it would create.

Q. I think you stated earlier that you have modeled the Illinois power system and are in a position that you could incorporate it into the Midwest ISO. I think you said in not 60 days?

A. It would be a maximum of 60 days. We have about two to three weeks of work to do. Then we have, we need 30 days for people to schedule service. They schedule 30 days in advance. That's why it would take about 60 days.

Q. Could you give me some idea of the resources expended in anticipation of Illinois Power's joining the Midwest ISO?

A. I'm not sure what we spent, Mr. McLaughlin. I know we've dedicated some resources to it just like we did with any entity that would be joining the Midwest ISO. We had commitments that we would repay the exit fee they had paid in the Midwest ISO. We were working with them on the return of the Alliance fee, which we were intending from the Commission, and working on financing that for them. I'd be guessing. I really don't know the number.

**Page 282, l. 16 through Page 283, l. 12**

Chairman Wood: The expectation that IP would be part of MISO comes from what event or what series of events?

The Witness: Once, I guess it was TransElect had an offer and had accepted to purchase the IP transmission assets. They had stated they would then bring



those assets into the Midwest ISO. We've had ongoing discussions with the Illinois Power folks. We had traded a memorandum of understanding which had not been executed that talked about how they would come in. That has been ongoing for months and we've been working directly with Illinois Power since the TransElect deal was struck to have them in the Midwest ISO, so it's been going on for quite a while.

Chairman Wood: One of your members, First Energy, is a member of both PJM and MISO. What issues arise when the same corporate parent has an operating utility in two different RTOs?

The Witness: To be honest, I have not heard of any operating issues that they've had. I think there may be some separation, but the old GPU assets are in PJM.

As of midnight tonight, First Energy in Northern Ohio and a piece of Pennsylvania will be in the Midwest ISO. I have not heard them talk about any operational issues.

**Testimony of Elizabeth Anne Moler, Exelon Corporation Executive Vice-President**

**Page 415, l. 10 through Page 416, l. 6**

I am bothered by one thing. That's why I rise to make this comment. Yesterday afternoon, Mr. Whiteley asserted that, if the transaction Exelon is contemplating where we would acquire a little more power were to occur and if we were to put IP and PJM rather than in MISO, it raises to him serious reliability concerns and he can no longer be quiet because there would be a piece of cheese in the sandwich surrounded by PJM.

I would simply point out that, when Ameren made the original ITO choice following the demise of the Alliance, that Com Ed and IP had both gone to PJM. Mr. Whiteley did not raise reliability concerns at that point.

There were numerous occasions during the last year, we'll validate them for the record, when IP could have done so. They did say they had economic concerns with the situation but they put that in the record but they did not raise reliability concerns.

So now there has been admittedly back and forth with IP but reliability is such a sensitive subject, certainly in Illinois, where we have both good days and bad days, that I thought, it is important to say that we know of no valid basis for such a reliability concern. Thank you.

**Testimony of David A. Whiteley, Ameren Services Company, Senior Vice-President**

**Page 418, l. 18 through Page 419, l. 3**

Ms. Moler has raised issues again with respect to timing and says she'll put additional comments in the record. Obviously I cannot respond to those because I have not seen what she will put in the record.

But rest assured Illinois Power's eleventh hour change, or I should say Commonwealth Edison's notice that they would, at the eleventh hour, change IP's designation of RTO is a surprise to Ameren. We will review it with respect to the commitments that this Commission imposed on that original choice.

With that, I'll conclude my rebuttal.

# **EXHIBIT 3 TO STATUS REPORT**

Supplemental Comments of Ameren Services Company

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

The New PJM Companies	)	Docket Nos.	ER03-262-001
American Electric Power Service Corp.	)		ER03-262-004
On behalf of its operating companies	)		ER03-262-005
Appalachian Power Company	)		ER03-262-007
Columbus Southern Power Company	)		
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Ohio Power Company, and	)		
Wheeling Power Company	)		
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American Electric Power Company, Inc., and	)	Docket Nos.	EC98-40-000
Central and South West Corporation	)		ER98-2770-000
	)		ER98-2786-000
Ameren Services Company	)	Docket No.	EL02-65-006
Illinois Power Company	)	Docket Nos.	EL02-65-000 et al.
	)		RT01-88-016

**SUPPLEMENTAL COMMENTS OF  
AMEREN SERVICES COMPANY**

Pursuant to the schedule established at the Commission's Inquiry into Midwest ISO-PJM Issues ("Inquiry") held September 29-30, 2003 at the Commission's headquarters, Ameren Services Company ("Ameren") submits these supplemental comments, focusing particularly on the proposal of American Electric Power Company ("AEP") to join the PJM Interconnection LLC ("PJM") on less than a fully integrated basis (the "AEP Proposal").

**I. Background**

On September 12, 2003, the Commission announced the Inquiry in order to address the current impasse with respect to the formation of Regional Transmission Organizations ("RTOs")

in the Midwest and to enter into a dialogue with the key players. The Commission asked parties to discuss impediments to RTO formation and to propose solutions in pre-filed testimony and the Commissioners and Commission Staff engaged these same parties in live questions and answers at the Inquiry.

In its pre-filed testimony, AEP acknowledged the impediments raised by certain of its state regulators and, as an interim solution, proposed to join PJM on less than a fully integrated basis. AEP characterizes its Proposal as the transfer of functional control to PJM to the extent contemplated by Order No. 2000.<sup>1</sup> AEP would exclude itself from PJM's day-ahead and real time energy and ancillary services market. AEP would not be subject to PJM's centralized economic dispatch or locational marginal pricing ("LMP").

Parties testifying at the Inquiry disagreed as to whether the AEP Proposal is sufficient, practical, possible or useful to advance RTO development, but all parties, including AEP, agreed that the AEP Proposal is, at bottom, a "Day One" proposal.<sup>2</sup> AEP anticipates that the earliest date on which it could be fully integrated into the PJM market is July 2004, assuming that the Virginia General Assembly does not extend its current prohibition, due to expire in July 2004, against RTO participation by Virginia utilities and that the Virginia and Kentucky Commissions accede to AEP's membership in PJM.

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<sup>1</sup> See pre-filed joint testimony of AEP witnesses Tomasky and Baker at page 30, lines 17-20; testimony of AEP witness Baker at transcript page 86, line 13 through page 87, line 9.

<sup>2</sup> See testimony of AEP witness Baker at transcript page 94, lines 6-14 and page 413, lines 21-23.

During the course of the Inquiry, the Commission directed certain parties to submit additional information for the record<sup>3</sup> and asked all parties to submit additional comments on or before October 9, 2003 on the AEP Proposal and other matters they wished to address.<sup>4</sup>

## II. Comments

### A. The Conditions in the Commission's July 31 Order

This Inquiry followed by fourteen months the Commission's order of July 31, 2002 (the "July 31 Order") accepting, *with conditions*, the RTO elections of the five utilities ordered to appear at the Inquiry, *i.e.*, Ameren, AEP, Commonwealth Edison Company ("ComEd"), Dayton Power and Light Company ("DPL") and Illinois Power Company ("IP"), and the elections of FirstEnergy Corp. ("First Energy") and Northern Indiana Public Service Company ("NIPSCO").<sup>5</sup> The July 31 Order is central to understanding the current RTO impasse.

The Commission imposed nine conditions on the parties' RTO elections, some of which the Commission appears prepared simply to overlook at this point, *e.g.*, the filing of an agreement among National Grid USA, AEP, ComEd and IP to form an Independent Transmission Company ("ITC") within PJM. The Commission viewed the participation of National Grid as independent managing member for ITCs in both RTOs as one of several means "to bridge both organizations and manage the seams between Midwest ISO and PJM until a common market is developed." 100 FERC at P 43. Ameren is aware of nothing on the record to date to explain the Commission's apparent reluctance as to this condition. That said, there are

<sup>3</sup> On October 3, 2003, Ameren filed with the Commission the additional information that Ameren was asked to provide with respect to the transmission investment of its three electric utilities.

<sup>4</sup> See, *e.g.*, request of Commissioner Nora Brownell at transcript page 195, lines 7-23, asking all parties to comment in ten (10) days. See also request of Chairman Pat Wood at transcript page 283, lines 5-13.

<sup>5</sup> The Commission anticipated that First Energy and NIPSCO would join the Midwest ISO on October 1, 2003 through their participation in the GridAmerica Independent Transmission Company ("GridAmerica") and did not ask First Energy or NIPSCO to participate in the Inquiry. GridAmerica did, in fact, "go live" within the Midwest ISO on October 1, 2003.

several linchpin conditions from the July 31 Order which nearly all parties testifying at the Inquiry labeled critical conditions precedent to the Commission's accepting the proposed configurations of PJM and the Midwest Independent Transmission System Operator Inc. (the "Midwest ISO"):

- (1) the establishment of a common market across the Midwest ISO and PJM by October 1, 2004 (the "Common Market Condition");
- (2) approval by the North American Electric Reliability Council ("NERC") of reliability plans reflecting the various RTO elections (the "NERC Reliability Condition");
- (3) the development of a joint operational agreement ("JOA") between the Midwest ISO and PJM to detail, *inter alia*, how the two RTOs will operate at the seams;
- (4) the resolution of rates for through and out service ("RTORs") and associated lost revenue recovery mechanisms to permit the elimination of rate pancaking across the proposed Midwest ISO-PJM border (the "RTOR Condition"); and
- (5) the resolution of connectivity issues in Michigan and Wisconsin created by the RTO choices of AEP, ComEd and IP (the "Loop Flow Condition").

None of these linchpin conditions have been met although the Midwest ISO and PJM separately testified at the Inquiry that they had been close to completing and filing the JOA to address the complexities of blending market-based congestion management (PJM) with non-market based congestion management (Midwest ISO) until the advent of a joint and common market in October 2004; seams management; and loop flows within Michigan and Wisconsin. The August 14, 2003 blackout has reprioritized and delayed the Midwest ISO's and PJM's individual internal reviews and joint submission of the JOA. Also, prior to the blackout, NERC appeared ready to submit a report finding no reliability concerns with ComEd's planned

November 1, 2003 participation in PJM, now also delayed until a reassessment can be completed in the wake of the August 14 blackout.

Equally essential to understanding of the RTO impasse is the current central difference between the Midwest ISO and PJM. PJM is a Day Two RTO with a fully functioning market and market-based congestion management. The Midwest ISO is, for the near term, a Day One RTO without a functioning market and, therefore, also without market-based congestion management, although the Midwest ISO is working diligently to implement both.

#### **B. The AEP Proposal**

Putting aside the vocal opposition of certain Classic PJM transmission owners to any expansion of PJM at this time<sup>6</sup> and the up to six months "holds" (occasioned by the August 14 blackout) on the JOA and on the reliability studies assessing the elections of AEP, ComEd and DPL to join PJM,<sup>7</sup> there still remain significant impediments to the companies joining PJM:

1. AEP does not have authorization from its various state commissions to join PJM.
2. The Commission has held that it would be unjust and unreasonable for any of the three companies to join PJM until RTORs are eliminated for transactions crossing the Midwest ISO-PJM border and lost revenue recovery mechanisms are addressed. These issues remain unresolved.

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<sup>6</sup> See testimony of John F. Sipics on behalf of PPL Electric Utilities Corporation at page 3, lines 9-15; page 6, line 20 through page 9, line 6.

<sup>7</sup> Although IP initially elected to join PJM, IP subsequently reversed course and indicated that it would join the Midwest ISO, as discussed in greater detail, *infra*. Accordingly, neither the JOA nor the reliability studies that would have been submitted to the Commission in September or October 2003, but for the blackout, contemplated or planned for IP as a member of PJM.



3. The Commission has held that it would be unjust and unreasonable for any of the three companies to join PJM until parties have addressed the Michigan-Wisconsin loop flow issues. These issues remain unresolved.
4. Strong opposition exists to ComEd's joining PJM in advance of AEP<sup>8</sup> and DPL itself maintains that it would be impractical and illogical for DPL to join PJM except in lockstep with AEP.<sup>9</sup>

Additionally, parties to the Inquiry focused on the following "problems" associated with the Day One aspect of the AEP Proposal:

- AEP is not a contemplated signatory to the JOA. Such participation would be essential if AEP is within PJM but not part of the market and market-based congestion management and, therefore, using transmission line relief ("TLR") or some other non-market based form of congestion management.<sup>10</sup>
- A partial integration of AEP may advantage AEP generation which could sell bilaterally into PJM but not itself be subject to the PJM market or PJM generation dispatch.<sup>11</sup> Market monitors have already expressed concern with the potential for market manipulation along the Midwest ISO-PJM seams and those concerns arose when the monitors previously assumed that AEP would be fully integrated

<sup>8</sup> See, e.g., pre-filed joint testimony of Mission Energy witnesses Mathis and Fahey at page 14, line 11 through page 18, line 10.

<sup>9</sup> See testimony of DPL witness Swanke at transcript page 188, lines 19-23.

<sup>10</sup> See, e.g., testimony of Midwest ISO witness Torgerson at transcript page 153, line 21 through page 154, line 8; testimony of PJM witness Wodyka at transcript page 234, lines 17-21; page 242, lines 12-18.

<sup>11</sup> See testimony of Edison Mission witness Fahey at transcript page 375, line 22 through page 376, line 15.

into PJM in the near future.<sup>12</sup> Presumably, such concerns would increase with AEP's participation on less than a fully integrated basis.

- An "interim" partial integration of AEP into PJM could evolve into a long-term arrangement without a defined ending date and would, at a minimum, require consultation with PJM transmission owners to accommodate the unexpected change in the manner of AEP's entering PJM.<sup>13</sup>

If the task is to reconcile the Commission's goal to see the five named utilities in a RTO in the short term and the preferences of AEP, ComEd and DPL to join PJM for the long term, the short term solution may lie "outside the box." Among the major impediments are the NERC Reliability Condition, the RTOR Condition and the Loop Flow Condition, all arising from the July 31 Order and all reflecting the Commission's concerns with the irregular Midwest ISO-PJM border created by the choice of AEP, ComEd and DPL to join PJM. What if the conditions were addressed temporarily by a hiatus in the RTO choices? What if AEP, ComEd and DPL were clustered in the Day One RTO, that is, in the Midwest ISO, until the earlier of the following and *then* allowed to migrate to PJM:

1. The date on which all of the following are accomplished:
  - AEP has secured authorization from its state commissions to turn functional control of its transmission system over to PJM and join on a fully integrated basis.

<sup>12</sup> See exchange of Chairman Wood and Midwest ISO witness Torgerson at transcript page 280, line 4 through page 282, line 4.

<sup>13</sup> See, e.g., testimony of PJM witness Wodyka at transcript page 232, lines 9-17.

- The Commission has approved a JOA for the Midwest ISO and PJM and accepted NERC-approved reliability plan(s) for the integration of AEP, ComEd, DPL and, perhaps, IP.
- The parties have settled or the Commission has resolved the RTOR Condition and put in place a transitional lost revenue recovery mechanism.
- The parties have settled or the Commission has resolved the Michigan-Wisconsin Loop Flow Condition.

At that point, the Commission's concerns are addressed, the state commissions' concerns are addressed, NERC's concerns are addressed and parties' concerns that other companies not precede AEP into PJM are addressed.

*or*

2. October 1, 2004, or such other date as the Midwest ISO-PJM joint and common market begins to operate, at which point the joint and common market trumps any remaining concerns. The RTO differences are of no operational or reliability significance and the five utilities named in the Inquiry could then decide which RTO they choose to join on a permanent basis and could move to PJM if that were their decision.

The other rational alternative is for the Commission to stay the present course but move aggressively in those areas that it can. The Commission should:

1. Promptly resolve the RTOR Condition. By order of July 23, 2003, (the "July 23 Order"), the Commission eliminated the Midwest ISO and PJM RTOR effective November 1, 2003, contemplated eliminating the RTORs of the five utilities named in the Inquiry as early as October 4, 2003 *but failed* to adopt a mechanism

to replace the revenues lost with the elimination of the RTORs. As Ameren argued, along with First Energy and NIPSCO in GridAmerica's Request for Rehearing of the July 23 Order,<sup>14</sup> GridAmerica believes the Commission thereby exceeded its Section 206 authority in eliminating Commission-approved rates without establishing a just and reasonable replacement rate. Ameren will not repeat the Rehearing arguments here but it is Grid America's position that the Commission has an ample record in Docket No. EL02-111-000 to adopt a SECA or other similar lost revenue recovery mechanism for a reasonable transition period.

2. Promptly notice and review the JOA and the NERC reliability studies when they are filed with the Commission.
3. Promptly set for hearing the financial implications of the Michigan-Wisconsin connectivity issues and, as part of the Commission's review of the JOA, address the sufficiency of the operational arrangements reflected therein with respect to loop flow issues.
4. Reach out to the state commissions that have concerns as to RTO membership for the utilities they regulate, accommodate their concerns to the maximum extent possible, and allow those state proceedings sufficient time (within reason) to reach a compromise that should permit RTO participation.

#### **C. Miscellaneous Comments**

Ameren agrees with the positions taken by AEP at the Inquiry in response to demands by some, and suggestions by others, that AEP split its system. For the reasons advanced by AEP

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<sup>14</sup> Filed August 22, 2003

(which Ameren will not repeat here), it would be a “very bad idea”<sup>15</sup> to force an established multi-state utility system to divide itself along geographical or company lines (though certainly a system itself could propose such a split).

In response to Ms. Moler’s brief oral rebuttal testimony at the inquiry that Ameren never expressed reliability concerns about IP’s initial election to join PJM, Ameren attaches to these Supplemental Comments, as Exhibits 1 and 2, a copy of the pleadings filed in Docket Nos. EL-02-65-000 and RT01-88-000, shortly after IP’s announcement, raising exactly those concerns.<sup>16</sup> Moreover, Ms. Moler ignores the timing of IP’s swings between PJM and the Midwest ISO. Despite Ameren’s concerns in June 2002 over IP’s initial election to go to PJM, Ameren was willing to see if the conditions imposed in the July 31 Order, *if actually enforced*, would offer sufficient protection. Two months later, in early October 2002, the issue was mooted by the announcement that Trans-Elect Inc. (“Trans-Elect”) would purchase IP and intended to take IP to the Midwest ISO.

Even after the negotiations with Trans-Elect collapsed, IP continued to work with the Midwest ISO and to communicate regularly with Ameren to facilitate IP’s entry into the Midwest ISO. On August 15, 2003, a month after termination of the Trans-Elect negotiations, IP advised the Commission that it had “resumed discussions with the Midwest ISO following the termination” of the Trans-Elect sale.<sup>17</sup> Indeed, as recently as Thursday, September 25, 2003, IP

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<sup>15</sup> See pre-filed joint testimony of AEP witnesses Tomasky and Baker at page 25, line 3 through page 26, line 4.

<sup>16</sup> Ms. Moler suggested in her oral rebuttal statement that ComEd would follow up with written comments questioning Ameren’s concerns with reliability were IP to join PJM. *See* Moler testimony at transcript page 415, line 10 through page 416, line 1. Ameren reserves the right to respond further should such comments be filed.

<sup>17</sup> Response of Illinois Power Directed by the July 23 Order on Initial Decision, Application for Rehearing, and Suggestions for Future Actions, filed in Docket Nos. EL02-111-000 and EL03-212-000.

service representatives appear to have contacted customers served from IP's transmission system to inquire if the customers could be ready to participate in the Midwest ISO in the near future.

The September 26, 2003 announcement that ComEd was pursuing discussions with IP and, if successful, would take IP to PJM resurrected Ameren's reliability and economic concerns, particularly given the fact that *none* of the more critical conditions in the July 31 Order have yet been met. Ameren continues to assert its rights to reassess the RTO situation and take such actions as it deemed appropriate.

Ameren appreciates the opportunity to comment further on the important issues before this Commission with respect to RTO development in the Midwest.

Respectfully submitted,

**Ameren Services Company**

By David A. Whiteley  
David A. Whiteley (42)  
Senior Vice President

October 9, 2003

Alliance Cos., et al.

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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 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 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. 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").<sup>1</sup> 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.

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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 by various intervenors including American Municipal Power-Ohio, Inc. ("AMP-Ohio") and of the Illinois Municipal Electric Agency ("IMEA") and 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.<sup>2</sup> 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.<sup>3</sup> If seams pricing issues are not resolved prior to implementation, these customers will be

<sup>2</sup> Motion for 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 3 (filed June 18, 2002).

<sup>3</sup> 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).

significantly 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:

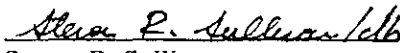
- 1 Development of an inter-RTO agreement between the Midwest ISO and PJM similar to that called for in the IRCA that specifies operational relationships that have been approved by NERC to assure reliability, as well as market interface

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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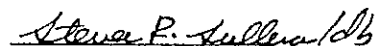
July 25, 2002



**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

Ameren Services

David A. Whiteley  
Senior Vice President

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Washington, DC 20426

The Honorable Nora Mead Brownell  
Commissioner  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, DC 20426

The Honorable Linda Key Breathitt  
Commissioner  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, DC 20426

The Honorable William L. Massey  
Commissioner  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, DC 20426

RE: FERC Open Meeting on June 26, 2002  
Docket Nos. EL02-65-000 and RT01-88-016

Dear Chairman Wood and Commissioners Breathitt, Brownell and Massey:

Thank you for the opportunity for Gary L. Rainwater, President of Ameren, to appear before the Commission on June 26 to discuss our decision to commit our transmission assets to the Midwest Independent System Operator (the "Midwest ISO") and to pursue, with National Grid, FirstEnergy, and Northern Indiana Public Service Company, the formation and operation of GridAmerica as an independent transmission company ("ITC") within and under the Midwest ISO. We continue to believe that the Order on Petition for Declaratory Order issued April 25, 2002 in Alliance Companies, et al., 99 FERC ¶61,105 (2002), gave the guidance and assurances necessary for the Alliance companies to work within the Midwest ISO context. Ameren clearly heard that message and is moving quickly and decisively in that direction. In addition, several issues were raised by the Commission during the June 26<sup>th</sup> meeting that we believe require a response by Ameren.

The Commission should pursue the harmonization of RTO operational and wholesale market considerations in a way that will precipitate robust and efficient wholesale electricity markets without adversely affecting system reliability. For that reason, Ameren strongly encourages the FERC promptly to resolve seams issues between the Midwest ISO and the PJM Interconnection in a manner that will foster voluntary

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\* subsidiary of Ameren Corporation

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The Honorable Pat Wood III  
The Honorable Linda Key Breathitt  
The Honorable Nora Mead Brownell  
The Honorable William L. Massey  
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development of RTOs that do not present potential operational and reliability concerns. Ameren also encourages the Commission to take any other measures necessary to mitigate competition-harming market barriers that may arise in an appropriate and equitable manner. Such action by the FERC will enable participants in both the Midwest ISO and the PJM Interconnection to avoid spending the significant time, effort and money that might otherwise be necessary to correct and properly implement improperly designed RTOs in the future.

One of the primary reasons why the Commission denied RTO status to the Alliance was its configuration relative to the Midwest ISO. Alliance Companies, et al., 97 FERC ¶61,327 (2001). The Commission determined that the proposed configuration was unacceptable even though the Alliance RTO and the Midwest ISO had developed a detailed Inter-RTO Cooperation Agreement ("IRCA") to mitigate the potential operational issues that could exist at the seams between the two RTOs. The Alliance RTO and the Midwest ISO had also developed a super-regional rate for transmission service to mitigate the potential competition-harming market barriers between the two RTOs. Furthermore, the market design and operational characteristics of the Midwest ISO and the Alliance RTO were being developed to be compatible with each other, which would have made inter-RTO coordination less costly and more feasible.

From an operational standpoint with the present RTO designations by the Alliance companies, the seam that will exist between the Midwest ISO and PJM appears to be no better, and, in fact, may be worse than the seam that would have existed between the Midwest ISO and the Alliance RTO. This is illustrated by the data contained in a recent presentation made by Jim Torgerson, President and CEO of the Midwest ISO, at a recent conference sponsored by the Mid-America Regulatory Commissioners in Bismarck, North Dakota. To aid the Commission in its deliberations in this proceeding, Ameren is respectfully submitting that presentation in its entirety as an attachment to this letter.

Ameren is further concerned that the proposed Midwest ISO-PJM seam will not have the benefit of an agreement similar to the IRCA nor the super-regional rate to mitigate the potential competition-harming market barriers between the two RTOs. Ameren is not aware of an IRCA or super-regional rate currently being pursued to facilitate the development of seamless and reliable operations as well as a seamless competitive power market in the territories being served by utilities in the Midwest ISO and PJM. Development of an adequate operational agreement and an appropriate super-

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regional rate may allow each of the Alliance companies to implement its business plan while participating in an RTO that does not give rise to the principle concerns identified by Mr. Torgerson.

Again, I thank you for the opportunity for Ameren to participate in the Commission's meeting on June 26. Ameren looks forward to a Commission resolution of the issues presented in this proceeding that advances both operational conditions and market opportunities throughout the Midwest. Should you or your staffs have any questions about the points raised in this letter, or other questions about Ameren, please do not hesitate to call on me.

Sincerely,

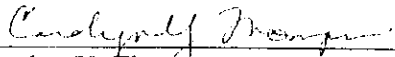
*David A. Whiteley*  
David A. Whiteley

Enclosure

cc: The Honorable Magalie Roman Salas, Secretary (w/encl.)  
Mr. Michael R. Gent, NERC (w/encl.)  
Service Lists for Docket Nos. EL02-65-000 and RT01-88-016 (w/encl.)

CERTIFICATE OF SERVICE

I hereby certify that the foregoing document has been this day served on each party designated on the official service list compiled by the Secretary in this proceeding.

  
\_\_\_\_\_  
Carolyn Y. Thompson  
Jones Day  
51 Louisiana Avenue, NW  
Washington DC 20001-2113  
(202) 879-5426

Dated this 9th day  
of October, 2003

## **EXHIBIT 4 TO STATUS REPORT**

Rebuttal Testimony of Elizabeth Anne Moler on Behalf of  
Exelon Corporation and Commonwealth Edison Company



A. Karen Hill Esq.  
Vice President & Director  
Federal Regulatory Affairs

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October 9, 2003

Ms. Magalie Roman Salas  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, DC 20426

Re: Docket No. ER03-262, et al., New PJM Companies, et al.

Dear Madam Secretary:

Attached for electronic filing is Rebuttal Testimony of Elizabeth A. Moler on behalf of Exelon Corporation.

Sincerely,

/s/ A. Karen Hill

\_\_\_\_\_  
A. Karen Hill  
Vice President Federal Regulatory Affairs  
Attorney for Exelon Corporation

1 UNITED STATES OF AMERICA  
2 BEFORE THE  
3 FEDERAL ENERGY REGULATORY COMMISSION  
4

5 The New PJM Companies

6 American Electric Power Service Corp. Docket Nos. ER03-262-001,-4,-5,-7

7 On behalf of its operating companies

8 Appalachian Power Company

9 Columbus Southern Power Company

10 Indiana Michigan Power Company

11 Kentucky Power Company

12 Kingsport Power Company

13 Ohio Power Company, and

14 Wheeling Power Company

15 Commonwealth Edison Company, and

16 Commonwealth Edison Company of Indiana, Inc.

17 The Dayton Power and Light Company, and

18 PJM Interconnection, LLC

19  
20 American Electric Power Company, Inc., and Docket Nos. EC98-40-000

21 Central and South West Corporation ER98-2770-000

22 ER98-2786-000

23  
24 Ameren Services Company

Docket No. EL02-65-006

25  
26 Illinois Power Company

Docket Nos. EL02-65-000, et al.

27 RT01-88-016

28  
29  
30 REBUTTAL TESTIMONY OF ELIZABETH ANNE MOLER  
31 ON BEHALF OF EXELON CORPORATION AND COMMONWEALTH EDISON  
32 COMPANY  
33

34 I. Introduction and Summary of Testimony  
35

36 Q 1 Please state your name and affiliation.

37 A 1 My name is Elizabeth Anne Moler. I am Executive Vice President for  
38 Government and Environmental Affairs & Public Policy for Exelon Corporation. I  
39 testified at the hearing convened in this proceeding on September 29<sup>th</sup> and 30<sup>th</sup>.

40 Q 2 Please summarize your rebuttal testimony.

41 A 2 My rebuttal testimony will focus on four issues: I will address why AEP's  
42 proposed compromise arrangements with PJM in lieu of fully joining PJM are  
43 inadequate; I will point out that Ameren's claim that ComEd and Illinois Power



1 joining PJM will cause reliability problems in the Midwest is disingenuous; I will  
2 show that Pennsylvania Power & Light Co. (PPL) mischaracterizes PJM's  
3 working group on reliability issues; and I will refute the Michigan/Wisconsin  
4 Stakeholders' interpretation of the hold harmless condition.

5 Q 3 Please explain Exelon's view of AEP's proposal.

6 A 3 Prefiled testimony presented by Susan Tomasky and Craig Baker on behalf of  
7 AEP proposed to place AEP under the PJM OATT, have PJM continue as AEP's  
8 Reliability Coordinator, and have PJM perform transmission market monitoring,  
9 seams coordination with MISO and regional planning for AEP. Exelon urges the  
10 Commission to reject AEP's proposal and instead to require AEP to integrate  
11 fully into PJM.

12 Q 4 Why does Exelon oppose AEP's proposed compromise?

13 A 4 *The central reason why Exelon opposes AEP's proposal is that it does not meet*  
14 *the requirements of Order No. 2000 that AEP has committed to meet, to the*  
15 *disadvantage of many market participants in the region, including ComEd. AEP*  
16 *would not be subject to PJM's Installed Capacity (ICAP) requirement, Locational*  
17 *Marginal Pricing (LMP) congestion management system or even participate in*  
18 *the PJM balancing market. Unless AEP commits to fuller PJM integration, their*  
19 *offer does not achieve sufficient enough benefits to warrant approval.*

20 AEP's proposal falls short in many respects. AEP's prefiled testimony states that "the  
21 only difference [between its proposal and full integration into PJM] is that AEP  
22 would not be integrated into PJM's organized markets. Since participation in  
23 such markets is voluntary in any event, this should not pose a practical problem  
24 for PJM or its existing members" (Prefiled Testimony of Tomasky/Baker, p. 34).  
25 This is a breathtaking mischaracterization of the difference between its proposal  
26 and full integration into PJM. AEP is proposing to exempt itself from the PJM

1           4) The statement that Order No. 2000 did not require RTOs to administer  
2           markets is also wrong. Order No. 2000 clearly says that RTOs must provide a  
3           real time balancing market. "[A]lthough we will give RTOs considerable  
4           discretion in how they operate real-time balancing markets, we will not allow  
5           implementation of such markets to be discretionary." (Order No. 2000 at p.  
6           424.)

7           5) The Day Ahead market is voluntary in PJM in the sense that one can  
8           schedule bilaterally rather than bid into the market. But all LSEs must procure  
9           ICAP, and all ICAP generation must either be scheduled or bid day-ahead --  
10          there is no option to withhold generation. And because all bilateral schedules are  
11          charged for congestion, there is a strong financial incentive for bilateral  
12          schedules to be accompanied by incremental ("inc") and decremental ("dec")  
13          bids. These bids improve the depth of the energy markets in addition to  
14          supporting PJM's market-based congestion management. By exempting itself  
15          from ICAP requirements, day ahead bidding requirements and the congestion  
16          charges associated with bilateral schedules, AEP eliminates any requirement to  
17          schedule or bid all of its capacity as well as its incentive to bid into the RTO  
18          energy markets. Taken together, these "exemptions" would allow AEP to  
19          withhold capacity from the market without any oversight or recourse from the  
20          PJM market monitor.

21          Thus, AEP's proposal does not satisfy their voluntary commitment to join  
22          an RTO that satisfies the Order No. 2000 prescriptions.

23          6) Moreover, in its May 28, 2002 filing with FERC, AEP *voluntarily*  
24          proposed to join PJM, as PJM was constituted at that time and under the market  
25          rules PJM implemented at that time -- which are very similar to the market rules  
26          in place today. Thus, AEP's attempt in this proceeding to claim that their

1        *voluntary* commitment to join an RTO somehow should be construed as  
2        committing to join PJM without LMP should not be accepted by the Commission.

3                7) AEP's offer would not give customers in the ComEd service area the  
4        free-flowing ties across the AEP system and seams coordination with MISO that  
5        its real integration into PJM would offer. To optimize the market in the expanded  
6        PJM area, AEP must be subject to redispatch of generation connected to its  
7        system as part of a systematic congestion management system (security  
8        constrained dispatch), not as part of an ex post TLR system.

9    Q   6    Are there other reasons why Exelon recommends that the Commission reject  
10        AEP's proposal?

11    A   6    Yes. Ms. Tomasky, in her oral testimony, stated that their proposal was a  
12        starting point, and we appreciate that. As I testified at the hearing, we are  
13        pleased that they have put a proposal on the table. However, ComEd is  
14        concerned that AEP believes that even this proposal will require the approval of  
15        Virginia and Kentucky. (September 29 Tr. at p. 92, lines 9-13.) Thus, this  
16        proposal offers no assurance that it will be accepted by the states and no  
17        assurance of when AEP and PJM would implement even this limited participation  
18        in PJM. Indeed, AEP's proposal is no more than the interim "PJM Day 1"  
19        proposal that AEP could have implemented with ComEd as planned in March  
20        2003, but did not, claiming it had not received state approval.

21    Q   7    Do you think AEP's offer satisfies its merger condition?

22    A   7    Absolutely not. AEP's offer proposes no real change to the status quo and  
23        therefore does not give this Commission or the market participants, the benefits  
24        that the Commission sought to achieve with the merger condition requiring AEP  
25        to join an RTO. Indeed, AEP's proposal offers little, if any, more than the "interim  
26        mitigation measures" the Commission required in approving AEP's merger, prior

1 to AEP joining a "fully-functioning, Commission-approved RTO". (Opinion No.  
2 442 at p. 20.).

3 1) AEP already is subject to independent calculation and posting of  
4 Available Transfer Capability (ATC) and to market monitoring under Opinion No.  
5 442's interim mitigation measures; AEP's offer does not establish any additional  
6 operational independence.

7 2) AEP already is required under its merger Stipulation to provide  
8 generation dispatch information necessary for the Midwest ISO to monitor the  
9 effects of such dispatch on the loading of the Midwest ISO's constrained  
10 transmission facilities; AEP's offer does not further reduce seams with PJM or  
11 MISO.

12 3) AEP will be subject to the Commission's pending determination  
13 regarding pancaked rates; AEP's offer to eliminate pancaked rates is likely an  
14 empty gesture.

15 In effect, AEP is proposing to be excused from fulfilling its merger  
16 commitment to join an Order No. 2000 compliant RTO on the basis that Virginia  
17 and Kentucky object to its joining such an RTO. AEP has conceded that FERC  
18 can invoke Section 205 of the Public Utility Regulatory Policies Act (PURPA) to  
19 exempt it from state orders that prohibit voluntary transmission pooling and  
20 coordination, but they ask this Commission not to so order because those states  
21 may impede recovery of the costs of joining PJM. Exelon submits that AEP's  
22 merger commitment was not conditioned on RTO cost recovery and that this  
23 concern should not hinder this Commission's action to protect the public's  
24 interest in competitive markets and optimally efficient and reliable transmission  
25 networks across a huge section of the Eastern Interconnect.

26 Q 8 Does that conclude your rebuttal testimony regarding AEP's proposal?

1 A 8 Yes it does. Next I will address Ameren's claim that Illinois Power's joining PJM  
2 will create reliability problems in the Midwest.

3 Q 9 Please proceed.

4 Q 9 Thank you. During the course of my oral testimony on September 29, I stated  
5 that Exelon had entered into a 45-day period of exclusive negotiation with  
6 Dynegy, Inc., which may lead to Exelon purchasing Illinois Power. I stated that if  
7 Exelon is successful in purchasing Illinois Power, Exelon would integrate Illinois  
8 Power into PJM along with its other utilities, ComEd and PECO Energy. That  
9 announcement prompted Ameren to claim, for the first time, that Illinois Power  
10 joining PJM "may force [Ameren] to reassess its own good-faith RTO  
11 commitments . . . ." I would like to point out that Illinois Power initially notified  
12 the Commission of its choice to join PJM back on May 28, 2002. My testimony  
13 below enumerates the events between that announcement by Illinois Power and  
14 the announcement on December 16, 2002 by Trans-Elect that if its acquisition of  
15 Illinois Power's transmission system were successful, it would integrate that  
16 system into MISO. Between these two dates IP was publicly committed to joining  
17 PJM and indeed had not withdrawn or amended its proposal to join PJM. See  
18 *Alliance Companies*, 103 FERC ¶ 61,274 at P 26 n.22 (2003)(Order on  
19 Rehearing and Providing Clarification). During this period, Ameren commented  
20 to the Commission about RTO developments in the Midwest a number of times.  
21 Although Ameren raised general reliability issues, it *never* raised a specific issue  
22 about the reliability impact of IP joining PJM, and it did not raise any reliability  
23 issues after the Commission issued its July 31, 2002 Order which contained a  
24 condition that required NERC approval of the reliability plans for the RTO  
25 arrangements in the Midwest. July 31, 2002 Order at P 48.

26 Q 10 Please continue.

1 A 10 As I mentioned, on May 28, 2002, Illinois Power initially informed the  
2 Commission that it intended to join PJM. On the following occasions after that,  
3 Ameren filed comments or testified at the Commission and following the  
4 Commission's July 31, 2002 Order, but *never* raised the concerns it raised for  
5 the first time on September 29-30.

6 1) June 18, 2002 -- Ameren protested inter-RTO pancaking and also  
7 stated that it (and other intervenors) "do not generally oppose IP, ComEd's and  
8 AEP's compliance filings and are not attempting to block their election to join  
9 PJM West." *Motion to Intervene and Protest of Ameren Energy Marketing*  
10 *Company, the Illinois Municipal Electric Agency and Wabash Valley Power*  
11 *Association, Inc.*, Docket No. EL02-65-003 (filed June 18, 2002). Ameren did not  
12 raise reliability issues.

13 2) June 26, 2002 -- Gary Rainwater, President and COO of Ameren  
14 Corporation testified at the Commission meeting: "We are somewhat troubled by  
15 IP and ComEd moving to the PJM because looking at this issue from a marketing  
16 point of view, they are good trading partners, but I would say not our primary  
17 market. So the seams issue that you questioned is an important issue to us,  
18 mostly from an economic point of view because of that high out rate, the \$6.00  
19 per megawatt hour certainly is an impediment for us to move power to that  
20 market. It also is a seam within Illinois, which is an open access state, and it  
21 creates a seam now for us to be able to get to the retail market in Illinois."  
22 Transcript Page 327, lines 8-18. Mr. Rainwater raised economic concerns, but  
23 notably did not raise reliability issues.

24 3) July 12, 2002 -- Letter from David A. Whiteley to Chairman Wood,  
25 Commissioners Breathitt, Brownell and Massey, Docket Nos. EL02-65-000 and  
26 RT01-88-016 (filed July 16, 2002). Ameren asks the Commission to "promptly

1 resolve seams issues between the Midwest ISO and the PJM Interconnection in  
2 a manner that will foster voluntary development of RTOs that do not present  
3 operational problems and reliability concerns." He did not raise specific reliability  
4 issues.

5 4) July 19, 2002-- Ameren files CILCo merger application with the  
6 Commission (Docket No. EC02-96).

7 5) July 23, 2003 -- Supplemental Protest of *Ameren Energy Marketing*  
8 *Company, the Illinois Municipal Electric Agency, Wabash Valley Power*  
9 *Association, Inc. and American Municipal Power – Ohio, Inc., Alliance*  
10 *Companies*, Docket No. EL02-65-003 (filed July 23, 2002) protesting inter-RTO  
11 rate pancaking, but not reliability.

12 6) July 25, 2002 -- Letter from Steven R. Sullivan, VP and General  
13 Counsel of Ameren Services to Chairman Wood, Commissioners Breathitt,  
14 Brownell and Massey, Docket Nos. EL02-65-000 and RT01-88-016 (filed July 25,  
15 2002). Ameren asks for resolution of competitive and reliability issues prior to  
16 RTO implementation. Letter discusses development of a super-regional rate and  
17 "adequate operational agreement." Ameren does not identify any specific  
18 reliability concerns. Ameren says that if issues are not resolved, it may have to  
19 consider other options including withdrawing from MISO.

20 7) July 31, 2002 -- FERC Order conditionally accepting RTO choices,  
21 including Illinois Power's choice to join PJM; Ameren did not file a request for  
22 rehearing.

23 8) Oct. 22, 2002 -- NERC Operating Committee approved the MISO and  
24 PJM Reliability Coordinator footprint change that includes AEP, ComEd, IP and  
25 Dayton in PJM (first step of NERC approval process). NERC filed a report with  
26 the Commission on Nov. 5, 2002 reporting this action. Ameren did not object.

1                   9) Nov. 21, 2002 -- FERC issues order authorizing Ameren/CILCo  
2 merger. FERC states: "The Commission regards Ameren's RTO commitment to  
3 join the MISO as firm and hereby makes this commitment a condition of the  
4 acquisition's approval." *Ameren Services Co.*, 101 FERC ¶ 61,202 P 50 (2002).  
5 Ameren did not seek rehearing on the RTO issue; it has since closed the merger.

6                   10) Dec. 16, 2002 -- IETC (prospective purchaser of IP transmission  
7 system) committed to transfer the (former) IP transmission system to MISO.  
8 Docket No. EC03-30, Testimony of Paul D. McCoy, page 8, lines 20-21; page 35,  
9 lines 9-18. This testimony is the first time since IP's May 28, 2002 filing  
10 indicating that it plans to join PJM that anyone has proposed putting the IP  
11 transmission assets in MISO. The IETC transaction has since been abandoned.

12 Q 12 When did Ameren announce its intention to join MISO?

13 A 12 Ameren announced its intention to join MISO on May 28, 2002 at the same time  
14 that Illinois Power announced it would join PJM, in response to this  
15 Commission's April 25, 2002 order requiring the former Alliance Companies to  
16 declare which RTO they would join.

17 Q 13 What conclusions do you draw from this time line?

18 A 13 Ameren selected MISO at the same time that ComEd and IP announced that  
19 they intend to join PJM. Ameren was fully aware of ComEd and IP's plans, but  
20 they never raised reliability issues until last week. In particular, Ameren did not  
21 seek rehearing of the Commission's July 31, 2002 Order accepting the RTO  
22 choices of Ameren and IP. Nor did Ameren raise any issue with the IP choice of  
23 PJM when Ameren wanted the Commission to approve its merger with CILCo. In  
24 light of these events, I conclude that Ameren's newly minted objections to Illinois  
25 Power joining PJM are likely related to economic concerns, which they have  
26 raised before, and are not in fact reliability concerns.



1 Q 14 Does that conclude your rebuttal testimony regarding Ameren?

2 A 14 It does. I would like now to turn to testimony presented by PPL.

3 Q 15 What testimony by PPL are you addressing?

4 A 16 I am addressing the suggestion that PJM's stakeholder working group on  
5 reliability issues indicates that reliability within PJM is threatened by the planned  
6 expansion of PJM to include ComEd.

7 Q 17 Mr. Sipics stated that before PJM can provide sound reliability for the expansion  
8 companies, he believes that it must complete the work of the Roles and  
9 Responsibilities Review Team to clearly define the reliability responsibilities of  
10 the various parties who are members of PJM. He said that PJM "must ensure its  
11 existing members and their retail customers of a reliable system before it  
12 undertakes expansion through the consequence of not dealing with reliability  
13 concerns first." September 30, 2003, Tr. at p. 348, lines 12-21. Do you agree  
14 with that testimony?

15 A 17 No I do not. First of all, as Commissioner Brownell's questions highlighted,  
16 (September 30, Tr. at p. 363-364) linking expansion of PJM's market with  
17 concerns about reliability of the transmission grid is taking a great and  
18 unsupported leap. Secondly, the suggestion by Mr. Sipics cited above that  
19 reliability of the PJM system hinges on completion of the work of the Roles and  
20 Responsibilities Review Team grossly overstates the criticality and immediacy of  
21 that working group.

22 Q 18 Please explain your understanding of the working group Mr. Sipics referenced.

23 A 18 Mr. Spic's testimony implied that the PJM working group consists of transmission  
24 owners who are worried that the PJM expansion raises reliability concerns. A  
25 close look at the purpose of the group shows that is not the case. Exelon's  
26 subsidiary PECO Energy Company is one of PJM's original transmission owners

1 and is participating in the working group referenced by Mr. Sipics.  
2 Documentation supporting the formation of the working group in July, and  
3 reporting to the Transmission Owners Agreement-Administrative Committee in  
4 August, indicates that the focus of the group is on reaching agreement between  
5 PJM and the transmission owners on terminology, on criteria for notifying PJM of  
6 maintenance and planned upgrades, on planning lower voltage facilities and  
7 similar issues. The process has been to form sub-groups to review PJM's  
8 manuals to determine where clarifications may be needed. The goal is to  
9 develop a common vision between PJM and the transmission owners for the next  
10 5-10 years. Clearly, this is not a process focused on reliability concerns  
11 associated with PJM expansion as Mr. Sipics implies.

12 Q 19 Does this conclude your testimony responding to PPL?

13 A 19 Yes it does.

14 Q 20 Is there additional testimony that you wish to address?

15 A 20 Yes, I wish to address testimony presented by Mr. Keller on behalf of the  
16 Michigan and Wisconsin Stakeholders Group.

17 Q 21 Please proceed.

18 A 21 First, let me say that I believe the line of inquiry here is tangential to the issues  
19 the Commission is focused on, namely, how to break the logjam that is  
20 preventing expansion of PJM. In Exelon's view, that question centers on  
21 ordering AEP to join PJM. But I offer this testimony to attempt to clarify for the  
22 record the differences between the Michigan and Wisconsin Stakeholders and  
23 the New PJM Companies that have made settlement impossible and to reiterate  
24 for the record the steps that are underway to address the Commission's "hold  
25 harmless" condition. *Alliance Companies, et al.*, Order Conditionally Accepting  
26 Compliance Filings, Providing Guidance on Midwest ISO and PJM Structure, and

1 Instituting Section 206 Investigation, 100 FERC ¶ 61,137, P 53 (2002) (July 31,  
2 2002 Order).

3 Mr. Keller states that to the Michigan and Wisconsin Stakeholders, the  
4 Commission's hold harmless condition means "that utilities in Michigan and  
5 Wisconsin should not incur any financial, operational, and/or legal liability or  
6 consequences as a result of the decision of the New PJM Companies to join  
7 PJM, rather than the Midwest Independent System Operator." (Prefiled  
8 Testimony of James R. Keller, at p. 5, lines 8-13.) This testimony crystallizes the  
9 differences between the Michigan and Wisconsin Stakeholders and the New PJM  
10 Companies that have prevented settlement of this issue.

11 Q 22 Please explain.

12 A 22 Exelon, on behalf of ComEd, is committed to resolving the hold harmless issue,  
13 subject to our rights on appeal, and intends to file a proposal to deal with  
14 legitimate financial impacts on Michigan and Wisconsin utilities that result from  
15 ComEd's integration into PJM rather than MISO. We will make that filing at least  
16 60 days prior to ComEd's integration into PJM as required by the Federal Power  
17 Act and the Commission's July 2002 order establishing the hold harmless  
18 condition. With respect to the legitimate operating issues covered by the hold  
19 harmless condition, we believe that the Joint Operating Agreement and the  
20 PJM/MISO Congestion Management Coordination White Paper will mitigate  
21 those and, moreover, is an impressive and significant development toward  
22 greater reliability and coordination over a large area of the Eastern Interconnect.

23 Q 23 How does Exelon Corporation's view of the hold harmless condition differ from  
24 that of the Stakeholders?

25 A 23 In our view, Mr. Keller's list of provisos for implementing the Commission's hold  
26 harmless condition is "a wish list" which is far more expansive than the

1 Commission intended. The Commission's original condition directed the New  
 2 PJM Companies "to propose a solution which will effectively hold harmless  
 3 utilities in Wisconsin and Michigan from any loop flows or congestion that results  
 4 from the proposed configuration." July 31, 2002 Order at P 53. In clarifying its  
 5 intention, *Alliance Companies, et al.*, Order Addressing Requests for  
 6 Clarification, 102 FERC ¶ 61,214 (2003) (Clarification Order) the Commission  
 7 explained that the hold harmless condition was addressed to congestion and  
 8 loop flows resulting from the New PJM companies joining PJM, and that any  
 9 impacts were to be netted against benefits for the Michigan/Wisconsin utilities  
 10 (*Id.* at P 14). On rehearing, the Commission reiterated and clarified that the  
 11 Michigan and Wisconsin utilities were to be held harmless from "congestion or  
 12 loop flows resulting from the creation of this seam during the interim period prior  
 13 to commencement of the common market at which time congestion and loop  
 14 flows will be effectively internalized." *Alliance Companies, et al.*, 103 FERC ¶  
 15 61,274 at P 43 (2003)(Order on Rehearing). Notwithstanding the Commission's  
 16 clarity regarding its intention, the Michigan/Wisconsin Stakeholders are ignoring  
 17 the Commission's specific clarification of its intent and continue to push for  
 18 essentially what amounts to full indemnity – to be held harmless from every  
 19 conceivable effect of ComEd's choice of PJM. This quite simply is at odds with  
 20 three Commission orders.

21 Q 24 Please specifically address Mr. Keller's list of 10 conditions that he considers  
 22 must be addressed in order to meet the Commission's hold harmless condition.

23 A 24 I will. Items 1, 5 and 7 relate to protocols and methodologies that MISO and PJM  
 24 use to determine transfer capabilities, allocate firm physical and financial  
 25 transmission rights, and determine congestion pricing. These issues will be  
 26 resolved by PJM and MISO at the outset and as part of the Joint Operating

1 Agreement. ComEd will address item 7, after a process that must necessarily  
2 involve PJM and MISO for identifying and quantifying LMP impacts of loop flows  
3 is developed.

4 Items 2 and 4 on the wish list were rejected by the Commission's  
5 Clarification Order. Item 2 would hold ComEd and AEP's integration into PJM  
6 hostage until MISO's congestion management system and market is up and  
7 running. The Commission expressly stated in its Clarification Order that "the July  
8 31 Order did not require that the inclusion of AEP, ComEd, and Illinois Power in  
9 the PJM market should be delayed until the combined Midwest ISO-PJM market  
10 becomes operational." Clarification Order at P 23. Item 4 would apply MISO's  
11 revenue distribution protocols to all of ComEd's and AEP's loop flows. Again, the  
12 Commission's Clarification Order expressly stated that the "The transmission  
13 revenue impacts described in this question [relating to sharing revenues under  
14 the MISO revenue distribution protocols] go beyond the impacts that are the  
15 subject of the hold harmless requirement." Clarification Order at P 20. The  
16 Michigan/Wisconsin Stakeholders did not seek rehearing of that order and that  
17 should be the end of it.

18 Items 8, 9, and 10 (like Item 4) have nothing whatever to do with loop  
19 flows or congestion. For example, Item 10 relates to a *voluntary* reserve sharing  
20 group within MAIN that was set up to respond to trips of generating units to  
21 facilitate meeting NERC's Disturbance Control Standard (DCS) Criteria. Not only  
22 does this have nothing to do with loop flows or congestion, it has nothing to do  
23 with reliability. If ComEd is not part of the same voluntary reserve sharing group  
24 as are the Wisconsin utilities, then the Wisconsin utilities may have to carry a  
25 greater amount of operative reserves to be able to meet the DCS criteria or to  
26 join another reserve sharing group. The Michigan/Wisconsin Stakeholders are

1 simply attempting to have ComEd's contracted for generation support Wisconsin  
2 without paying for that capacity except when needed.

3 Q 25 Are there any items that ComEd believes are covered by the Commission's hold  
4 harmless condition?

5 A 25 Yes, ComEd plans to propose a means to satisfy Items 3 and 6, compensation  
6 for losses of real and reactive power due to loop flows and compensation for  
7 redispatch of generation. We believe that these are the conditions the  
8 Commission intended to impose.

9 Q 26 Does this complete your testimony?

10 A 26 Yes it does.

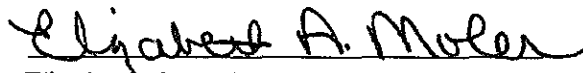
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Docket Nos. ERO3-262-000, et. al.

**PREPARED DIRECT TESTIMONY OF  
Elizabeth Anne Moler**

**AFFIDAVIT OF WITNESS**

I, the undersigned, being duly sworn, depose and say that the Prepared Direct Testimony of Elizabeth Anne Moler served on behalf Exelon Corporation in this proceeding is the testimony of the undersigned, and the exhibits sponsored by me to the best of my knowledge, information and belief, are true, correct, accurate and complete, and I hereby adopt said testimony as if given by me in formal hearing, under oath.

  
Elizabeth Anne Moler

SUBSCRIBED AND SWORN to before me, a Notary Public, in  
Washington, DC on the 9<sup>th</sup> day of October 2003.

Jean R. Kabre  
Notary Public District of Columbia  
My Commission Expires 6/14/08

District of Columbia: SS

The foregoing instrument was acknowledged before me

this 09 day of October 2003

By Jean Kabre

Notary Public, D.C.

My commission expires 06-14-08

**Certificate of Service**

I hereby certify that I have served the foregoing document upon all parties on the official service list complied by the Secretary in the above caption proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, D.C. this 9<sup>th</sup> Day of October 2003.

*/s/ A. Karen Hill*

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A. Karen Hill  
Attorney for Exelon Corporation



# **EXHIBIT 5 TO STATUS REPORT**

**Response of Ameren Services Company to Rebuttal Testimony  
Submitted by Exelon Corporation and Motion to  
Correct the Record**

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

The New PJM Companies	)	
American Electric Power Service Corp.	)	Docket Nos. ER03-262-001
On behalf of its operating companies	)	ER03-262-004
Appalachian Power Company	)	ER03-262-005
Columbus Southern Power Company	)	ER03-262-007
Indiana Michigan Power Company	)	
Kentucky Power Company	)	
Kingsport Power Company	)	
Ohio Power Company	)	
Wheeling Power Company	)	
Commonwealth Edison Company	)	
Commonwealth Edison Company of Indiana, Inc.	)	
The Dayton Power and Light Company, and	)	
PJM Interconnection, LLC	)	
	)	
American Electric Power Company, Inc., and	)	Docket Nos. EC98-40-000
Central and South West Corporation	)	ER98-2770-000
	)	ER98-2786-000
	)	
Ameren Services Company	)	Docket No. EL02-65-006
	)	
Illinois Power Company	)	Docket Nos. EL02-65-000, <i>et al.</i>
	)	RT01-88--016

**RESPONSE OF AMEREN SERVICES COMPANY TO REBUTTAL TESTIMONY  
SUBMITTED BY EXELON CORPORATION AND MOTION  
TO CORRECT THE RECORD**

Pursuant to Rules 202 and 212 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission ("Commission"), 18 C.F.R. § 385.202 (2003) and 18 C.F.R. § 385.212 (2003), Ameren Services Company, for and on behalf of Union Electric Company, d/b/a AmerenUE, and Central Illinois Public Service Company, d/b/a AmerenCIPS (hereinafter collectively, "Ameren") hereby files this motion to correct certain misstatements of fact

contained in the rebuttal testimony of Elizabeth Anne Moler (“Witness Moler”), Executive Vice President for Government and Environmental Affairs & Public Policy of Exelon Corporation (“Exelon”) and Commonwealth Edison Company (“ComEd”). Exelon filed Witness Moler’s rebuttal testimony on October 9, 2003. The purpose of this rebuttal testimony was, in part, to attack concerns raised by Ameren regarding reliability issues associated with Illinois Power Company (“Illinois Power”) joining PJM Interconnection, LLC (“PJM”). Among other things, Exelon asserted that Ameren’s reliability concerns are “disingenuous.”<sup>1</sup> Ameren hereby also files a reply to Exelon’s rebuttal testimony.

As noted in this pleading, Exelon’s statement that Ameren never raised reliability issues regarding Illinois Power joining PJM is inaccurate and should be corrected. Furthermore, the Commission should understand that Exelon has not addressed any of Ameren’s reliability concerns regarding Illinois Power joining PJM.

**I. Motion to Correct the Record.**

The Commission should grant Ameren’s motion to correct the record in this docket. As discussed below, in contrast to statements made in Exelon’s rebuttal testimony:

- (A) Ameren raised reliability concerns with this Commission regarding Illinois Power joining PJM in July 2002; and
- (B) Ameren only discontinued formal comment on reliability issues based on (i) the Commission’s explicit reliability conditions in *Alliance Companies*, 100 FERC ¶ 61,137 (2002) (“July 31 Order”); (ii) the course of Illinois Power’s negotiations with Trans-Elect, Inc. (“Trans-Elect”); and (iii) Illinois Power’s subsequent statements that it would join the Midwest Independent Transmission System Operator, Inc. (“Midwest ISO”).

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<sup>1</sup> “Rebuttal Testimony of Elizabeth Anne Moler on Behalf of Exelon Corporation and Commonwealth Edison Company,” Docket Nos. ER03-262-001, *et al.*, October 9, 2003 at 1-2 (“Moler Testimony”).

**A. Ameren Raised Reliability Concerns Regarding Illinois Power Joining PJM in July of 2002.**

Exelon misstates a key fact -- namely, that Ameren never previously raised reliability concerns associated with Illinois Power joining PJM. In her rebuttal testimony, Witness Moler incorrectly stated that Ameren has never raised "a specific issue about the reliability impact of [Illinois Power] joining PJM," and that Ameren has failed to "raise any reliability issues after the Commission issued its July 31, 2002 Order which contained a condition that required NERC approval of the reliability plans for the RTO arrangements in the Midwest."<sup>2</sup>

In fact, Ameren raised reliability concerns associated with Illinois Power joining PJM in two separate documents tendered with the Commission in July of 2002. These filings specifically urged the Commission to resolve promptly seams issues between the Midwest ISO and PJM. Ameren stated that it was important to manage seams, and raised potential reliability issues associated with Illinois Power joining PJM.

First, in a motion filed July 25, 2002 requesting that the Commission promptly address seams issues in the Midwest, Ameren stated:

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.<sup>3</sup>

Second, in a letter to the Commission filed in Docket Nos. EL02-65-000 and RT01-88-000 on July 12, 2002 (attached as Exhibit 2), Ameren stated that it "strongly encourages the

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<sup>2</sup> Moler Testimony at 7.

<sup>3</sup> See "Motion of Ameren Services Company Requesting Prompt Commission Action on Seams Issues," Docket Nos. EL02-65-000 and RT01-88-000, July 25, 2002 (emphasis added) (attached as Exhibit 1).

FERC promptly to resolve seams issues between the Midwest ISO and the PJM Interconnection in a manner that will foster voluntary development of RTOs that do not present potential operational and reliability concerns.”

Accordingly, the record in these dockets should be corrected. The record should reflect that Exelon has submitted certain misstatements which are intended to impugn Ameren’s motives for raising reliability concerns associated with Illinois Power joining PJM. Ameren clarifies that its reliability concerns with Illinois Power participating in PJM have been and continue to be valid questions (which are also shared by other parties).<sup>4</sup> In fact, as noted above, Ameren raised such concerns with the Commission in July of 2002.

**B. Ameren Discontinued Formal Comment Based on its Understanding of the July 31 Order as Well as Illinois Power’s Trans-Elect Negotiations and Stated Intentions to Join the Midwest ISO.**

Although Exelon notes that Ameren failed to raise reliability concerns after the July 31 Order, Exelon’s comment in this regard does not recognize the “state of play” during the time period in question. Based on the July 31 Order and Illinois Power’s apparent commitment to join the Midwest ISO, there was no need for Ameren to protest reliability matters. As described below, Exelon’s attempts to discredit Ameren’s intent in raising reliability issues must be rejected.

First, Ameren did not raise reliability issues after the Commission’s issuance of the July 31 Order because it relied upon statements in the July 31 Order that such matters would be addressed. The Commission’s order required what appeared at the time to be adequate reliability

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<sup>4</sup> See, e.g., “Comments of Wisconsin Public Service Corporation and Upper Peninsula Power Company on Commission Inquiry Into Midwest ISO-PJM RTO Issues,” Docket Nos. ER03-262-001, *et al.*, October 9, 2003, at 3-4; Supplemental Comments of Affected Customers,” Docket Nos. EC02-90-000, *et al.*, July 24, 2002, at 8; “Motion to Accept Late-Filed Motion to Intervene, Motion to Intervene and Comments of the Ohio Consumers’ Counsel,” Docket Nos. EC02-90-000, *et al.*, July 24, 2002, at 5.

measures.<sup>5</sup> Thus, Ameren saw little benefit to raising vigorously with the Commission reliability issues in a rehearing or subsequent pleading. Ameren believed at the time based on all of the facts before it that additional protest was unnecessary and could have been viewed as a waste of the Commission's time given the conditions in the July 31 Order.

Second, Ameren also became aware after the July 31, 2002 Order that Illinois Power was in negotiations with Trans-Elect. Ameren believed that a protest was not necessary given its understanding of the course of negotiations between these parties. Indeed, Ameren's reliability concerns abated when Trans-Elect announced formally in October 2002 its intention to purchase Illinois Power<sup>6</sup> and soon thereafter formally announced its intentions to integrate Illinois Power within the Midwest ISO instead of PJM.

Importantly, after negotiations with Trans-Elect collapsed, Illinois Power continued to work with the Midwest ISO. Based on information and belief (including discussions with certain wholesale customers in the Midwest), Ameren was confident that Illinois Power was planning on joining the Midwest ISO. On August 15, 2003, a month after termination of the Trans-Elect negotiations, Illinois Power advised the Commission that it had "resumed discussions with the

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<sup>5</sup> The July 31 Order stated:

"One of the Commission's concerns with the RTO choices made by the Alliance Companies was the impact on reliability. We share the concerns of many parties that question the impact of the configurations resulting from the decisions of Alliance companies. In particular, we note that four concerns were identified and discussed at NERC's meeting with MAIN, ECAR, Midwest ISO and PJM representatives on July 11, 2002: (1) parallel flows - ATC/AFC calculation; (2) contract tie capacity and electrical peninsulas; (3) differing definitions and procedures between RTOs; and (4) facilities in close electrical proximity under different RTOs . . . Thus, our conditional acceptance is subject to NERC approval of the updated Reliability Plans...[w]e will also require Midwest ISO and PJM to file a joint operating agreement..."

July 31, 2002 Order at P 46, 48.

<sup>6</sup> See Trans-Elect Pres Release, "Trans-Elect to Buy Illinois Power Transmission System," October 9, 2002 <[http://www.trans-elect.com/press/trans-elect\\_to\\_buy\\_illinois\\_power.cfm](http://www.trans-elect.com/press/trans-elect_to_buy_illinois_power.cfm)>.

Midwest ISO following the termination” of the Trans-Elect sale.<sup>7</sup> In addition, on September 25, 2003, Illinois Power representatives appear to have contacted customers served from Illinois Power’s transmission system to inquire if the customers could be ready to participate in the Midwest ISO in the near future. Finally, James P. Torgerson, President and Chief Executive Officer of the Midwest ISO recently testified on the continuing discussions between Illinois Power and the Midwest ISO.<sup>8</sup> Mr. Torgerson indicated that the incorporation of Illinois Power into the Midwest ISO could be accomplished in short order.<sup>9</sup> In addition, he stated that the Midwest ISO had dedicated resources to this effort, and was prepared to compensate Illinois Power for the exit fee it had paid to the Midwest ISO as well as its Alliance RTO costs.<sup>10</sup>

## **II. Response to Rebuttal Testimony.**

Exelon impugns Ameren’s motives, but has not addressed Ameren’s reliability concerns. Even assuming *arguendo* that Ameren failed in the past to raise vigorously reliability issues regarding Illinois Power potentially joining PJM (which, as noted above, is not the case), Exelon has made no attempt to assuage Ameren’s valid reliability-based questions raised at this time. Ameren’s concerns reflect the fact that: (i) the Midwest ISO and PJM have not ratified a definitive joint operations plan; (ii) the North American Electric Reliability Council (“NERC”) has not approved a reliability plan per the Commission’s direction; and (iii) a joint and common

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<sup>7</sup> “Response of Illinois Power Directed by the July 23 Order on Initial Decision, Application for Rehearing, and Suggestions for Future Actions,” Docket Nos. EL02-111-004 and EL03-212-004, August 15, 2003, at 17.

<sup>8</sup> See Testimony of James Torgerson, Docket Nos. ER03-262-001, *et al.*, September 30, 2003 at 282-83 (“[w]e’ve had ongoing discussions with the Illinois Power folks . . . That has been ongoing for months and we’ve been working directly with Illinois Power since the Trans-Elect deal was struck to have them in the Midwest ISO.”)

<sup>9</sup> *Id.* at 273.

<sup>10</sup> *Id.*

market without pancaked rates is not even close to implementation. None of these key elements are in place.

Furthermore, Exelon is out of step with the reliability concerns of its Midwest neighbors (including Ameren) in the wake of the August 14 Blackout. On October 16, 2003, the Midwest ISO announced that it was putting reliability issues raised by the August 14 Blackout ahead of its efforts to forge a regional wholesale power market. Mr. Torgerson, in an October 16, 2003 press release stated, "[r]eliability has always been and will continue to be the core of our business. Clearly, the events of August 14 have raised the bar in this area, and we are responding accordingly."<sup>11</sup>

Ameren supports the Midwest ISO's heightened focus on reliability. Large utilities such as Ameren also must re-focus and re-double their reliability efforts in the wake of the August 14 Blackout. Can Exelon assure Ameren and its customers, this Commission, the Missouri Public Service Commission, the Illinois Commerce Commission, and surrounding utilities that the irrational PJM/Midwest ISO scope and configuration will not lead to another August 14 Blackout? Ameren suspects strongly that Exelon would be unwilling to make any assurances or indemnities regarding the potential economic (and public safety) harm associated with another blackout. Regardless of Exelon's aspersions regarding Ameren's motives, Ameren has an obligation to its customers and shareholders to assure itself that reliability will not be harmed as a result of Exelon's merger and acquisition and RTO decisions.

Exelon's casual approach to the RTO decision for its proposed acquiree Illinois Power might be understandable if the Midwest ISO-PJM integration plan was in place. Exelon's approach might be valid if operators at the reliability coordinator, control area, and local

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<sup>11</sup> See Press Release, "Midwest ISO Stakeholders Support Continued Focus on Reliability Enhancements," October 16, 2003 <[http://www.midwestiso.org/documents/200310/Reliability\\_101603\\_final.pdf](http://www.midwestiso.org/documents/200310/Reliability_101603_final.pdf)>.



switching levels had at least some operating experience working within whatever seams rules are ultimately developed and finalized to address the currently proposed patchwork RTO configuration. However, neither of these reasonable preconditions has been met. Ameren cannot sit idly by while there is no approved plan in place to address the following major reliability issues between the two organizations:

- Management of loop flow between the two RTOs;
- Appropriate data exchange protocols and agreement on modeling techniques to assure consistent and verifiable results from system analysis studies;
- Consistent voltage control, scheduling, coordination, and dispatch between the two RTOs;
- Approach to reactive power supply and reserves in both static and dynamic situations;
- Consistent protocols for generator stability between the two RTOs (both transient and steady state);
- Consistent rules for must-run generation unit status between the two RTOs;
- Consistent determination of voltage stability concerns and mitigation measures between the two organizations;
- Generation and transmission outage coordination between the two organizations;
- Consistent emergency procedures including the possibility of shared system restoration responsibility;
- Consistent load curtailment analyses;
- Consistent rules for the coordination of special protective relay schemes between the two RTOs; and
- Market distortions that could lead to resource decisions that ultimately detract from reliability.

These reliability concerns are particularly troubling to Ameren since, based on Exelon's corporate merger and acquisition decisions (e.g., Commonwealth Edison's merger with

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Philadelphia Electric Company, and Exelon's potential acquisition of Illinois Power), Ameren-CILCO would be surrounded by PJM as an isolated Midwest ISO island.<sup>12</sup>

Exelon may argue that there will be no discernable reliability difference between operating Illinois Power within PJM as opposed to operating the company within the Midwest ISO. Exelon's proposal, however, would significantly change the reliability status quo. Since Order No. 888, Ameren and Illinois Power have used the Mid-America Interconnected Network ("MAIN") as a common security/reliability coordinator, as well as a common provider of ATC calculations and OASIS services. This is because the companies determined that it made sense for utilities that were so highly interconnected to rely on the same organization for these purposes. Through common membership in MAIN, Illinois Power and Ameren have worked closely together over the years to resolve reliability matters or other issues that have arisen. If Illinois Power participates in PJM and Ameren stays within the Midwest ISO, two independent organizations more than a thousand miles apart will be attempting to monitor and control these highly interconnected control areas which have coordinated and communicated together for many years through one organization.

By proposing to divide these services across two RTOs, Exelon seeks to change the operational and reliability status quo merely to meet its corporate objectives. Quite simply, Exelon's plan is more complicated than the status quo, and there would need to be numerous new arrangements and communication protocols adopted for Illinois, particularly considering the isolated nature of Ameren-CILCO within Exelon's propose PJM expansion. Although Exelon's plan ultimately may be workable, at this time, Ameren believes "simpler is better."

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<sup>12</sup> See Exhibit 3 – map of Illinois Utility Service Territories.

Indeed, based on initial comments from the technical analysis team, as well as public reports, it appears that less-than-optimal communications and ill-defined lines of operational authority contributed to the events on August 14, 2003. Now is not the time to be complicating communications. On October 15, 2003 NERC issued a memorandum to control areas and reliability coordinators based on the events of August 14 which stated that these entities must review and strengthen "Reliability Communications." (See Exhibit 4). Furthermore, reports have indicated that in discussions regarding the blackout, PJM officials "said they knew of the line failures in their region, but not most of FirstEnergy's troubles. The Midwest ISO has said that it, in turn, did not know of most of the failures in PJM territory."<sup>13</sup> Reports indicate further that "if the people monitoring the grid had known all the problems unfolding around them, they would have seen the need for decisive action and they could have limited the catastrophe, or even prevented it."<sup>14</sup> Commission Chairman Pat Wood III has stated that had the utilities in "northern Ohio all 'been part of the same interconnected and real-time communicated grid,' there might have been 'a different outcome' on August 14."<sup>15</sup>

Exelon does not address whether communication issues can be adequately addressed with a gerrymandered Midwest ISO-PJM RTO map. Furthermore, Exelon is approaching the issue from a "just make it work" viewpoint. Ameren submits that this orientation is particularly inappropriate in the post-August 14 Blackout environment.

In sum, Ameren believes that it would be ill-advised for the Commission to ignore the potential reliability impacts of Exelon's intention to force-migrate Illinois Power into PJM at this

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<sup>13</sup> Eric Lipton, *et al.*, *Overseers Missed Big Picture as Failures Led to Blackout*, N.Y. Times, Sept. 13, 2003.

<sup>14</sup> *Id.*

<sup>15</sup> *SMD Delay Would Cripple FERC, Wood Says; Administration Holds Steady on RTOs*, Inside FERC, Sept. 15, 2003.

point in time, particularly in light of the difficult reliability responsibility issues currently facing Midwest utilities. The Commission can simultaneously (1) address Ameren's legitimate reliability and operational concerns, and (2) clear the way for expeditious resolution of RTO formation issues in Illinois by directing that Illinois Power honor its previous commitment to join the Midwest ISO. Alternatively, Exelon should commit that Illinois Power will be part of the Midwest ISO, irrespective of its merger and acquisition activities. Such action by the Commission or Exelon will help to quickly return Ameren to the path of speedy integration into the Midwest ISO.

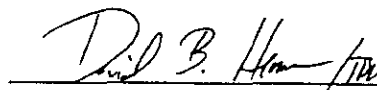
### **III. Conclusion.**

Ameren requests that the Commission: (1) grant this motion to correct the record in the above captioned dockets; and (2) accept Ameren's reply to Exelon's rebuttal testimony.

Respectfully Submitted,

**Ameren Services Company**

By

A handwritten signature in dark ink, appearing to read "David B. Hennen", followed by a horizontal line.

David B. Hennen  
Associate General Counsel  
Ameren Services Company

**UNITED STATES OF AMERICA  
BEFORE THE  
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 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 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. 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").<sup>1</sup> 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.

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<sup>1</sup> 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 by various intervenors including American Municipal Power-Ohio, Inc. ("AMP-Ohio") and of the Illinois Municipal Electric Agency ("IMEA") and 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.<sup>2</sup> 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.<sup>3</sup> If seams pricing issues are not resolved prior to implementation, these customers will be

<sup>2</sup> Motion for 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 3 (filed June 18, 2002).

<sup>3</sup> 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).

significantly 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:


- 1 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,

  
Steven R. Sullivan  
Vice President and General Counsel  
Ameren Services  
1901 Chouteau Avenue  
P.O. Box 66149, MC630  
St. Louis, MO 63166-6149

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

Ameren Services

David A. Whitely  
Senior Vice President

FILED  
G. J. B. E.  
SEC. 1

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FEDERAL ENERGY  
REGULATORY COMMISSION  
July 12, 2002

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The Honorable Pat Wood III  
Chairman  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, DC 20426

The Honorable Nora Mead Brownell  
Commissioner  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, DC 20426

The Honorable Linda Key Breathitt  
Commissioner  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, DC 20426

The Honorable William L. Massey  
Commissioner  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, DC 20426

RE: FERC Open Meeting on June 26, 2002  
Docket Nos. EL02-65-000 and RT01-88-016

Dear Chairman Wood and Commissioners Breathitt, Brownell and Massey:

Thank you for the opportunity for Gary L. Rainwater, President of Ameren, to appear before the Commission on June 26 to discuss our decision to commit our transmission assets to the Midwest Independent System Operator (the "Midwest ISO") and to pursue, with National Grid, FirstEnergy, and Northern Indiana Public Service Company, the formation and operation of GridAmerica as an independent transmission company ("ITC") within and under the Midwest ISO. We continue to believe that the Order on Petition for Declaratory Order issued April 25, 2002 in Alliance Companies, et al., 99 FERC ¶61,105 (2002), gave the guidance and assurances necessary for the Alliance companies to work within the Midwest ISO context. Ameren clearly heard that message and is moving quickly and decisively in that direction. In addition, several issues were raised by the Commission during the June 26<sup>th</sup> meeting that we believe require a response by Ameren.

The Commission should pursue the harmonization of RTO operational and wholesale market considerations in a way that will precipitate robust and efficient wholesale electricity markets without adversely affecting system reliability. For that reason, Ameren strongly encourages the FERC promptly to resolve seams issues between the Midwest ISO and the PJM Interconnection in a manner that will foster voluntary

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DOCKETED



The Honorable Pat Wood III  
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development of RTOs that do not present potential operational and reliability concerns. Ameren also encourages the Commission to take any other measures necessary to mitigate competition-harming market barriers that may arise in an appropriate and equitable manner. Such action by the FERC will enable participants in both the Midwest ISO and the PJM Interconnection to avoid spending the significant time, effort and money that might otherwise be necessary to correct and properly implement improperly designed RTOs in the future.

One of the primary reasons why the Commission denied RTO status to the Alliance was its configuration relative to the Midwest ISO. Alliance Companies, et al., 97 FERC ¶61,327 (2001). The Commission determined that the proposed configuration was unacceptable even though the Alliance RTO and the Midwest ISO had developed a detailed Inter-RTO Cooperation Agreement ("IRCA") to mitigate the potential operational issues that could exist at the seams between the two RTOs. The Alliance RTO and the Midwest ISO had also developed a super-regional rate for transmission service to mitigate the potential competition-harming market barriers between the two RTOs. Furthermore, the market design and operational characteristics of the Midwest ISO and the Alliance RTO were being developed to be compatible with each other, which would have made inter-RTO coordination less costly and more feasible.

From an operational standpoint with the present RTO designations by the Alliance companies, the seam that will exist between the Midwest ISO and PJM appears to be no better, and, in fact, may be worse than the seam that would have existed between the Midwest ISO and the Alliance RTO. This is illustrated by the data contained in a recent presentation made by Jim Torgerson, President and CEO of the Midwest ISO, at a recent conference sponsored by the Mid-America Regulatory Commissioners in Bismarck, North Dakota. To aid the Commission in its deliberations in this proceeding, Ameren is respectfully submitting that presentation in its entirety as an attachment to this letter.

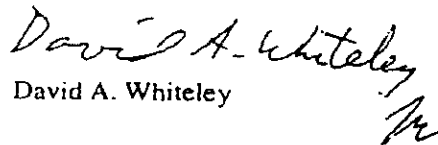
Ameren is further concerned that the proposed Midwest ISO-PJM seam will not have the benefit of an agreement similar to the IRCA nor the super-regional rate to mitigate the potential competition-harming market barriers between the two RTOs. Ameren is not aware of an IRCA or super-regional rate currently being pursued to facilitate the development of seamless and reliable operations as well as a seamless competitive power market in the territories being served by utilities in the Midwest ISO and PJM. Development of an adequate operational agreement and an appropriate super-

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regional rate may allow each of the Alliance companies to implement its business plan while participating in an RTO that does not give rise to the principle concerns identified by Mr. Torgerson.

Again, I thank you for the opportunity for Ameren to participate in the Commission's meeting on June 26. Ameren looks forward to a Commission resolution of the issues presented in this proceeding that advances both operational conditions and market opportunities throughout the Midwest. Should you or your staffs have any questions about the points raised in this letter, or other questions about Ameren, please do not hesitate to call on me.

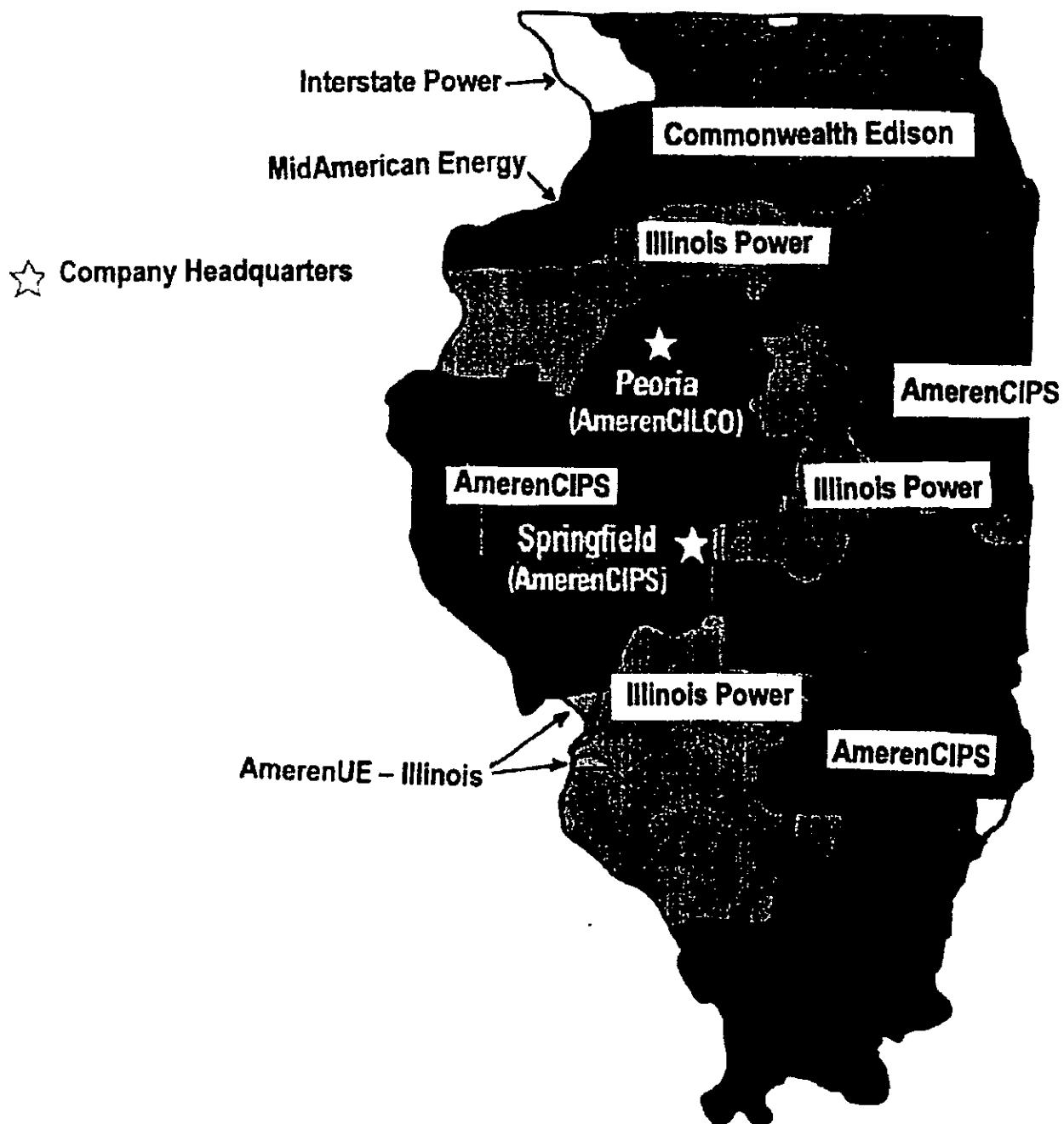
Sincerely,

  
David A. Whiteley

Enclosure

cc: The Honorable Magalie Roman Salas, Secretary (w/encl.)  
Mr. Michael R. Gent, NERC (w/encl.)  
Service Lists for Docket Nos. EL02-65-000 and RT01-88-016 (w/encl.)

# ILLINOIS UTILITY SERVICE TERRITORIES





MICHEHL R. GENT  
President and CEO

## NORTH AMERICAN ELECTRIC RELIABILITY COUNCIL

Princeton Forrestal Village, 116-390 Village Boulevard, Princeton, New Jersey 08540-5731

October 15, 2003

Name  
Title  
Company  
Address  
City, State, Zip

Dear

### Near-Term Actions to Assure Reliable Operations

On October 10, 2003, the NERC Board of Trustees, with the endorsement of its Stakeholders Committee, directed that the following letter be sent to the CEOs of all NERC control areas and reliability coordinators.

NERC is assisting the U.S.-Canada Joint Task Force's investigation of the August 14, 2003, blackout that affected parts of the Midwest and Northeast United States, and Ontario, Canada. Although considerable progress has been made in the investigation to determine what happened, an understanding of the causes of the outage is still being developed through analysis by teams of experts.

The reliability of the North American bulk electric systems, including the avoidance of future cascading outages, is of paramount importance to NERC and its stakeholders. Pending the outcome of the final report on the outage, NERC emphasizes to all entities responsible for the reliable operation of bulk electric systems the importance of assuring those systems are operated within their design criteria and within conditions known to be reliable through analytic study. If the power system enters an unanalyzed state, system operators must have the authority and the capability to take emergency actions to return the power system to a safe condition.

NERC requests that each entity in North America that operates a control area and each NERC reliability coordinator review the following list of reliability practices to ensure their organizations are within NERC and regional reliability council standards and established good utility practices. NERC further requests that within 60 days, each entity report in writing to their respective regional reliability council, with a copy to NERC, that such a review has been completed and the status of any necessary corrective actions. This brief list of near-term actions is not in any way intended to diminish the need to comply with all NERC and regional reliability council standards and good utility practices.

1. **Voltage and Reactive Management:** Ensure sufficient voltage support for reliable operations.

Name  
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- Establish a daily voltage/reactive management plan, assuring an adequate static and dynamic reactive supply under a credible range of system dispatch patterns.
  - During anticipated heavy load days, or conditions of system stress such as caused by heavy wide-area transfers, ensure all possible VAR supplies are verified and available, and VAR supplies are applied early in the day ahead of load pickup.
  - Reserve sufficient dynamic reactive supply (e.g. online generation and other dynamic VAR resources) to meet regional operating criteria and system needs.
  - In accordance with NERC and regional practices maintain voltage schedules of all bulk electric transmission facilities above 95% of nominal values and in conformance with regional criteria.
  - Report any low voltage limit violations at critical high voltage transmission facilities to the reliability coordinator.
  - Ensure all interconnected generators that have, or are required to have, automatic voltage regulation (AVR) are operating under AVR.
  - Coordinate potential differences of voltage criteria and schedules between systems and ensure these differences are factored into daily operations.
2. **Reliability Communications:** Review, and as necessary strengthen, communication protocols between control area operators, reliability coordinators, and ISOs.
- Share the status of key facilities with other appropriate control area operators, reliability coordinators, and ISOs.
  - Control area operators, reliability coordinators, and ISOs should conduct periodic conference calls to discuss expected system conditions and notify all neighboring systems of any unusual conditions. Conduct additional calls as needed for system critical days.
3. **Failures of System Monitoring and Control Functions:** Review and as necessary, establish a formal means to immediately notify control room personnel when SCADA or EMS functions, that are critical to reliability, have failed and when they are restored.
- Establish an automated method to alert power system operators and technical support personnel when power system status indications are not current, or that alarms are not being received or annunciated.
  - Determine what backup capabilities can be utilized when primary alarm systems are unavailable. If a backup to failed alarms is not immediately available, then monitoring and control should be transferred in accordance with approved backup plans.
  - Identify and implement procedures to move to 'conservative system operations' when operators are unsure about next contingency outcomes (i.e., unstudied conditions, loss of SCADA or EMS visibility, unexplained or unknown power system conditions).
  - Ensure all critical computer and communication systems have a backup power supply, and the backup supply is periodically tested.
  - Ensure that system operators have a clear understanding of the impact to their energy management system control functions whenever their transaction tagging and scheduling systems fail. Identify and implement appropriate contingency procedures for loss of real-time ACE and AGC control.

4. **Emergency Action Plans:** Ensure that emergency action plans and procedures are in place to safeguard the system under emergency conditions by defining actions operators may take to arrest disturbances and prevent cascading.
  - Actions might include but should not be limited to acting immediately to reduce transmission loading, ordering redispatch, requiring maximum reactive output from interconnected resources, and shedding load without first implementing normal operating procedures.
  - Ensure operators know, not only that they have the authority to shed load under emergencies, but that, in addition, they are expected to exercise that authority to prevent cascading.
5. **Training for Emergencies:** Ensure that all operating staff are trained and certified, if required, and practice emergency drills that include criteria for declaring an emergency, prioritized action plans, staffing and responsibilities, and communications.
6. **Vegetation Management:** Ensure high voltage transmission line rights of way are free of vegetation and other obstructions that could contact an energized conductor within the normal and emergency ratings of each line.

Sincerely,

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served, by U.S. Mail, first-class postage prepaid, the foregoing document on all parties to this proceeding, as listed on the official service list compiled by the Commission Secretary.

  
David B. Hennen

October 23, 2003