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Issues:	Construction of New Transmission Facilities and MISO Exit Fee
Witness:	David A. Whiteley
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Union Electric
Case No.:	EC-2002-1
Date Testimony Prepared:	May 10, 2002

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EC-2002-1

REBUTTAL TESTIMONY

OF

DAVID A. WHITELEY

ON BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

Exhibit No. 142
Date 7/10/02 Case No. EC-2002-1
Reporter Keni

St. Louis, Missouri
May, 2002

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REBUTTAL TESTIMONY

OF

DAVID A. WHITELEY

CASE NO. EC-2002-1

Q. Please state your name and business address.

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

Q. What is your educational background and work experience?

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

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

A. My present position is Senior Vice-President, Ameren Services Company. In this position I oversee the Energy Delivery Technical Services organization that is responsible for the operations, maintenance, planning, engineering design, and construction of all transmission facilities for AmerenUE and AmerenCIPS, the utility operating subsidiaries of Ameren Corporation. In addition to those responsibilities, I also oversee the Corporate Planning and Supply Services Functions at Ameren Services Company.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide the Missouri Public Service Commission ("Commission") with information: (I) relating to the need for constructing new transmission facilities on the AmerenUE system; (II) that justifies recovery of the expense AmerenUE incurred to withdraw from the Midwest ISO; and (III) that illustrates the significant subsidy provided to AmerenUE's bundled retail customers by open access transmission service revenues. In addition, as part of my testimony, I have prepared an **Executive Summary** attached hereto as Appendix A.

Q. Could you summarize the main points covered in your testimony relating to the need for constructing new transmission facilities to upgrade AmerenUE's transmission system?

A. Yes. Since the issuance by the Federal Energy Regulatory Commission ("FERC") of Order No. 888 in April of 1996, the transmission system of AmerenUE along with AmerenCIPS has become the crossroads of the wholesale energy market. If this significant increase in usage by third parties is not matched by an increased capability of the AmerenUE and AmerenCIPS transmission systems to handle these demands, AmerenUE may not have sufficient access to competitive supplies of capacity and energy created by Order No. 888. To appropriately enhance AmerenUE's ability to access these competitive energy supplies afforded to it by Order No. 888, the transmission system of the Company needs to be upgraded.

The $76 million of capital expended on AmerenUE's transmission system over the last five years will not be enough to adequately increase AmerenUE's transmission system capability over the next five years. In fact, AmerenUE-Missouri has identified the need to construct up to $400 million of transmission system upgrades during the next five years. By constructing these transmission upgrades, the import capability of AmerenUE will also be increased by approximately 1,300 megawatts by the year 2005.

To fulfill this need to enhance the capability of AmerenUE's transmission system and thereby recapturing the benefits of Order No. 888 for AmerenUE and its bundled retail customers, the Commission must establish adequate cost recovery mechanisms and other incentives that encourage expansion of AmerenUE's transmission system.

Q. Could you summarize the main points made in your testimony regarding the justification for recovery of the expense AmerenUE incurred to withdraw from the Midwest ISO?

A. Yes. In his direct testimony, Staff Witness John P. Cassidy recommends removing from AmerenUE's cost of service the $12.5 million exit fee paid by AmerenUE to withdraw from the Midwest ISO by arguing that the exit fee is a one-time, non-recurring expense and that AmerenUE may receive reimbursement of the exit fee from the Midwest ISO outside the test year. For the following reasons, I believe this justification is unreasonable and inappropriate.

First, the fact that the exit fee was a one-time expense alone does not justify disallowance of this, or any other, expense. In fact, the Commission has allowed

AmerenUE to recover one-time, non-recurring merger related expenses in a previous rate case proceeding. Second, the exit fee expense was a prudently incurred expense, which is not refuted by Staff testimony. Third, as acknowledged by Staff Witness Dr. Michael Proctor in his deposition testimony, the reimbursement of the exit fee is uncertain. (See Proctor Deposition at p. 12). Moreover, it is unreasonable and inappropriate for Staff to use speculative offsets from outside the test-year without also acknowledging equally well-known expenses outside the test-year. The only way AmerenUE will receive a reimbursement of its exit fee is if it rejoins the Midwest ISO in some form. If it rejoins the Midwest ISO, however, AmerenUE will also incur an approximately $6 million per year Midwest ISO administrative charge on its bundled retail load. This administrative charge significantly exceeds the $12.5 million exit fee that AmerenUE is seeking to recover, amortized over four years, in this rate case.

Q. Could you summarize the main points that you made in your testimony regarding the significant subsidy provided to AmerenUE's bundled retail customers by open access transmission service revenues?

A. Yes. As a result of Ameren's decision to withdraw from the Midwest ISO, the loss of significant open access transmission service revenues may be prevented. By retaining these open access transmission service revenues, the cost of service for AmerenUE's bundled retail customers includes a significant offset of open access transmission service revenues received during the test year. As a result of these offsets, the annual cost of service attributable to AmerenUE's bundled retail customers for the use of AmerenUE's transmission assets is only $26.5 million. If the revenue requirement for AmerenUE's bundled retail customers were calculated using a load ratio share methodology, which would allocate transmission costs to wholesale and retail customers more equitably, the annual revenue requirement attributable to AmerenUE's bundled retail customers would be approximately $36.5 million. Consequently, open access transmission revenues provide an approximately $10 million annual subsidy to Missouri's retail customers. Moreover, as long as the allowed rate of return for UE-Missouri is less than the returns for transmission owners currently allowed or found reasonable by FERC, the full credit of unbundled FERC jurisdictional transmission revenues as an offset to the Missouri retail cost of service is inappropriate. It is inappropriate because this treatment will "undo" the FERC jurisdictional return and prevent the Company from earning FERC accepted returns on the Company's transmission assets. Finally, by using all of these revenues as an offset to the retail cost of service, the future retail costs are understated because in the Regional Transmission Organization ("RTO") environment Ameren will soon be a part of, this subsidy may become significantly reduced if not eliminated.

I. Need for AmerenUE to Construct Additional Transmission Facilities on the AmerenUE System

Q. Has there been a dramatic change in the way AmerenUE's transmission system has been used during the last five years?

A. Absolutely. Since April of 1996, when the FERC issued Order No. 888 requiring AmerenUE to provide to all eligible customers non-discriminatory access to its transmission system, the use of AmerenUE's transmission system has increased dramatically. Moreover, as a result of the merger between Union Electric Company (d/b/a AmerenUE) and Central Illinois Public Service Company (d/b/a AmerenCIPS), the two operating companies now operate their respective transmission systems as a single system (collectively the "Ameren Transmission System") pursuant to a single FERC approved open access transmission tariff. The combination of these two low cost transmission providers has created a transmission system with 28 direct interconnections with other energy markets making it the cross-roads to a significant number of energy transactions.

Q. Can AmerenUE restrict access to the Ameren Transmission System?

A. No. As I mentioned above, Order No. 888 requires AmerenUE to provide non-discriminatory access to its transmission system to all eligible customers. Eligible customers include any electric utility, including the transmission provider, and any power marketer, Federal power marketing agency, or any person generating electric energy for sale for resale. Presently, eligible customers on the Ameren System include other utilities, marketers, independent power producers as well as AmerenUE's marketing and trading affiliate Ameren Energy.

Q. What are the practical implications arising from FERC Order No. 888?

A. As I mentioned above, since the inception of FERC Order No. 888, the Ameren Transmission System has seen a steady increase in open-access transmission usage resulting in a steady increase in open access transmission revenues. This increase in usage, however, has caused many of the Ameren Transmission System interconnections with other transmission providers to be fully subscribed. While the high subscription rate of the Ameren Transmission System has provided significant financial benefit to Missouri's ratepayers, it also has revealed an immediate need for enhancing the capability of the Ameren Transmission System.

Q. How have AmerenUE's bundled retail customers benefited from the issuance of Order No. 888?

A. Order No. 888 spawned a more competitive wholesale generation market enhancing AmerenUE's access to competitively priced capacity and energy. As a result, AmerenUE has been able to acquire low cost capacity and energy supplies that would not have been available if wholesale competition did not exist. At times, the cost of capacity and energy made available as a result of Order No. 888, can be below that which AmerenUE would have incurred to make the capacity available or produce the energy at its own plants. This in turn has resulted in savings to AmerenUE's bundled retail customers.

Q. Aside from gaining access to more competitively priced capacity and energy, have AmerenUE's bundled retail customers benefited in any other way from FERC's issuance of Order No. 888?

A. Yes. Because the Ameren Transmission System is interconnected with 28 other control areas, the Ameren Transmission System has become the crossroads for the developing wholesale energy market. As a result, the Ameren Transmission System is a highly subscribed transmission system. In fact, this high subscription rate has generated, since the inception of open access, approximately $168 million in open access transmission service revenues (not including revenues from ancillary services and energy losses). An estimated $25 million of earnings associated with these open access transmission revenues has already been credited back to AmerenUE's bundled retail customers through the Experimental Alternative Regulation Plan ("EARP") in effect from July 1, 1995 through June 30, 2001. And, if the Company's proposed Alternative

Regulation Plan is adopted, AmerenUE expects additional open access transmission revenues could flow back directly to AmerenUE's bundled retail customers. Moreover, as explained in more detail later in this testimony, AmerenUE's continued receipt of open access transmission revenues from third party transmission customers results in significant subsidies to AmerenUE's bundled retail customer rates.

Q. Has this high subscription rate of the Ameren Transmission System resulted in operational challenges or constraints on the Ameren Transmission System?

A. Yes. While AmerenUE and AmerenCIPS have not had the need to curtail any firm transactions across the Ameren Transmission System or curtail any load in the AmerenUE or AmerenCIPS service areas, a number of non-firm, open access transactions have been curtailed as a result of transmission line loading relief ("TLR") called as a result of constraints on the Ameren Transmission System. In fact, over the last two years, approximately 325 TLRs have been called due to constraints on the Ameren Transmission System. Moreover, because of the high subscription rate, approximately 28,400 open access transmission service requests were refused by Ameren in 2001.

Q. Is the Ameren Transmission System still adequate to meet the current demands of AmerenUE's bundled retail customers?

A. Yes. The Ameren Transmission System is adequate to meet the current needs of AmerenUE's bundled retail customers. However, as indicated above, because AmerenUE must provide non-discriminatory access to the Ameren Transmission System to all eligible customers, some of the facilities that make up the interconnections between the Ameren Transmission System and other transmission systems are heavily subscribed. In other words, the carrying capacity of these interconnections is, or is close to being, completely booked up in order to serve the needs of Ameren and other entities that have already purchased firm transmission service under Ameren's open access transmission tariff.

Q. Has the high subscription rate had a negative impact on AmerenUE's ability to purchase capacity and energy from third party suppliers for its bundled retail customers in Missouri?

A. Yes. Last year AmerenUE submitted a request for proposal to acquire capacity to meet the needs of AmerenUE's anticipated system peak demand and reserve requirements. A number of the bids received could not be selected because the transmission service necessary to deliver the capacity into the Ameren Transmission System was not available.

Q. Does AmerenUE have a plan to remedy the constraints on the Ameren Transmission System?

A. Yes. While the Staff does not acknowledge nor anticipate in its testimony the significant increased need for transmission system upgrades, AmerenUE has planned up to $400 million of transmission upgrades over the next five years in an effort to alleviate some of the more significant constraints on AmerenUE's Missouri portion of the Ameren Transmission System. When compared to the approximately $76 million of capital improvements made over the past five years on AmerenUE's portion of the system, one can readily see the tremendous increase in capital that will be focused on enhancing the overall capability of the Ameren Transmission System.

Q. What impact will these upgrades have on AmerenUE's ability to acquire power to meet its system peak demand and reserve requirements?

A. Planned transmission upgrades will increase the import capability of AmerenUE by approximately 1,300 MW. By increasing import capability, these upgrades will have a positive impact on AmerenUE's ability to acquire capacity and energy from generation sources outside of the Ameren Transmission System as well as from new generation sources connected directly to the Ameren Transmission System. Access to more generation sources should enhance AmerenUE's access to lower cost capacity and energy to meet its native load obligations. This in turn should provide AmerenUE with the ability to keep its capacity and energy costs down to serve its bundled retail customers.

Q. Once the transmission upgrades to improve AmerenUE's import capability are completed, how does AmerenUE preserve the increased import capability for its bundled customers?

A. As I mentioned earlier in my testimony, Ameren must provide non-discriminatory access to all users of its transmission system. Thus, to preserve the right to the increased import capability, AmerenUE must purchase firm point-to-point transmission service on its system. In fact, in December of 2001, AmerenUE purchased 350MW of firm transmission service on its system to preserve the ability to import capacity and energy needed to meet its expected service obligations in future years. The cost to preserve this capability will be $4.1 million per year. Furthermore, if the forecasted need to import 1,200 MW of capacity by 2006 comes to fruition, AmerenUE may need to incur firm point-to-point reservation charges of approximately $14 million per year to preserve the ability to import this capacity and energy from other control areas.

Q. Will the planned upgrades have a positive impact on the reliability and security of the Ameren Transmission System?

A. Yes. To preserve the present level of reliable service on the Ameren Transmission System, transmission capacity must be added to facilitate load growth and increased use of the Ameren Transmission System. Absent upgrades, the transmission system will become less secure in the event of a failure or multiple failures of equipment on the Ameren Transmission System. The most secure transmission system is one that is not stretched to its capacity limit, but is sufficiently robust to withstand individual outages on the system without degrading overall system reliability.

Q. Has AmerenUE started any of the upgrade projects that will improve the reliability and security of the transmission system?

A. Yes. AmerenUE has already started on several projects in Missouri that when finished will improve the reliability and security of the transmission system. These projects include: 1) the Callaway - Franks 345 kV line. This upgrade will reduce the loading on AmerenUE's Bland - Franks, 345 kV transmission line that has been heavily constrained for a number of years due to heavy amounts of power flowing from north to south across the Ameren System. The cost of this upgrade has been estimated to be $23 million; 2) the Rush Island - St. Francis 2, 345 kV line. This upgrade will unload the Rush Island - St. Francis 1 line that also has been heavily constrained for a number of years due to heavy amounts of power flowing from north to south across the Ameren System. The cost of this upgrade has been estimated to be $15 million; and 3) the

Wildwood transmission station. The addition of the Wildwood transmission station will provide needed support to the electric system in west St. Louis County and it also will provide voltage support to the Gray Summit area. The cost of this substation has been estimated to be $9 million. However, the costs of these upgrades are a mere fraction of the total transmission upgrades that will be needed in the near term.

Q. Do the estimated costs for planned transmission projects over the next five years exceed the capital expenditures made by AmerenUE on the transmission system over the last five years?

A. Yes. As I indicated earlier in my testimony, AmerenUE has planned up to $400 million of transmission system upgrades on the AmerenUE portion of the Ameren Transmission System over the next five years. In contrast, during the previous five years, AmerenUE only constructed approximately $76 million of transmission improvements. The reason for this disparity is primarily due to the significant increase in the use of the Ameren Transmission System as a result of FERC's issuance of Order No. 888.

Q. What obstacles or regulatory impediments exist that could prevent AmerenUE from completing the proposed transmission upgrades?

A. Unfortunately, all utilities face obstacles in making transmission improvements to their respective systems. Foremost among these obstacles is the not-in-my-backyard or NIMBY syndrome, which prompts those people living or doing business near a proposed transmission facility, and even the local municipality itself, to complain that the proposed transmission upgrade or project should be developed elsewhere—if at all. Moreover, investor-owned companies, like AmerenUE, face additional regulatory impediments, the most significant of which is regulatory uncertainty. In effect, because a facility must be used and useful before it can be put in rate base, AmerenUE must contemplate years in advance whether regulators will allow adequate cost recovery to justify installation of transmission upgrades. This is due to the fact that most transmission projects take several years to complete. Because of this significant regulatory uncertainty, AmerenUE must assume an enormous amount of risk while construction of the transmission system upgrades is being completed.

Q. What solutions do you propose to alleviate these obstacles and regulatory impediments?

A. To alleviate these obstacles and regulatory impediments, the siting and permitting process for new transmission facilities and upgrades must be significantly streamlined (i.e. specify discrete timeframes for project review and clarify that state rather than local approvals determine whether a project can go forward). Perhaps most importantly, however, Missouri must establish adequate cost recovery mechanisms and other incentives that encourage transmission system expansion. After all, prudent transmission system expansion can ensure more liquid energy markets and provide increased reliability on the Ameren Transmission System.

II. <u>Justification for Recovery of the Midwest ISO Exit Fee</u>

Q. On pages 9-10 of his direct testimony, Staff Witness John P. Cassidy recommends removing from AmerenUE's cost of service, the $12,502,800 exit fee paid by AmerenUE to withdraw from the Midwest ISO, by arguing: 1) the exit fee is a non-recurring, one-time expense; and 2) it is possible, if Ameren rejoins the Midwest ISO in the future, that AmerenUE may be able to recover a full refund of the exit fee. Do you agree with Staff Witness Cassidy's justification?

A. No, I do not.

Q. Why is elimination of the $12,502,800 exit fee from the test-year cost of service not justifiable?

A. First of all, the fact that the exit fee was a one-time, non-recurring expense alone does not justify disallowance of the expense, especially since this expense was prudently incurred and will produce benefits for AmerenUE's bundled retail load on a going forward basis. In fact, the Commission acknowledged in a previous rate case that the one-time, non-recurring merger related expenses AmerenUE incurred during the merger with AmerenCIPS, were recoverable, provided the recovery was amortized over a reasonable period of time.

Q. Does Staff Witness Cassidy claim the exit fee expense was imprudently incurred?

A. No. Staff Witness Cassidy does not show and does not claim that the exit fee expense was imprudently incurred.

Q. At the time AmerenUE made its decision to withdraw from the Midwest ISO, was this a prudent decision?

A. Yes, it was. At the time Ameren made the decision to withdraw from the Midwest ISO, there were significant current and future benefits to AmerenUE's bundled retail customers at stake. Ameren firmly believed that had they not withdrawn, significant, third-party open access transmission service revenue losses would have occurred without a corresponding reduction in third party use of the Ameren Transmission System. While third parties would continue to use the Ameren Transmission System at the same levels under the Midwest ISO tariff, the cost of the

Ameren Transmission System, including any necessary transmission system upgrades, would have to be paid for primarily by Ameren's bundled retail customers. As a result of Ameren's decision to withdraw, this may not be the case, at least during a transition period ending in 2004.

Q. How does AmerenUE propose to include the $12,502,800 exit fee in the test-year cost of service?

A. AmerenUE proposes that its normalized cost of service reflect an amortization of this expense over a four year period. Thus, over the four year amortization period, as AmerenUE's bundled retail customers reap the significant benefits made possible through Ameren's decision to withdraw, the retail customers will also incur the amortized expense associated with the withdraw.

Q. Is Staff Witness Cassidy's argument that the exit fee should be eliminated from the test-year cost of service because AmerenUE may receive a refund of the exit fee if it rejoins the Midwest ISO in the future reasonable and appropriate?

A. No, I do not think that it is reasonable or appropriate. First of all, it is uncertain when, or if, AmerenUE will ever receive a refund of the exit fee from the Midwest ISO. Even Staff Witness Dr. Michael Proctor in his deposition testimony acknowledged that the refund of the exit fee by the Midwest ISO is not a certainty (See Proctor Deposition at page 12). Moreover, if a refund from the Midwest ISO did occur, it would occur outside of the test-year. Hence, it is inappropriate to exclude a prudent expense incurred during the test-year based on a speculative refund of the expense outside the test year. Second, if Staff is allowed to look outside the test-year for offsets to expenses during the test year, Staff also must acknowledge other equally well-known expenses that will be incurred by AmerenUE outside the test-year.

Q. What other expenses will be incurred by AmerenUE if it participates in the Midwest ISO - RTO ("Midwest RTO")?

A. If AmerenUE participates in the Midwest RTO (or any other RTO), AmerenUE will at a minimum incur RTO administrative expenses that have not been reflected in the test-year cost of service. This administrative charge will be assessed by the Midwest RTO on all load, including AmerenUE's bundled retail customer load. For example, the Midwest RTO administrative expense, or Schedule 10 charge, is projected to be $.15/MWH through 2008. By applying this Schedule 10 charge to AmerenUE's bundled retail load, where the retail load is calculated by multiplying the monthly peak demand by the number of hours in the month (i.e. the Midwest RTO has requested the ability, through a settlement proceeding at FERC, to assume a 100% load factor for billing its administrative charge), the administrative adder equates to an approximately $6 million annual charge for the bundled retail load of AmerenUE - Missouri.

Q. If the test-year cost of service is adjusted to reflect an amortized exit fee expense and AmerenUE receives a refund of its exit fee from the Midwest ISO, will AmerenUE over-recover its RTO expenses?

A. No, it will not. The only way Ameren will receive a refund of its exit fee expense is if it rejoins the Midwest ISO in some form. If it rejoins the Midwest ISO, it will incur the Schedule 10 administrative charge on its bundled retail load. This annual Schedule 10 charge will significantly exceed the amortized exit fee amount; thus, no over-recovery of RTO expenses will occur.

III. Open Access Transmission Revenue Provides Significant Subsidy To Bundled Retail Rates

Q. You mentioned earlier in your testimony that Ameren's continued participation in the Midwest ISO at the time it made the decision to withdraw would have resulted in significant open access transmission service revenue losses for Ameren. To prevent this revenue loss from happening, Ameren proceeded to withdraw from the Midwest ISO, and in so doing, paid the exit fee it is seeking to recover in this rate case. Will AmerenUE's bundled retail customers benefit from the retention of this open access transmission service revenue?

A. Yes.

Q. Is the retention of this open access transmission service revenue currently reflected in Staff's test-year cost of service?

A. Yes, it is.

Q. How are the open access transmission service revenues factored into the test-year cost of service?

A. The test-year cost of service for AmerenUE's bundled retail customers includes a calculation for the net original cost rate base ($241,278,099) for AmerenUE's transmission plant in Missouri. The Staff's recommended return of 8.6% is then applied to the net original cost rate base to calculate a base revenue requirement ($20,749,916). The base revenue requirement is then adjusted for the following additional test-year expenses: Operations and Maintenance ($24,288,396), Depreciation and Amortization ($9,707,671), Taxes other than Income Taxes ($4,566,999), Federal Income Taxes ($7,570,328), State Income Taxes ($1,189,623) and Deferred Income Taxes ($523,885), which when added to the base revenue requirement provides the total revenue requirement ("Total Revenue Requirement") for the transmission plant in Missouri ($68,596,817). The revenues AmerenUE receives from entities using Ameren's transmission system via the open access transmission tariff ($42,134,806) are then subtracted from the Total Revenue Requirement to determine the actual revenue requirement ("Actual Revenue Requirement") for the use of the transmission system by AmerenUE's bundled retail customers in Missouri ($26,462,011).

Q. What is the Total Revenue Requirement for AmerenUE's transmission system assets in Missouri?

A. Using Staff's recommended return of 8.6%, the Total Revenue Requirement for AmerenUE's Missouri transmission system would be $68,596,817.

Q. What amount of open access transmission service revenue is subtracted from the Total Revenue Requirement to determine the Actual Revenue Requirement for AmerenUE's bundled retail customers?

A. The amount of open access transmission service revenue subtracted from the Total Revenue Requirement is $42,134,806.

Q. Using this calculation methodology, what is the Actual Revenue Requirement for AmerenUE's bundled retail rates?

A. The Actual Revenue Requirement using this methodology turns out to be $26,462,011.

Q. How can one measure the benefit received by retail rate-payers due to open access transmission revenues?

A. To calculate this, one must allocate the cost of the transmission system among all of its users is on a load ratio share basis. To calculate the cost of service for

AmerenUE's bundled retail customers' on a load ratio share basis, a proportionate (UE-Missouri) share of short term firm and non-firm open access revenues ($19,081,156) needs to be subtracted from the Total Revenue Requirement of $62,830,613. Then, if AmerenUE's bundled retail customers' load ratio share at the time of system peak (83.4%) is applied to the Total Revenue Requirement reduced by short-term firm and non-firm transmission revenues ($43,749,457), the Actual Revenue Requirement for AmerenUE's bundled retail customers would be 36,487,047.

Q. What is the difference between the Actual Revenue Requirement calculated using Staff's methodology and the Actual Revenue Requirement based on the load ratio share?

A. By comparing the Actual Revenue Requirement calculated using a load ratio share methodology to the revenue requirement methodology used by the Commission, it is easy to see that the open access transmission revenues subsidize Missouri bundled retail customers' revenue requirement by about $10 million per year.

Q. **If Ameren had not withdrawn from the Midwest ISO, would a significant portion of the subsidy due to open access transmission revenues have been eliminated by the Midwest ISO's tariff and revenue allocation design?**

A. Yes, it would have.

Q. Is it possible that the open access transmission revenues currently subtracted from the test-year cost of service for AmerenUE's bundled retail rates will decline in future years?

A. Yes. If the revenue retention methodology promoted by the Alliance companies is not adopted by the Midwest RTO or any other RTO in which Ameren participates, it is highly likely that the open access transmission revenues Ameren will continue to receive in the RTO environment will be significantly less than those revenues received during the test-year.

Q. If the test-year open access transmission service revenue credits are not adjusted, and Ameren's open access transmission service revenues significantly decline in the RTO environment, will that lead to an under recovery on AmerenUE's transmission plant assets?

A. Yes, it would.

Q. Does the Staff's method of crediting all of the Company's open access transmission revenues improperly inhibit the Company's ability to earn FERC accepted returns on its transmission assets?

A. Yes, it does. This is due to the fact that the rate of return that FERC currently allows (12.38%) (See Docket No. ER02-485-000) for calculating the transmission rates under the open access transmission tariff is higher than the rate the Staff is proposing (8.6%) in this proceeding for the use of the same transmission assets. As a result, when the entire amount of open access transmission revenues is subtracted from the Total Revenue Requirement to calculate the Actual Revenue Requirement for bundled retail customers, the true rate of return on the transmission system rate base authorized by FERC is not achieved. To this extent, the bundled retail customer rates become improperly subsidized by revenues generated through the higher rate of return afforded by FERC.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

The Staff of the Missouri Public Service Commission,	)	
Complainant,	)	
vs.	)	Case No. EC-2002-1
Union Electric Company, d/b/a AmerenUE,	)	
Respondent.	)	

AFFIDAVIT OF DAVID A. WHITELEY

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

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

1. My name is David A. Whiteley. I work in St. Louis, Missouri, and I am employed by Ameren Services Company as a Senior Vice President.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Union Electric Company d/b/a AmerenUE consisting of 20 pages, and Appendix A ~~and Schedule 1~~, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

David A. Whiteley
David A. Whiteley

Subscribed and sworn to before me this 7th day of May, 2002.

Debby Anzalone
Notary Public

My commission expires:

DEBBY ANZALONE
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: April 18, 2006

Executive Summary

David A. Whiteley

Senior Vice-President – Ameren Services, who is responsible for the operations, maintenance, planning, engineering design, and construction of all transmission facilities for AmerenUE and AmerenCIPS

* * * * * * * * * *

Since the issuance by the Federal Energy Regulatory Commission of Order No. 888 in April of 1996, the transmission system of AmerenUE along with AmerenCIPS has become the crossroads of the wholesale energy market. If this significant increase in usage by third parties is not matched by an increased capability of the AmerenUE and AmerenCIPS transmission systems to handle these demands, AmerenUE may not have sufficient access to the competitive supplies of capacity and energy created by Order No. 888. To appropriately enhance AmerenUE's ability to access these competitive energy supplies afforded it by Order No. 888, the transmission system of AmerenUE needs to be upgraded.

The $76 million of capital expended on AmerenUE's transmission system over the last five years will not be enough to adequately increase AmerenUE's transmission system capability over the next five years. Staff has, on several occasions, expressed its support for transmission upgrades that will alleviate contraints on the AmerenUE system. To this end, , AmerenUE has identified $400 million of transmission system investment that will increase the import capability of AmerenUE by 1,300 megawatts by the year 2005. To enhance the capability of AmerenUE's transmission system in this way, the

Commission must establish adequate cost recovery mechanisms and other incentives that encourage expansion of AmerenUE's transmission system.

In his direct testimony, Staff Witness John P. Cassidy recommends removing from AmerenUE's cost of service the $12.5 million exit fee paid by AmerenUE to withdraw from the Midwest ISO by arguing that the exit fee is a one-time, non-recurring expense and that AmerenUE may receive reimbursement of the exit fee from the Midwest ISO outside the test year. For the following reasons, I believe this justification is unreasonable and inappropriate.

First, the fact that the exit fee was a one-time expense alone does not justify disallowance of this, or any other, expense. In fact, the Commission has allowed AmerenUE to recover one-time, non-recurring merger related expenses in a previous rate case proceeding. Second, the exit fee expense was a prudently incurred expense, which is not refuted by Staff testimony. Third, as acknowledged by Staff Witness Dr. Michael Proctor in his deposition testimony, the reimbursement of the exit fee is uncertain. (See Proctor Deposition at p. 12). Finally, it is unreasonable and inappropriate for Staff to use speculative offsets from outside the test-year without also acknowledging equally well-known expenses outside the test-year. It is certain that the only way AmerenUE will receive a reimbursement of its exit fee is if it rejoins the Midwest ISO in some form. If it rejoins the Midwest ISO, however, AmerenUE will also incur an approximately $6 million per year Midwest ISO administrative charge on its bundled retail load. This administrative charge significantly exceeds the amortization of the $12.5 million exit fee over four years that AmerenUE is seeking to recover in this rate case.

As a result of Ameren's decision to withdraw from the Midwest ISO, the loss of significant open access transmission service revenues may be prevented. By retaining these open access transmission service revenues, the cost of service for AmerenUE's bundled retail customers includes a significant offset of open access transmission service revenues received during the test year. As a result of these offsets, the annual cost of service attributable to AmerenUE's bundled retail customers for the use of AmerenUE's transmission assets is only $26.5 million. If the revenue requirement for AmerenUE's bundled retail customers were calculated using a load ratio share methodology, which would allocate transmission costs to wholesale and retail customers more equitably, the annual revenue requirement attributable to AmerenUE's bundled retail customers would be approximately $36.5 million. Consequently, open access transmission revenues provide an approximately $10 million annual subsidy to AmerenUE's retail customers in Missouri. Moreover, as long as the allowed rate of return for AmerenUE-Missouri is less than the returns for transmission owners currently allowed or found reasonable by FERC, the full credit of unbundled FERC jurisdictional transmission revenues as an offset to the Missouri retail cost of service is inappropriate. It is inappropriate because this treatment will "undo" the FERC jurisdictional return and prevent the Company from earning FERC accepted returns on the Company's transmission assets. Finally, by using all of these revenues as an offset to the retail cost of service, future retail costs may be understated because in the Regional Transmission Organization ("RTO") environment Ameren will soon be a part of, this subsidy may become significantly reduced if not eliminated.