

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

In the Matter of the Application of	)	
Union Electric Company for Authority	)	
To Continue the Transfer of	)	Case No. EO-2009-_____
Functional Control of Its Transmission	)	
System to the Midwest Independent	)	
Transmission System Operator, Inc.	)	

**APPLICATION**

COMES NOW Union Electric Company d/b/a AmerenUE (Company or AmerenUE), and submits its Application to continue the transfer of functional control of its transmission system to the Midwest Independent Transmission System Operator, Inc. (the Midwest ISO). In support of its Application, AmerenUE states as follows:

**Preliminary Matters**

1. Union Electric Company is a Missouri corporation doing business under the fictitious name of AmerenUE, in good standing in all respects, with its principal office and place of business located at 1901 Chouteau Avenue, St. Louis, Missouri 63103. AmerenUE is engaged in providing electric and gas utility services in portions of Missouri as a public utility under the jurisdiction of the Missouri Public Service Commission (Commission). There is already on file with the Commission a certified copy of AmerenUE's Certificate of Corporate Good Standing (*see MPSC Case No. EF-2003-0514*), and AmerenUE's Fictitious Name Registration as filed with the Missouri Secretary of State's Office (*see MPSC Case No. GO-98-486*), and said documents are incorporated herein by reference and made a part hereof for all purposes. To the best of AmerenUE's knowledge, it has no pending actions or final unsatisfied judgments or decisions against it from any state or federal agency or court that involve customer service or

rates, which action, judgment or decision has occurred within three (3) years of the date of this Application. In addition, AmerenUE has no annual report or assessment fees that are overdue.

2. Communications with regard to this Application should be directed to:

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Sr. Vice-President, General Counsel & Secretary

**Thomas M. Byrne**

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### **Background**

3. On February 26, 2004, the Commission approved a Stipulation and Agreement (Stipulation) in Commission Case No. EO-2003-0271 authorizing AmerenUE, with conditions, to transfer functional control of its electric transmission system to the Midwest ISO, via participation in GridAmerica, LLC (GridAmerica), an independent transmission company (ITC) operating within the footprint of the Midwest ISO. *Order Approving Stipulation and Agreement*, effective March 7, 2004 (Order). The authorization granted by the Commission was for a term

beginning on the date AmerenUE transferred functional control of its transmission system to the Midwest ISO, and ending on the fifth anniversary of the date of transfer. *Stipulation*, § B.I.(A).

4. A condition of the Order was Federal Energy Regulatory Commission (FERC) approval of the Agreement for the Provision of Transmission Service to Bundled Retail Load (Service Agreement) called for by the Stipulation. *Order*, p. 2. The Service Agreement was entered into between AmerenUE and the Midwest ISO to codify the terms and conditions under which the Midwest ISO would provide transmission service to serve AmerenUE's bundled retail load, and also to preserve the Commission's jurisdiction to determine the transmission component of AmerenUE's bundled retail rates. AmerenUE and the Midwest ISO filed the Service Agreement with the FERC on February 19, 2004.

5. On March 25, 2004, the FERC approved the Service Agreement. *See* FERC Docket No. ER04-571-000. Thereafter, on May 1, 2004, AmerenUE transferred functional control of its transmission system as contemplated by the Stipulation and Order.

6. The Stipulation contains a provision allowing AmerenUE to withdraw from the GridAmerica ITC, while continuing its participation in the Midwest ISO without seeking further permission from the Commission. *Stipulation*, § X. AmerenUE exercised that right by notice given to the GridAmerica ITC on April 6, 2005, with its withdrawal from the GridAmerica ITC becoming effective on November 1, 2005. Since that time, AmerenUE has continued to participate in the Midwest ISO directly and not through a contractual relationship with the GridAmerica ITC. AmerenUE elected to withdraw from participation through the GridAmerica ITC because it determined that continued participation in the Midwest ISO through the GridAmerica ITC would not provide it with significant added value over participating directly in the Midwest ISO.

7. The Stipulation also requires AmerenUE to conduct a cost-benefit analysis respecting its Midwest ISO participation versus either participation in another viable Midwest transmission organization or not participating in an RTO, with input from stakeholders, and to file the cost-benefit analysis respecting those alternatives on or before a date that is 18 months prior to the date the authority granted in Case No. EO-2003-0271 expires. *Stipulation*, § B.III.(B). Under the Stipulation, that authority expires five years after AmerenUE transferred control to the Midwest ISO, or on April 30, 2009, which establishes a due date for the cost-benefit analysis of November 1, 2007. *Stipulation*, § B.I.(A) The Stipulation also requires that AmerenUE file a pleading at that same time that addresses whether a service agreement would remain in place in connection with any further AmerenUE participation in a regional transmission organization (RTO) and that addresses any need for independence in control area functions not being performed by the RTO in which AmerenUE may participate. *Stipulation*, § B.III.(A) This Application is that pleading.

8. The Stipulation (in particular, Attachment B thereto) prescribed the parameters under which the cost-benefit analysis was to be performed. The Stipulation also specifically contemplated that Staff, the Office of the Public Counsel (OPC) and any other interested signatory to the Stipulation (the Stakeholders) would have the opportunity to provide substantive input into the development of the inputs, outputs and other features to be included in the cost-benefit analysis. The Stipulation also required that Staff and OPC be given meaningful and substantial access to data, and that interested Stakeholders be given regular progress reports, have access to the consultants engaged by AmerenUE to perform the cost-benefit analysis, and be given the opportunity to have meaningful input in the preparation of the analysis. *Stipulation*,

§ B.III.(B). The process described above took place over the past approximately eight months, as contemplated by the Stipulation.

### **Study Results – Authorization Sought**

9. The cost-benefit analysis was conducted by CRA International (CRA), an international energy consulting firm with substantial knowledge and experience relating to the implementation of RTOs and competitive wholesale and retail electricity markets. CRA was chosen, in consultation with interested AmerenUE stakeholders, to perform the cost-benefit analyses through a collaborative process with those stakeholders (as contemplated by the Stipulation). CRA has previously conducted a series of significant cost-benefit studies relating to RTO participation, including studies for the Southeast Regulatory Utility Commission's Conference in 2002, Dominion Virginia Power's PJM Study in 2003, a study for the United States Department of Energy, also in 2003, an ERCOT Stakeholders Cost Benefit Study in 2005, and a study for Aquila respecting its RTO participation in 2006-2007. As provided by Attachment B to the Stipulation, AmerenUE identified and examined three alternative scenarios for the purpose of the cost benefit analysis, as follows: continued participation by AmerenUE in the Midwest ISO; participation by AmerenUE in the Southwest Power Pool (SPP) RTO; and a contractual relationship between AmerenUE and an ICT with the ICT to coordinate operation of the AmerenUE transmission system. Each scenario was analyzed over a 10-year study period (2009 to 2018). The cost-benefit analysis is attached hereto and incorporated herein by this reference as Exhibit A.

10. Because RTOs are continuing to develop, CRA examined not only a 10 year period starting in 2009, but also the three year period 2009 to 2011. Several areas of RTO operations are expected to become more fully developed by the end of this three year period,

including implementation of SPP's Day Two Markets, the Midwest ISO's implementation of an Ancillary Services Market, and efforts to redesign the Midwest ISO's Revenue Sufficiency Guarantee (RSG) and Revenue Neutrality (RNU) payments.

11. In summary, the results of the CRA cost-benefit analysis indicate that continued participation in the Midwest ISO during the three year period 2009 to 2011 versus the ICT case favors continued Midwest ISO participation by approximately \$153 million, which is the net present value of the benefit over the three-year period in 2008 dollars.. For the 10-year period 2009 to 2018, continued participation in the Midwest ISO would be expected to be approximately \$346 million more favorable than the ICT case. The cost-benefit analysis indicates that the SPP case is the least desirable option both during the three-year period (\$203 million less favorable than continued participation in the Midwest ISO) and during the 10-year period (\$563 million less favorable than continued participation in the Midwest ISO).

12. As noted earlier, however, there are several potentially significant uncertainties relating to RTO development that AmerenUE expects to become much less uncertain by the end of the three-year period noted above. These uncertainties pose risks, some of which could make continued participation in the Midwest ISO more favorable relative to the SPP or ICT cases, and some of which could reduce or eliminate the benefits of continued Midwest ISO participation versus the ICT and SPP cases. Uncertainties that could make continued participation in the Midwest ISO more or less favorable relative to the SPP or ICT cases include: (a) the potential loss of incremental revenues (which also offset the revenue requirement for bundled retail load) of approximately \$60 million annually under the AmerenUE-Midwest ISO Service Agreement and the Transmission Owners Agreement in the event the Midwest ISO or the other transmission owners within the Midwest ISO seek and obtain changes to the relevant agreements which

impact these revenues; (b) changes in the costs or benefits realized by the cost allocation of Midwest ISO transmission expansion projects (or significant additional transmission expenses related to transmission projects in other parts of the Midwest ISO); (c) costs or benefits associated with the Midwest ISO's implementation of an Ancillary Services Market; (d) efforts to redesign the Midwest ISO's RSG and RNU payments [as noted above]; (e) the possibility of a significant (approximately \$35 million) Midwest ISO exit fee if AmerenUE does not continue its Midwest ISO participation; (f) issues relating to availability of transmission, and the associated potential cost for transmission if available, in the ICT case for AmerenUE to make off-system sales; (g) uncertainty about the amount of through and out wheeling revenues to be received by AmerenUE in the ICT case; (h) costs or benefits associated with implementation and the timing of the implementation of SPP's Day Two Markets (i.e., a complete energy and ancillary services market in SPP); (i) changes in costs or revenue allocations in the Midwest ISO if there are more, or fewer, Midwest ISO participants; and (j) the potential for a greater impact on the ICT case if fuel prices (particularly gas prices) increase, and/or if carbon controls are implemented.

13. Because the economics favor continued participation in the Midwest ISO, but given the uncertainties discussed above, AmerenUE requests Commission authority to continue its Midwest ISO participation for an additional three years beyond the term of its current authorization, which as noted above ends April 30, 2009. Extending AmerenUE's authorization to April 30, 2012 should provide an opportunity to reduce the uncertainty associated with the risks noted above during a period when the cost-benefit study indicates that continued participation in the Midwest ISO is favorable, but will also give the Company, stakeholders, and the Commission an opportunity to review the costs and benefits of the Midwest ISO versus other RTOs or other non-RTO options once RTOs in the region or other options become more fully

developed. AmerenUE intends to immediately engage in discussions with the Midwest ISO in order to mitigate some of these risks during the 2009 to 2011 time-frame, and could elect to return to the Commission for permission to withdraw from the Midwest ISO prior to April 30, 2012 if it appears that continued participation will become unfavorable prior to that time.

AmerenUE commits to provide a substantive report on the progress of its discussions with the Midwest ISO on these issues by June 1, 2008. In order to continue the preservation of Commission authority over the transmission component of AmerenUE's bundled retail rates, AmerenUE also proposes to continue the AmerenUE-Midwest ISO Services Agreement, which remains in effect by its terms. AmerenUE also identifies no need for any further independence in control area functions not being performed by the Midwest ISO.

14. In recognition of the fact that AmerenUE's participation in the Midwest ISO beyond April 30, 2012 would require further authority from the Commission, AmerenUE proposes to complete by November 1, 2010 an additional cost-benefit analysis, unless the stakeholders were to all agree that an additional cost-benefit analysis was unnecessary. The additional cost-benefit analysis would be completed pursuant to the same terms and conditions provided for in § B.III.(B) (and Attachment A) of the Stipulation. The Company also proposes to file the cost-benefit analysis with the Commission by November 1, 2010, to be accompanied by a pleading respecting further RTO participation by AmerenUE beyond April 30, 2012.

#### **Miscellaneous Filing Requirements**

15. 4 CSR 240-3.110 prescribes certain filing requirements where a utility sells, assigns, leases or transfers assets. While no assets are being transferred in connection with this Application, functional control of the Company's transmission system would continue to rest in

the Midwest ISO. Consequently, the Company provides the following information pursuant to 4 CSR 240-3.110:

- a. Subsection 1(A): The assets involved consist of AmerenUE's transmission facilities operated at 100 kV and above located in the state of Missouri. A highly confidential map showing the transmission system can be made available at AmerenUE's main offices in St. Louis.<sup>1</sup>
- b. Subsection 1(B): Attached hereto and incorporated herein by this reference as Exhibit B is the Agreement of Transmission Facilities Owners to Organize the Midwest Independent Transmission System Operator, Inc., to which AmerenUE is currently a party and pursuant to which the Midwest ISO exercises functional control over AmerenUE's transmission system.
- c. Subsection 1(D)<sup>2</sup>: Continuation of the transfer of functional control of AmerenUE's transmission system for the term sought herein is not detrimental to the public interest for the reasons outlined above in this Application.
- d. Subsection 1(E): There is no "purchaser" of any assets, as noted above, and the Midwest ISO is not subject to the jurisdiction of the Commission.
- e. Subsection 1(F): Because there will be no transfer of title to any of AmerenUE's transmission assets, there will be no impact on tax revenues in the state of Missouri as a result of continuing the transfer of functional control of AmerenUE's transmission system to the Midwest ISO.

### **Relief Sought**

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<sup>1</sup> Due to the need for enhanced security in the wake of 9/11, AmerenUE carefully controls access to maps of its transmission system.

<sup>2</sup> This Application is verified, below, as required by Subsection 1(C).

WHEREFORE, AmerenUE respectfully requests that the Commission make and enter its order extending its permission and authority under §393.190.1, RSMo. to transfer functional control of its transmission system to the Midwest ISO until April 30, 2012, on the following conditions:

- a. That AmerenUE pursue discussions with the Midwest ISO to mitigate risks of further Midwest ISO participation through April 30, 2012, and that the Stakeholders be given a substantive report on the progress of those discussions on or before June 30, 2008; and
- b. That AmerenUE conduct an additional cost-benefit analysis relating to the operation of its transmission system under the same terms and conditions prescribed in § B.III.(B) (and attachment A) of the Stipulation, and that the same be filed with the Commission on or before November 1, 2010 , to be accompanied by a pleading respecting further RTO participation by AmerenUE beyond April 30, 2012.

Dated: November 1, 2007

Respectfully submitted,

**SMITH LEWIS, LLP**

By: /s/ James B. Lowery

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VERIFICATION

STATE OF MISSOURI

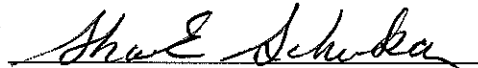
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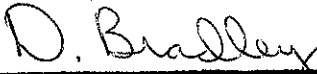
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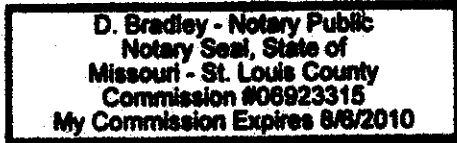
I, Shawn E. Schukar, of lawful age, being duly sworn, deposes and says that he is Vice President for Union Electric Company d/b/a AmerenUE, that he is duly authorized and did sign the foregoing Application on behalf of Union Electric Company, that he has knowledge of the facts stated in the foregoing Application, and that said facts are true to the best of his knowledge, information and belief.



Shawn E. Schukar

Subscribed and sworn to before me this 1<sup>st</sup> day of November, 2007.





## **CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing was served via e-mail, to the following parties, on the 1st day of November, 2007, as follows:

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**/s/ James B. Lowery**

James B. Lowery