



1                   Hearing Room 5  
2                   Federal Energy Regulatory  
3                   Commission  
4                   888 First Street, NE  
5                   Washington, DC

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8                   Tuesday, September 30, 2003

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11                   The above-entitled matter came on for hearing,  
12                   pursuant to notice, at 9:00 a.m.

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15                   BEFORE:

16                                   HONORABLE WILLIAM J. COWAN  
17                                   ADMINISTRATIVE LAW JUDGE

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21                   APPEARANCES: (AS HERETOFORE NOTED.)

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1           ADDITIONAL APPEARANCES:

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## 1 P R O C E E D I N G S

2 (9:00 a.m.)

3 PRESIDING JUDGE: Good morning, everybody. We  
4 are continuing the Commission's inquiry into issues  
5 surrounding the Midwest ISO PJM regional transmission  
6 organizations, as directed by the Commission's order issued  
7 September 12th, 2003, in Docket Number ER03-262 et al.

8 I want to thank you for a very productive day  
9 yesterday, and I hope we can sort of repeat that experience  
10 today.

11 The first order of business we're going to deal  
12 with today is a request to call a representative of the  
13 Midwest ISO. Before I do that, I would ask if there are any  
14 preliminary matters that any party would like to raise  
15 before we begin today's session.

16 (No response.)

17 PRESIDING JUDGE: Good. Do we have the  
18 representative of the Midwest ISO? Would you please  
19 approach. Would you identify yourself?

20 MR. TEICHLER: My name is Steve Teichler  
21 representing the Midwest ISO.

22 Whereupon,

23 JAMES P. TORGERSON

24 was called as a witness herein, and having been first duly  
25 sworn, was examined and testified as follows:

1                   PRESIDING JUDGE: Please be seated. State your  
2 name and business address.

3                   THE WITNESS: My name is James P. Torgerson,  
4 President of the Midwest ISO. My address is 701 City Center  
5 Drive, Carmel, Indiana 46032.

6                                   DIRECT EXAMINATION

7                   BY MR. TEICHLER:

8                   Q       Mr. Torgerson, have you previously submitted  
9 direct testimony in this proceeding?

10                  A       No, I have not.

11                  MR. TEICHLER: Your Honor, I present my witness  
12 for examinaation.

13                  PRESIDING JUDGE: Thank you very much.

14                  Does staff any questions for Mr. Torgerson?

15                  MR. BARDEE: Yes, we do, Your Honor. Mr.  
16 McLaughlin will start the questioning.

17                                   CROSS EXAMINATION

18                  BY MR. McLAUGHLIN:

19                  Q       Mr. Torgerson, good morning.

20                  A       Good morning, Mr. McLaughlin.

21                  Q       Were you here yesterday during the proceedings  
22 and the discussion of the various utilities and the  
23 questions asked of them?

24                  A       Yes, I was.

25                  Q       Have you had an opportunity to review the

1 testimony of AEP and some of the other utilities that was  
2 filed in that proceeding?

3 A I think, like everybody else, I got it last week,  
4 and I read it. So, yes, I've looked through it.

5 Q I realize you've not filed testimony in this  
6 proceeding. We did have a few questions we wanted to ask of  
7 you concerning the impacts of some of these elections and  
8 some of the options discussed yesterday and their impacts on  
9 the Midwest ISO.

10 I'd like to start out, if I could, by just  
11 getting your understanding. We talked about a lot of the  
12 terms and conditions that were imposed in the July 30th  
13 order of last year concerning the elections of the former  
14 Alliance companies. One of those centers around the joint  
15 and common market that the Commission required to be  
16 established between PJM and the Midwest ISO.

17 Could you give us your understanding of what it  
18 means for the joint and common market and the timeline for  
19 that?

20 A Certainly. The joint and common market was  
21 originally contemplated that we would have a market where we  
22 would have, between the Midwest ISO and PJM, we would start  
23 out with an enhanced market portal, which is what we called  
24 it, which would allow a single point of contact for any  
25 customer within the Midwest ISO or PJM to transact business

1 across the entire region.

2 This would allow any customer, then, to do  
3 business with the Midwest ISO and in PJM. We would use the  
4 two systems, the PJM system and the Midwest ISO system, and  
5 coordinate on all the LMPs, coordinate on all activity  
6 across it. That was the original design to get that up and  
7 running, and what we believe the Commission's order, by  
8 October of 2004.

9 Then, subsequent to that, our plan was to look  
10 at, do we go then to a single centralized dispatch,  
11 consolidate the computer systems and all the software, so we  
12 would have one system that would run everything into PJM and  
13 Midwest ISO. Our plan right now is, by October 2004, to  
14 have this portal at least operational in what I will call a  
15 test, kind of a test mode by October. Let customers work  
16 with it for a number of months, and then actually go live  
17 with it probably in early 2005. We will have it in place in  
18 2004, and I think in our last filing with the Commission, in  
19 our 60-day progress, we talked about that. Then once that's  
20 operational, that's what we called the common market, the  
21 joint and common market would then be looking at do the  
22 economics of whether or not we want to go ahead, and this is  
23 will all stakeholders, the Commission and everybody else, to  
24 see economically does it make sense to make an investment in  
25 having one set of systems doing the one dispatch for the

1 entire PJM ISO region.

2 Q Thank you.

3 From your perspective, the conditions, including  
4 the Commission's requirement for the establishment of the  
5 common entity and the joint and common market, did the  
6 conditions in the July order of last year adequately address  
7 what has been referred to as the "Swiss cheese" nature of  
8 the elections of the former Alliance companies to join the  
9 various RTOs?

10 A We believe they did. They were needed in order  
11 to make certain that the elections that were made could be  
12 carried out in a reliable manner by the entities, and we  
13 were strongly in favor of having those. There were nine  
14 conditions from the July 31st order that said these things  
15 had to occur before we could have the two RTOs, PJM and  
16 MISO, with the elections of those companies.

17 We concurred with them, and I believe we said  
18 that in a filing we made subsequent to the July 31st order.

19 Q Am I correct that since that time, the Midwest  
20 ISO has been working with PJM on the establishment of the  
21 conditions and trying to address the conditions the  
22 Commission has imposed?

23 A Yes. We've been working with PJM quite  
24 extensively on a joint operating agreement. We were  
25 probably days away from filing it with the Commission when



1 the blackout occurred on August 14th. We had sent it to our  
2 stakeholders for review, we'd gotten comments back from  
3 them, so we've been working with PJM on that, and just on  
4 sharing information and data and how we're going to go about  
5 doing that.

6 Q The joint operating agreement, if I'm correct, is  
7 that the agreement that would address the situation when one  
8 of the RTOs would not be running a congestion management  
9 system and running an energy market, and the other would,  
10 and then when both were running the market?

11 A Yes. It addresses both. It addresses the market  
12 to non-market. Let's say PJM is in a market operating out  
13 of the LMP market. The Midwest ISO would not be. It also  
14 addresses the time when both the full entities are in a  
15 market, so you have a market-to-market situation.

16 Q Yesterday, if you will recall, there was a  
17 discussion with AEP witnesses where there were various  
18 options considered for their participation in an RTO. Do  
19 you recall that there were three options discussed, one  
20 being where AEP would join PJM but would not be  
21 participating in the congestion management market of PJM?  
22 The other was where I'll call it some affiliates of AEP  
23 would join but others would not. And the third where they  
24 would wholly join PJM and participate fully in the PJM  
25 markets?

1           A       Yes, I recall that.

2           Q       I'd like to explore, briefly, if I could, with  
3 you, each of those options to try to get a better handle and  
4 an understanding on the impact on the Midwest ISO of those,  
5 if I could.

6           A       Okay.

7           Q       Addressing the question of what I'll call the AEP  
8 proposal or idea, that essentially joined PJM but not  
9 participating in PJM's congestion management system, would  
10 that have an immediate impact on the Midwest ISO or a longer  
11 term impact on the Midwest ISO, would it be either positive  
12 or negative?

13          A       It would have an immediate impact by having them  
14 in PJM and allow for coordination, but if it's an interim  
15 solution, it's very short-term. I think it might be  
16 workable, similar to what they're doing for their day-one  
17 approach. Not having the market-based congestion  
18 management, not having the imbalanced market, to me, are  
19 problems. If it's a couple of months, a few months, that  
20 can be dealt with but if it's long-term, it isn't.

21                   The bigger issue is, if this becomes a long-term  
22 solution or even an intermediate term solution, we end up  
23 with a situation where every entity that's involved in  
24 either the Midwest ISO or perhaps PJM, the new PJM  
25 companies, as soon as something else comes up, everybody's

1 going to evaluate their options. And you look at  
2 reshuffling the deck every time this happens, and you end up  
3 in a situation where you never get any certainty. So we've  
4 got to get to some certainty.

5 I know the companies are going to start looking  
6 at, well, if AEP can do this, why can't I. It's just going  
7 to happen. To me, if it was a very short-term fix that said  
8 we're going to do this for a few months, I'd be fine with  
9 it. If it's anything beyond that, then I think it's going  
10 to raise more issues than it's going to solve.

11 Q Looking at it as a short-term, transitional step  
12 with the draft joint operating agreement that has been  
13 negotiated by PJM and the Midwest ISO, need to be modified  
14 to address the situation during this transition, or is it  
15 already adequate to address that situation?

16 A I don't think it would need to be modified. We  
17 had it set up so it would deal with the market-to-non-market  
18 situation, which is what we would have, so we would still be  
19 using TLRs in the AEP or PJM one, and it would affect  
20 obviously Midwest ISO entities, so I don't think a  
21 modification would be needed.

22 We'd have to look at it because we haven't had  
23 that opportunity but just off the top of my head, I don't  
24 think it would.

25 Q If it would become a more permanent situation,

1 that AEP would be participating in the PJM market, under the  
2 framework we're discussing, I assume the joint operating  
3 agreement would continue to stay in place as it is now,  
4 then?

5 A If it was going to be longer-term, yes, I guess  
6 that would be the case.

7 Q It's my understanding that the joint operating  
8 agreement or one of the aspects of that was the sharing of  
9 information between PJM and Midwest ISO?

10 A Yes. There's extensive data sharing that has to  
11 occur.

12 Q Would AEP's participation in PJM, under the  
13 discussed model, inhibit the sharing of information or  
14 enhance that in any way?

15 A I think we'd have to work with AEP and make  
16 certain that we were getting the information that was going  
17 to be required by both parties. I think the document could  
18 probably handle it but I would certainly want to make sure.  
19 I think we would have to sit down with AEP and do that  
20 jointly with PJM. It would be a three-party discussion to  
21 make certain on that data being shared, that it was  
22 accessible by all the parties. Because, as you know, AEP  
23 bumps up against many Midwest ISO members, and we have  
24 interconnections with AEP that are extensive, so we'd have  
25 to make certain that that data is being shared, not just

1 with PJM but with the Midwest ISO also.

2 Q Thank you.

3 Turning to one of the other options we discussed  
4 concerning AEP's participation yesterday, was an idea that  
5 certain AEP members would join PJM and certain others would  
6 not. I believe the discussion, at least the main focus of  
7 the discussion seemed to be that the affiliates would  
8 operate in the states of Virginia and Kentucky, and would  
9 not participate in PJM and the other states potentially  
10 would.

11 Under that type of a framework and assuming the  
12 other states participate fully in the PJM markets, how would  
13 that have an impact? Can you give me some idea of a  
14 relative scale, if that's a better situation from the  
15 Midwest ISO's perspective, or worse than the one we just  
16 discussed?

17 A If the one we were just discussing is interim, I  
18 think that's a better solution. Splitting up AEP -- and I  
19 don't know the economics for AEP of doing that -- but just  
20 saying to have AEP in at least as many entities as you could  
21 get into a market with PJM and the Midwest ISO so it's  
22 there, I think is a good goal. The economics of splitting  
23 it up, though, may make it difficult and I'm not sure  
24 they're running an integrated system. That could be very  
25 tough. I would put that lower on my list of priorities of

1 the way to approach it than some others, I guess is the way  
2 I would characterize it. It would create situations if  
3 PJM's handling everything for the AEP components that are  
4 there.

5 I guess we could work with them on that, and the  
6 joint operating agreement would probably work. Where you  
7 start getting into other areas where people can opt out,  
8 that gets a little troublesome for me. I mean, we have the  
9 OMS and I know Commissioner Chappelle was on the phone  
10 yesterday with her leadership and others in the Midwest, you  
11 know, we have this, we've been working with the states  
12 pretty actively. I would like to see something like that  
13 continue. You start bifurcating which states are in and  
14 out, it gets a little divisive.

15 Q Other than the aspects, the potential difficulty  
16 that AEP and others would confront in trying to segregate  
17 certain states or certain utilities from participating or  
18 not, can you give me an idea, just from the power flows and  
19 from the Midwest ISO's perspective of running the energy  
20 market and establishing a joint and common market with PJM,  
21 would it be better to have some of the members of AEP  
22 participating in that market and not others, or would it be  
23 better to have AEP participating in what I'll call the AEP  
24 light proposal?

25 A Mr. McLaughlin, I understand the question. If we

1 had, let's say, the AEP entities in Ohio, Indiana and  
2 Michigan, which is where most of the commerce is from the  
3 Midwest perspective, that's where the trading is going and  
4 that's where the power flows are. In Kentucky, the  
5 component of AEP in Kentucky and in Virginia are of less  
6 concern to me. Even though we have LG&E, that's not that  
7 big a piece of it. I think if we wanted to get more of AEP  
8 in, get them into the market and coordinating, I think  
9 that's the way to go.

10 As you said, the power flows, and I think Mr.  
11 Baker probably acknowledged yesterday with the amount of  
12 business that's transacted, it seems like most of it was in  
13 Indiana, Ohio, and Michigan, as opposed to Kentucky and  
14 Virginia.

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1           Q       I guess we started out in a way talking about the  
2           option that was originally pursued last July where AEP would  
3           fully participate in the PJM market, and the joint and  
4           common market would be established.

5                    I believe you stated you felt at that time that  
6           the conditions imposed in that Order addressed your  
7           concerns.  If AEP participated fully in the PJM market, and  
8           Dayton also participated, do you still believe that's the  
9           best option for addressing the seams issues between you and  
10          PJM?  Assuming AEP -- their option would be accepted to go  
11          to PJM.

12          A       Yes, I think the best option is to have them in.  
13          And then the July 31st Order from last year addressed the  
14          conditions laid out, the nine conditions that it said had to  
15          be met.

16                   We were comfortable with that.  We thought that  
17          would accomplish the goals we had to make sure it was as  
18          seamless as possible.  Keep in mind that it was never the  
19          ideal situation to have AEP, Com Ed, Dayton, in PJM, but we  
20          said we could live with that, as long as those conditions  
21          were met.  We still think that can work, so, yes.

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



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

10           A           I heard Ameren.

11                       (Laughter.)

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

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

22                       The only thing we've got left to do is train some  
23 people at both ends to take care of data transfers and  
24 finalize some things related to lost matrices that have to  
25 occur right before they go live. So you're looking at 30

1 days and then another 30 days to start the scheduling.

2 BY MR. McLAUGHLIN:

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

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

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

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

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

1                   Without Ameren, you've bifurcated the Midwest  
2                   ISO.

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

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

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

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

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

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

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

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

15                  A       That is true, yes.

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

22                  A       That's right.

23                           (Pause.)

24                  Q       I just have a couple more questions. Yesterday,  
25 it was discussed that the potential sale of Illinois Power

1 and the purchase by Exelon, if that occurred, Exelon's  
2 proposal or view that it would want Illinois Power to  
3 participate in the PJM market, how, if at all, would that  
4 impact the Midwest ISO in its establishment of its energy  
5 markets or in other ways?

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

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

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

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

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

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

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

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

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

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

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

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

20          Q       If you could supply it for the record?

21          A       We'd be happy to find it and get that number for  
22       you.

23          Q       Just give us some idea. We'd appreciate it.

24          A       Yes, we'll do that.

25          Q       The last question. This proceeding has focused

1 on the former Alliance companies that have made election to  
2 join either the Midwest ISO or the PJM. The Commission  
3 recently acted on an order with Grid America and Midwest ISO  
4 concerning First Energy and Northern Indiana Public Service.  
5 I just wanted to verify, it is my understanding that those  
6 companies are prepared to join Grid America and go  
7 operational within the Midwest ISO tonight, I believe?

8 A At midnight tonight they will be operational.

9 Q They will be operational?

10 A Yes.

11 MR. McLAUGHLIN: Thank you, sir.

12 PRESIDING JUDGE: Mr. Bardee?

13 MR. BARDEE: Your Honor, I have a question or two  
14 I'd like to ask at this point.

15 CROSS EXAMINATION

16 BY MR. BARDEE:

17 Q Mr. Torgerson, focusing back on AEP, and  
18 comparing the proposals to fully integrate AEP into PJM,  
19 comparing them to AEP's proposal in its testimony yesterday,  
20 which of those two proposals from your perspective would  
21 produce the more economical use of facilities and resources?

22 A From my perspective it would be the full  
23 integration because you're going to have the centralized  
24 dispatch of the generation which PJM would then have. I  
25 believe that would be a much more economic use of the



1 assets.

2 Q Would that full integration between those two  
3 proposals, full integration would yield lower overall costs  
4 for customers in the region, is that right?

5 A That would be the hopeful outcome, yes, that you  
6 would have lower costs as a result of the centralized  
7 dispatch, and I think PJM I know has done analysis every  
8 year to show how the costs of energy have come down, as a  
9 result of their economic centralized dispatch.

10 Q That's the outcome you would expect.

11 A That's the one I think everybody would expect and  
12 hope for, yes.

13 PRESIDING JUDGE: Anything further from staff?  
14 Kevin?

15 CROSS EXAMINATION

16 BY MR. KELLY:

17 Q Good morning, Mr. Torgerson.

18 A Good morning, Mr. Kelly.

19 MR. KELLY: Your Honor, would it be appropriate  
20 or possible to hand Mr. Torgerson a report that the North  
21 American Electric Reliability Council filed with the  
22 Commission and ask him a question about one of the  
23 paragraphs? I have extra copies for the Bench and the court  
24 reporter.

25 PRESIDING JUDGE: You may proceed to do that,

1       yes.

2                       (Document(s) handed to Presiding Judge, Commission,  
3       counsel and witness.)

4                       PRESIDING JUDGE: I will ask staff to be sure  
5       that we get extra copies for all the parties in the room.  
6       On that note, I have extra copies of what we marked  
7       yesterday as Exhibit S-1 on the Bench. I will make those  
8       available to anybody that wants them.

9                       Let me just identify this as Exhibit S-2.

10                      (Exhibit S-2 was marked for  
11                      identification and received  
12                      in evidence.)

13                      PRESIDING JUDGE: You may proceed.

14                      BY MR. KELLY:

15                      Q       This is a report filed with the FERC by the North  
16       American Electric Reliability Council, Docket ER02933000,  
17       entitled "Final Report on Market Redispatch Program." It's  
18       signed by David Cook dated September 11, 2003. I just  
19       wanted to review one paragraph and then get your comments on  
20       it and ask you a few questions about it. I read the  
21       paragraph now. It's only two sentences.

22                      MDR, which stands for NERC's market based  
23       redispatched program which, let me say, was intended to be  
24       an improvement to the TLR system for managing congestion in  
25       the Eastern interconnection. The sense is MDR has pointed

1 out the practical difficulties of trying to marry point to  
2 point transmission service and reliability based  
3 transmission loading relief with a market based redispatch  
4 regime.

5 As the Commission has surmised, a comprehensive  
6 market based congestion management solution, such as that  
7 offered by location based marginal pricing, is a practical  
8 and effective solution and far superior to market redispatch  
9 for dealing with congestion. I do have some questions about  
10 that statement and the situation evolving in the Midwest.

11 First I wanted to see if you wanted to offer any  
12 comment on any relevance of that paragraph to the  
13 proceedings today.

14 A Our opinion has been that the locational based  
15 marginal pricing is the best method for dealing with  
16 congestion management. I have to admit I'm not all that  
17 familiar with the market redispatch and I know about TLRs  
18 and so forth, which is in place today.

19 Q Let me ask you, then, a closely related question.  
20 If TJM and MISO use LMP, and AEP were to rely on TLRs, can  
21 the LMP system work effectively or even work at all to  
22 manage congestion in the Midwest and can it work to assure  
23 reliability as the replacement for a TLR system if the  
24 backbone connecting the Atlantic seaboard with the Midwest  
25 is not using that system?

1           A       I think having an LMP based system is better.  
2       You asked me, can it work?

3           Q       Can it work effectively and then can it work at  
4       all?

5           A       The system that we're talking about with LMP on  
6       PJM, TLR and AEP and then an LMP in the Midwest ISO.  If the  
7       question is, can it work, the answer is, yes it can work,  
8       because it's working today.  Is it the most effective and  
9       the best?  No.

10                  The best answer would be to have LMP across the  
11       entire area.  If the question is, can it work, I guess I'd  
12       have to say yes, it happens today, but we're using TLR in  
13       the Midwest ISO and they use LMP today in PJM and many other  
14       places.  Is it the best answer?  No.  TLR is a very  
15       inefficient, blunt instrument that takes considerable time  
16       to implement.

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1           Q       Another question in the same situation.  If you  
2       had locational marginal pricing in PJM and MISO, as TLRs in  
3       the AEP system, can that work to manage congestion  
4       effectively in AEP given that the data needed to run a TLR  
5       system to put into NERC's interim distribution calculator,  
6       comes from information from all the surrounding systems as  
7       well as LMP systems that wouldn't be using or relying  
8       primarily on a TLR system, you'll be clearing your markets  
9       close to real time.

10                Yet, as I understand the TLR system requires some  
11       advance notice of what transactions are going to take place  
12       in order to get the data to run the calculator to say  
13       whether TLRs need to be implemented.

14           A       It would be double work because we'd have to be  
15       putting in the information into I think it's the IDC to get  
16       the calculations of the TLR as they would occur, whereas in  
17       the LMP system, you just don't do that any more.

18                So it would be additional work that would have to  
19       be done both by PJM and the Midwest ISO.  Again, it is  
20       clearly not the most efficient way to operate.

21                MR. KELLY:  Thank you.

22                PRESIDING JUDGE:  Mr. Kelly, I believe you said  
23       MDR.  Did you mean MRD?

24                MR. KELLY:  Yes, MRD, thank you.

25                PRESIDING JUDGE:  Any other questions from staff

1 of this witness?

2 (No response.)

3 PRESIDING JUDGE: Mr. Chairman?

4 CHAIRMAN WOOD: Mr. Torgerson, on one of the more  
5 haunting days in the other room that I had, when the market  
6 consultant, Mr. Patton, was talking about the potential for  
7 market manipulation along the jagged seam between PJM and  
8 MISO, our experience further to the west of that on market  
9 manipulation, even with relatively straight seams, is pretty  
10 thin, I think, in all three of our memories.

11 One of the solutions, I think, that came out of  
12 that discussion and the subsequent flurry of back and forth  
13 discussions between folks in your world and folks in the PJM  
14 and market participants, was that some number of aspects  
15 would be nailed down in this joint operating agreement and  
16 that further ones would be resolved when the common market  
17 is achieved in October of '04.

18 First of all, did I understand that those are the  
19 two fora by which the market potential gaming opportunities  
20 seams issues, I guess I would call them the market based  
21 seams, as opposed to reliability based seams issues -- are  
22 those the two fora in which those issues would be completely  
23 resolved, the JOA and commencement of the common market  
24 between the two RTOs?

25 THE WITNESS: Yes. In the joint operating

1 agreement we have a provision in there that both PJM and the  
2 Midwest ISO will adopt whatever comes out of the inquiry  
3 that's going on right now relating to the discussion that we  
4 were just talking about. Both Dr. Patton and Joe Bowring  
5 from PJM filed the joint testimony and comments, I believe.  
6 We have committed in the joint operating agreement to  
7 incorporate whatever the Commission determines in the joint  
8 operating agreement to alleviate any opportunities for  
9 gaming while the joint operating agreement is in place.

10 Then the second view you're talking about is the  
11 common market. I believe once you have the common market in  
12 place, then you have the market on the entire region. Then  
13 the independent market monitors for both PJM and MISO would  
14 be looking on things on exactly the same basis, which I  
15 think should improve the inability to manipulate the market,  
16 so that it shouldn't happen.

17 CHAIRMAN WOOD: But the JOA has a place holder  
18 basically?

19 THE WITNESS: It has a place holder, yes.

20 CHAIRMAN WOOD: In thinking through the AEP light  
21 proposal yesterday, what does that proposal, if adopted, do  
22 to address or not address Mr. Patton's issues on gaming and  
23 market manipulation?

24 THE WITNESS: I'm not certain. First off, I  
25 don't think it was contemplated by Dr. Patton. I know he

1 had grave concerns about the market to non market. He at  
2 the time was assuming AEP was going to be integrated into  
3 PJM sooner, so I think it would probably exacerbate his  
4 concerns.

5 CHAIRMAN WOOD: We've asked a number of parties  
6 to give us some thoughts 10 days from yesterday, so I guess  
7 nine days in reaction to the AEP proposal, which came out  
8 last Friday. I would like to invite MISO, particularly with  
9 Mr. Patton looking at it from that perspective, to give us  
10 some feedback and we'll ask Mr. Bowring to do the same for  
11 PJM, to look at that. They can feel free to consult, but  
12 that would be useful information for us in analyzing the AEP  
13 alternative proposal.

14 THE WITNESS: We will definitely get Dr. Patton  
15 to comment on it.

16 CHAIRMAN WOOD: The expectation that IP would be  
17 part of MISO comes from what event or what series of events?

18 THE WITNESS: Once, I guess it was TransElect had  
19 an offer and had accepted to purchase the IP transmission  
20 assets. They had stated they would then bring those assets  
21 into the Midwest ISO. We've had ongoing discussions with  
22 the Illinois Power folks. We had traded a memorandum of  
23 understanding which had not been executed that talked about  
24 how they would come in. That has been ongoing for months  
25 and we've been working directly with Illinois Power since



1 the TransElect deal was struck to have them in the Midwest  
2 ISO, so it's been going on for quite a while.

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

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

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

13 CHAIRMAN WOOD: Thanks.

14 PRESIDING JUDGE: Any other questions from the  
15 Commission?

16 COMMISSIONER MASSEY: Yes. Mr. Torgerson, do you  
17 believe that there will be economic benefits that will flow  
18 from the execution of the joint and common market in the  
19 Midwest?

20 THE WITNESS: Yes I do.

21 COMMISSIONER MASSEY: Do you believe there will  
22 be reliability benefits that flow from that?

23 THE WITNESS: Yes.

24 COMMISSIONER MASSEY: What would be those  
25 reliability benefits?

1           THE WITNESS: I think once you have the joint and  
2 common market, you have everyone, will have the economic  
3 dispatch in both entities probably earlier than that. The  
4 benefit you're going to get from reliability is you will  
5 have more coordination of the information directly because  
6 the customers will be going to one site several sides will  
7 immediately see them. That doesn't mean we won't have the  
8 data flowing back and forth beforehand so it may be a small  
9 incremental improvement in reliability.

10           But I think you could say there probably would be  
11 some.

12           COMMISSIONER MASSEY: Is it your testimony that  
13 we should all seek a stronger coordination of electrical  
14 facilities in the Midwest?

15           THE WITNESS: Yes, I'd have to say we probably  
16 need stronger coordination.

17           COMMISSIONER MASSEY: Thank you.

18           PRESIDING JUDGE: Anything further from the  
19 Commissioners?

20           (No response.)

21           PRESIDING JUDGE: Thank you very much for your  
22 testimony, Mr. Torgerson. You are excused.

23           (Witness excused.)

24           PRESIDING JUDGE: At this point we can proceed to  
25 hear the testimony of other invited entities. The

1 Commission's order invited other interested parties to  
2 submit testimony.

3 Before I do that, I'd just like to ask the staff  
4 of the Commission if there is any other entity that they  
5 want to hear from before we do that?

6 CHAIRMAN WOOD: Chairman Schreiber from Ohio. I  
7 know you indicated you might yesterday. I don't want to put  
8 you on the spot.

9 MR. SCHREIBER: Thank you.

10 Whereupon,

11 ALAN SCHREIBER

12 a witness having been called for examination, and, having  
13 first been duly sworn, was examined and testified as  
14 follows:

15 PRESIDING JUDGE: Please be seated and identify  
16 yourself.

17 THE WITNESS: My name is Alan Schreiber, Chairman  
18 of the Public Utilities Commission of Ohio. My address is  
19 180 East Broad Street, Columbus, Ohio 43215.

20 I do appreciate the opportunity to come before  
21 you. It was not anticipated that I would be doing this  
22 because, as will other parties, we intend to file within the  
23 next nine days comments with respect to the issues that have  
24 been raised. And I feel that, having sat in this room for  
25 eight hours, and I'm not accustomed to sitting in an

1 audience for eight hours and listening to proceedings, I was  
2 very impressed. I was very, I would say, alert with what  
3 was going on and it has led me to several conclusions, which  
4 I think I would like to share, or at least my conclusions,  
5 maybe observations.

6 The overwhelming message that has come through in  
7 this proceeding is that this stuff can go on and on and on,  
8 a classic clash between public policy and private interests.  
9 And not only that, it's a clash within each one of those  
10 categories.

11 There are public policy makers that are clashing  
12 over what needs to be done as well, as we have heard, with  
13 the private interests. I think what we all have to consider  
14 as an economist, I think this way, that everybody does and  
15 pursues what's in their own best interests. The many  
16 companies that are here are all represented by very  
17 honorable and intelligent people as we all know. They are  
18 all there to maximize shareholder value. They are there to  
19 maximize profits and, in many cases, to maximize, I guess,  
20 their own visibility in the world in which they operate.

21 I can say the exact same thing for those who  
22 represent the private interests, which are primarily the  
23 states.

24 If, in fact, private interests do not agree with  
25 one another, I think the optimum strategy on their part in

1       pursuing their interests would be to drag this out as long  
2       as they possibly can. That would make sense to me if I were  
3       not getting my way and I felt that I would be well served by  
4       seeing how far these proceedings could go on. Time is  
5       something that is on their side and they will carry it out.

6               In the public realm we have states, many of whom  
7       wrap themselves in this whole shroud of preemption. No one  
8       likes to be preempted. The feds are not going to preempt  
9       us, as is often said. The States of Virginia and Kentucky,  
10      two states that have basically walled themselves from the  
11      rest of the region, I think in the short run, may be making  
12      some sense.

13              I think in the long run, they're absolutely going  
14      to shoot themselves in the foot if they continue along this  
15      policy. In the long run it's going to be very, very bad for  
16      those states who fail to move along with the rest of the  
17      region. There are state commissions and commissioners.  
18      We've heard from state commissioners who are absolutely  
19      opposed to federal preemption of anything.

20              As a member of the National Governors Association  
21      task force, at one point I was the only Commissioner, if I  
22      recall, that advocated for a FERC backstop on a siting  
23      issue. Today I think I'm still the only one who believes  
24      that siting should be an issue, that while the states might  
25      pursue it, it is absolutely essential that there be a

1 federal backstop. Otherwise, again, we get nowhere.

2 I think this is a fairly critical issue and I  
3 think that state commissions, as I have said, whereby many  
4 of them believe that the FERC or any federal agency, is  
5 something that is anathema to their interests.

6 If you took any of those state commissioners and  
7 you put them in this seat, I think their philosophies might  
8 flip pretty quickly. What commissions do seem to agree on,  
9 at least in the Midwest and the Mid-Atlantic, is that it  
10 would be in everyone's interest to have a single,  
11 overarching system operator. I wouldn't want to specify  
12 whether that would be an RTO, an ITC. It's not that  
13 important at this point. It could be through joint  
14 operating agreements if that accomplishes the same role.

15 Nevertheless, as I have already said, there's  
16 plenty of disagreement within each category as we've heard  
17 yesterday and today and it's a little bit disheartening to  
18 see that the overwhelming message is that this could go on  
19 and on. I don't think it's going to be resolved in  
20 negotiations.

21 For example, why would Virginia and Kentucky, if  
22 they believed as strongly as they do, negotiate something to  
23 settle? If they were, why would not Ohio and Michigan and  
24 Indiana say, well, we want the same deal? I just don't  
25 think negotiations are going to get us where we need to get

1 to particularly since they've gone on for many years. I've  
2 got staff here that's been here for years coming to these  
3 meetings. I think that you members of FERC, and I know this  
4 positively because having been on the Commission in the  
5 '80s, and I was Chairman for the last four and a half years,  
6 I've had a lot of interface with the Federal Communications  
7 Commission, as well as the FERC and at no time ever has  
8 there been a group more engaging and sensitive to state  
9 issues or state commissioners than have you.

10 We deeply appreciate that. Now I have to tell  
11 you it's time to pull the trigger. I implore you to do that  
12 very quickly, because this will go on for a very, very long  
13 time otherwise.

14 Thank you for the opportunity.

15 CHAIRMAN WOOD: Which way do we point?

16 (Laughter.)

17 THE WITNESS: We've got nine days to tell you.

18 (Laughter.)

19 CHAIRMAN WOOD: Thank you. I do welcome your  
20 comments from the State of Ohio and those from the other  
21 participating commissions who are not represented by their  
22 commissions today, but we do welcome all the input from them  
23 and the market participants in nine days.

24 COMMISSIONER BROWNELL: I wanted to thank  
25 Chairman Schreiber for his leadership in many fora. He has

1 sometimes been the lone ranger. I just want to ask you  
2 because the issue of reliability has come up and, depending  
3 on which side you are on, you use it any way you can.

4 But you were at the epicenter of August 14th.  
5 You've been actively involved in the DOE task force. You've  
6 been doing your own investigation.

7 Is there anything at all that you have seen that  
8 would suggest to you that going slower would be better?  
9 Clearly we need to incorporate whatever lessons we've  
10 learned.

11 But is there any lesson we've learned from August  
12 14th regarding the kind of direction this Commission has  
13 given?

14 THE WITNESS: Being privy to some of the  
15 information that has come out of that investigation to this  
16 point, of course, it's not over yet, without drawing any  
17 conclusions. I see no virtue in holding things up and  
18 slowing things down. I see none whatsoever.

19 COMMISSIONER BROWNELL: Thank you again for being  
20 here.

21 PRESIDING JUDGE: Thank you. You are excused.

22 (Witness excused.)

23 PRESIDING JUDGE: I think we're now going to  
24 proceed to take the testimony of the other invited entities.  
25 The first on that list that I have is Detroit Edison



1 Company, the testimony of Terry Harvill.

2 Whereupon,

3 TERRY S. HARVILL,

4 a witness having been called for examination, and, having  
5 first been duly sworn, was examined and testified as  
6 follows:

7 DIRECT EXAMINATION

8 BY MR. SMITH:

9 Q Please state your name, title and business  
10 address.

11 A My name is Terry S. Harvill, director of  
12 regulatory affairs for the Detroit Edison Company. My  
13 address is 2000 Second Avenue, Detroit, Michigan 48226.

14 Q Are you the same Terry S. Harvill that filed  
15 testimony in this proceeding on September 23?

16 A I am.

17 MR. SMITH: Your Honor, Mr. Harvill's testimony  
18 and exhibits have been numbered as Exhibit Numbers DE-1, DE-  
19 2 and DE-3 and they've been given to the court reporter.

20 (Exhibits DE-1, DE-2 and DE-3 were  
21 marked for identification.)

22 BY MR. SMITH:

23 Q Mr. Harvill, do you have your testimony in front  
24 of you?

25 A I do.

1 Q Do you have any changes to that testimony?

2 A I do not.

3 Q If I asked you the questions in your prefiled  
4 testimony today, would your answers be the same?

5 A They would.

6 Q Please summarize your testimony.

7 A I will, thank you.

8 Judge Cowan, Chairman Wood, Commissioner Massey,  
9 Commissioner Brownell, staff, I would like to thank you for  
10 this opportunity to testify on the Commission's inquiry into  
11 RTO issues.

12 The Commission's decision in these matters is of  
13 great importance to all consumers throughout the super  
14 region, the MISO, PJM and Alliance Company footprints.

15 Before summarizing my testimony I'd like to read  
16 some statements on RTO formation to the Commission. At this  
17 stage in the transition to a more competitive marketplace, I  
18 would like to impress upon the FERC the importance of  
19 decisive and timely decision making. I respectfully submit  
20 that, if the FERC wishes to further the goals of competitive  
21 electricity industries through decisive action on RTOs, the  
22 carrot, or voluntary, approach may be less effective in this  
23 case.

24 A voluntary approach to RTO formation will result  
25 in excessive delays in the process of moving transmission

1       owning electric utilities into appropriately constituted  
2       RTOs. There's already been too much delay. The Commission  
3       must remove transmission owners from the RTO drivers seat as  
4       soon as possible. The Commission should act as the driving  
5       force to require the provision of a nondiscriminatory  
6       transmission service under properly structured and  
7       appropriately constituted RTOs.

8               The Commission need not allow transmission owner  
9       utilities to dictate the terms and conditions under which  
10      they will participate in an RTO. I made these statements to  
11      the Commission in February 1999 as a Commissioner of the  
12      Illinois Commerce Commission, and I could not have imagined  
13      after four and a half years, these statements would still be  
14      applicable to RTO formation in the Midwest.

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1           I'd like to read one other statement before I  
2 continue. Consistent and vigorous federal leadership to  
3 promote efficient and open markets does not trample on  
4 states rights. It enhances them. That sounds familiar,  
5 Chairman Wood. It was a statement that you made on February  
6 11th at the St. Louis Regional Transmission Organization  
7 consultation sessions with the FERC.

8           At this point in time, the Commission must act  
9 decisively to require the former Alliance Companies to  
10 participate in rationally configured, independent, not-for-  
11 profit RTOs that can enhance reliability and manage all  
12 system operations in the Midwest Region.

13           It's important to note that Detroit Edison and  
14 Consumers Energy have been the poster children for the  
15 timely implementation of the Commission's RTO policies. For  
16 example, both utilities perform the so-called seven-factor  
17 test to delineate between transmission and distribution  
18 facilities.

19           We've established non-pancake transmission rates  
20 within the State of Michigan. We've joined the Midwest ISO,  
21 and we've divested our transmission assets to independent  
22 third parties.

23           Of utmost significance, the costs of implementing  
24 these implementing these actions were borne by the  
25 shareholders of the utilities and their own native load

1 customers within Michigan. However, if the reward for  
2 timely compliance with the Commission's RTO policies is to  
3 have Michigan ratepayers subsidize the RTO formation cost  
4 with the former Alliance Companies, costs that are  
5 appropriately borne by the shareholders and native load  
6 customers of those utilities, the Michigan entities will  
7 reevaluate their own RTO choices.

8 In one sense, what you heard yesterday was  
9 refreshingly clear and simple. The main impediments to  
10 having the former Alliance Companies join and RTO are about  
11 money. The impediments have always been about money and  
12 will continue to be about money.

13 Both Com Ed and AEP plainly stated their  
14 individual RTO choices and the conditions they place on RTO  
15 participation are based on the individual business interests  
16 of their vertically integrated, for-profit companies.

17 Com Ed wants its generation to have access to  
18 higher priced PJM markets when it states that Com Ed joined  
19 PJM because PJM is, quote, "the natural market for  
20 generators connected to the Com Ed system," and that PJM has  
21 been the most important sink for exports from the Com Ed  
22 area.

23 For their part, while Ms. Tomasky and Mr. Baker  
24 state that AEP's proposals will eliminate rate pancaking in  
25 the combined region, they must also include both a

1 transitional revenue neutrality mechanism and a long-term  
2 solution to the cost-shifting issue for the full footprint.

3 Similarly, Mr. Draper indicated that one of the  
4 two fundamental interests for AEP was protecting the value  
5 of the AEP transmission system.

6 What do these statements by AEP mean? They  
7 simply mean that quite apart from AEP's cost of providing  
8 transmission service, AEP wants to maintain the revenue-  
9 producing ability of the AEP transmission system to remain  
10 as a seam.

11 This is true for the transition period where the  
12 revenues are in the form of lost revenue payments. It's  
13 also true in the future on an ongoing basis where the  
14 Company wants to collect revenues for eliminating the seam  
15 between irrationally-configured RTOs.

16 With regard to the future, the pricing notion on  
17 the white paper suggests that the pancake elimination  
18 between RTOs, such a mechanism must be based on a  
19 rationally-configured RTO.

20 If it's applied to poorly configured RTOs, it's  
21 merely a modified form of reintroducing pancaked rates. The  
22 Commission has three choices for use in the pricing notion  
23 of the white paper.

24 It can create rationally configured RTOs and  
25 implement the pricing notion for trading between these RTOs;

1       it can mitigate irrationally-configured RTOs by creating a  
2       single, super, regional RTO that internalizes the irrational  
3       seam. In this instance, the pricing notion would apply only  
4       to the seams between the super regional RTO and other RTOs.

5               It can apply the pricing notion along the ragged  
6       seam between the MISO and PJM, created by the RTO choices of  
7       the former Alliance Companies.

8               The first option is optimal; the second is  
9       acceptable; the third option is unacceptable. It simply is  
10      a modified reinstitution of rate pancaking. It's the third  
11      option that AEP is stating is the only way, as Dr. Draper  
12      put it, to maintain the value of the transmission assets of  
13      AEP.

14              Let me be clear: There's nothing wrong with the  
15      former Alliance Companies acting in the best interests of  
16      their shareholders and their native load customers.  
17      However, the individual business interests of vertically  
18      integrated transmission owners should not be accommodated at  
19      the expense of Commission RTO policy.

20              Nor should those individual business interests be  
21      accommodated at the expense of consumers that Commission  
22      regulation is supposed to protect. As I stated in February  
23      of 1999, the Commission cannot allow the individual  
24      interests of vertically integrated, for-profit utilities to  
25      dictate, distort, or supersede RTO policy that is in the

1 public interest.

2           Finally, with regard to the transitional revenue  
3 neutrality mechanism proposed by the former Alliance  
4 Companies, I want to first note that such a mechanism has  
5 nothing to do with the transmission owners' costs of  
6 providing service. And it is not necessary to serve a  
7 transmission owner's opportunity to recover its revenue  
8 requirement.

9           Second, as I mentioned earlier, the costs of de-  
10 pancaking, if any, have traditionally been borne by each  
11 transmission owner's own native load customers in the form  
12 of a revised transmission rate.

13           Thus, the cost shift from the previous means of  
14 eliminating rate pancaking, that is, the means used in  
15 establishing the California, New York, New England and PJM  
16 ISOs, is a cost shift from the former Alliance Companies'  
17 native load customers to the customers of other utilities  
18 already in an RTO.

19           Third, the specific lost revenue methodology  
20 preferred by the former Alliance Companies is based on an  
21 overly narrow vision of who benefits from the use of the  
22 transmission system with off-system sales. While the load  
23 served benefits, generation owners benefit, marketing  
24 entities benefit, and as we learned yesterday, AEP's own  
25 retail native load customers benefit in the form of revenue



1 credits to their cost of service.

2 Due to its design and overly narrow definition of  
3 who benefits from using the transmission system to make off-  
4 system sales, the particular methodology favored by the  
5 former Alliance Companies represents more than a threefold  
6 increase in the transmission costs paid by the transmission  
7 customers of those utilities. It makes customers worse off  
8 than if rate pancaking were maintained.

9 The example in my testimony uses the transmission  
10 revenue Detroit Edison paid to AEP as a transmission  
11 customer in 2002, which was approximately \$7 million. This  
12 is compared to an estimated payment of \$27 million to AEP  
13 for 2002, using the specific methodology preferred by the  
14 former Alliance Companies.

15 A major reason for this effect is the  
16 methodology's failure to consider who actually paid the  
17 transmission revenues to the transmission owner in the  
18 historical period, i.e., who was the transmission customer?  
19 Rather, it focuses on where the delivered energy was  
20 consumed. The methodology rearranges the actual business  
21 arrangements in the historical period, and transforms the  
22 zonal load where the energy was consumed into a single  
23 monolithic transmission customer.

24 Using AEP as an example, if Detroit Edison were  
25 AEP's transmission customer for a transaction that imported

1 power to the ITC Zone, AEP's receipts would show those  
2 transmission revenues paid by Detroit Edison to AEP.

3 However, if Detroit Edison bought bundled power  
4 from a marketing affiliate of AEP or any other entity using  
5 the AEP system, and the negotiations were such that the AEP  
6 affiliate or the other entity was the transmission customer,  
7 AEP's receipts would show transmission revenues paid by the  
8 affiliate or the other entity, not Detroit Edison.

9 Yet, the specific methodology preferred by the  
10 former Alliance Companies places the burden of collecting  
11 lost revenues on the load served by such transactions and  
12 not on the transmission customer that actually paid the  
13 revenues to the transmission owner.

14 I believe the issue of lost revenues as an  
15 impediment to RTO formation, would be largely eliminated if  
16 the former Alliance Companies were to accept or the  
17 Commission were to require that lost revenue recovery be  
18 limited to that which any transmission customer actually  
19 paid to a transmission owner in a recent historical period.

20 At least that's my definition of revenue  
21 neutrality.

22 Notwithstanding the fact that transmission owners  
23 have eliminated rate pancaking without lost revenues, and  
24 Detroit Edison's belief that lost revenue recovery is not  
25 necessary to protect the individual business interests of

1 transmission owners, Detroit Edison would set aside its  
2 arguments on lost revenue recovery, would settle those lost  
3 revenue issues with the former Alliance Companies today, if  
4 those companies were willing to accept a lost revenue  
5 payment based on the actual transmission revenues paid by  
6 Detroit Edison as a transmission customer in a recent 12-  
7 month period.

8 Finally, similar to Dr. Draper's comments that  
9 AEP will vigorously oppose splitting the AEP transmission  
10 system, and any solution to the current impediments to RTO  
11 formation that compromise corporate interests, please let me  
12 assure you that Detroit Edison will vigorously oppose any  
13 mechanism that places a disproportionate share of AEP's or  
14 any other transmission owner's lost revenues on Detroit  
15 Edison's customers or shareholders.

16 Thank you for the opportunity to testify. I'll  
17 be happy to answer any questions.

18 MR. SMITH: Your Honor, I'd move the admission of  
19 DE-1, DE-2, and DE-3.

20 PRESIDING JUDGE: Any objection to receiving  
21 these exhibits into evidence?

22 (No response.)

23 PRESIDING JUDGE: The aforementioned exhibits  
24 will be received into evidence.

25 (Exhibits Numbered DE-1 through

1 DE-3 were marked for  
2 identification and received into  
3 evidence.)

4 PRESIDING JUDGE: Are there any Staff questions  
5 of Mr. Harvill?

6 MR. KELLY: Yes, there are.

7 PRESIDING JUDGE: You may proceed.

8 CROSS EXAMINATION

9 BY MR. KELLY:

10 Q Good morning, Mr. Harvill. In your testimony,  
11 you put a lot of emphasis on the reliability-enhancing  
12 effect of maintaining the Commission's scope and  
13 configuration requirements of Order 2000.

14 On page 6, you say that the scope and  
15 configuration and requirements of RTOs can help the  
16 Commission to realize the reliability benefits of RTO  
17 formation. For example, rationally-configured RTOs can  
18 assist dramatically in the security of the grid to assure  
19 the reliability standards are upheld and can increase the  
20 efficient coordination of planned generation and  
21 transmission outages.

22 Following that, on page 7, beginning at line 11,  
23 you state that collectively, the Commission's nine  
24 conditions of its July 31st Order were intended to eliminate  
25 the harmful effects of these RTO choices by, in effect,

1 creating a single super-regional RTO that would internalize  
2 or mitigate the effects of the irrational configuration.

3 Then you conclude with "However, implementing all  
4 aspects of the Commission's July 31 Order has proven to be  
5 difficult and costly. Our previous witness, Mr. Torgeson,  
6 told us that -- I think he met all nine conditions of the  
7 July 31st Order and that they were just weeks away from  
8 being filed with the Commission before the August 14th  
9 blackout.

10 Your testimony suggests it would be difficult and  
11 costly to achieve the nine conditions, and I was hoping you  
12 could elaborate on that statement.

13 A At this point in time, I don't believe that --  
14 well, let me strike that. Referring to the costly aspect of  
15 it, Detroit Edison, along with numerous other stakeholders,  
16 with regard to the Midwest Region on RTO formation, have  
17 spent quite a bit of time and effort to address the  
18 Commission's conditions of its July Order of 2002.

19 I would respectfully disagree with Mr. Torgeson  
20 that all nine conditions have actually been met at this  
21 point in time. Most specifically, in June of this year,  
22 during a settlement conference, it was decided that the  
23 Michigan-Wisconsin hold-harmless condition could not be  
24 settled and achievement of that condition could not be  
25 achieved and settlement discussions at that point in time

1       were broken off.

2                       So with regard to that one, specifically, I would  
3       state that I don't believe all conditions have been met.

4               Q       Thank you. In several places in your testimony,  
5       you call for a single super-regional RTO. At one point, I  
6       heard that you meant by that, the joint and common market  
7       between AEP and PJM. At another point, you say that a  
8       logical, regional, wholesale electricity market has evolved  
9       -- I'm reading from page 7, line 20, and comprises states  
10      that are contiguous to one another.

11                      These states currently encompass the ECAR and  
12      MAIN reliability regions. I do not have the map, but I just  
13      wonder if you can elaborate on what you referred to by a  
14      single, super-regional RTO.

15              A       Of course, I believe that Detroit Edison's  
16      initial position on RTO formation is that which is stated on  
17      page 17, beginning on line 19. We believe the single,  
18      rationally-configured, independent, not-for-profit RTO  
19      should be developed to manage all systems within the Midwest  
20      Region.

21                      There is a also an understanding that given where  
22      we are in this process -- and I emphasize that it's been a  
23      long and arduous process -- going to a single, rationally-  
24      configured, independent, not-for-profit RTO, may be  
25      difficult, if not impossible.

1           My second best solution to the problem would be  
2           that of the super-regional RTO, which eliminates the seams  
3           between the irrationally configured RTO that exists today.

4           Q       Also on page 7, you state that membership in this  
5           RTO should be mandatory for all regional transmission  
6           owners, generators, and wholesale market participants. Did  
7           you have in mind, a vehicle for the mandate, either  
8           procedurally in the negotiation process, or a Commission  
9           Order, based on certain statutory authority or other means?

10          A       I've previously, in other forums -- and I will  
11          state here today that I believe the FERC has the authority  
12          to mandate participation in RTOs. I've made that statement  
13          previously and I believe others yesterday and even today,  
14          have made that point as well.

15          Q       I'd like to conclude by asking you the same  
16          question I asked Mr. Torgeson -- two questions: If PJM and  
17          MISO use an LMP system and AEP uses a TLR system, can the  
18          LMP system work effectively, both to manage congestion and  
19          preserve reliability in that situation?

20          A       I think the key word there is "effective." I'm  
21          not sure how effective that system will be.

22                    There again, like my previous answer to your  
23                    question, it's a second-best solution. It's not the primary  
24                    or the preferred methodology that I think a lot of people  
25                    would like to see in place in the Midwest Region.

1           Q       Similarly, in the same situation, if you have  
2       TLRs in AEP, but the effectiveness of the TLR system  
3       requires data from the surrounding area, which is not  
4       primarily a TLR system, but a system that uses a real-time  
5       market to figure out what transactions are going to take  
6       place, and does a security-constrained computer run to  
7       determine if it's all simultaneously feasible, can that  
8       system work effectively, if that computer run, moments  
9       before the hour, say, is being done by an LMP system in  
10      which the internal backbone grid is not participating? Do  
11      you have an opinion on that?

12           A       There again, I would just emphasize that anytime  
13      you're trying to combine two fundamentally different systems  
14      for managing congestion, it has the potential to create some  
15      serious problems, and the preferred methodology would have  
16      one market-based congestion management system.

17                   MR. KELLY: Thank you.

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1                   PRESIDING JUDGE: Any other questions from staff?  
2 Mr. McLaughlin?

3                   CROSS EXAMINATION

4                   BY MR. McLAUGHLIN:

5                   Q     Mr. Harvill, I just have one question so I can  
6 understand your testimony. You talk about, I guess, your  
7 preferred option being a well-defined region, and as your  
8 second-best solution, the super region?

9                   A     Yes.

10                  Q     I thought in response to Mr. Kelly, you stated  
11 that you recognized that to now try to pursue your preferred  
12 option would be difficult, if not impossible, to achieve?

13                  A     That's correct.

14                  Q     Am I correct that your practical solution or the  
15 solution that you're recommending that the Commission pursue  
16 is a continuation of the super region with the nine  
17 conditions?

18                  A     That's correct.

19                         If I could expand upon that? Detroit Edison and  
20 Consumers Energy have acted in such a way, as I said in my  
21 testimony and my statement, do everything we can to support  
22 the formation of RTOs in the Midwest region. The admitted  
23 self-interests and decisions by AEP and other former  
24 Alliance companies have created an irrational seam along the  
25 southern border of Michigan. The fact is if we don't move

1 to a super regional RTO, in which that seam can be  
2 internalized, Detroit Edison and Consumers Energy -- I don't  
3 want to speak for Consumers Energy -- but Detroit Edison is  
4 being put in the unenviable position of being isolated from  
5 the rest of the Midwest. Essentially, what you're doing is  
6 just maintaining that pancaked rate between Michigan and the  
7 remainder of the Midwest region.

8 MR. McLAUGHLIN: Thank you.

9 PRESIDING JUDGE: Anything further from staff?

10 (No response.)

11 PRESIDING JUDGE: Mr. Chairman?

12 CHAIRMAN WOOD: Commissioner Harvill, the  
13 attributes of the super regional RTO, try to be more  
14 specific there, elimination of the rate pancaking for sure,  
15 and then also the internalization of the loop flow that  
16 would otherwise exist in two RTOs?

17 THE WITNESS: Correct. And also managing the  
18 seam between RTOs.

19 CHAIRMAN WOOD: Outside, you mean, as between?

20 THE WITNESS: Between the two RTOs, between MISO  
21 and PJM.

22 CHAIRMAN WOOD: The managing of the seam, other  
23 than rate issues and loop flow issues, would be other  
24 reliability and dispatch issues? Congestion management  
25 issues?

1 THE WITNESS: Correct.

2 CHAIRMAN WOOD: Does the joint operating  
3 agreement, from your understanding of that, is that where  
4 that's pointed?

5 THE WITNESS: I think it's headed in the right  
6 direction, but at this point in time, I don't think we can  
7 say conclusively that it addresses all of our issues.

8 CHAIRMAN WOOD: So if the Commission were to  
9 address, as we're in the process of doing now, the through  
10 and out rate issues to and among all these companies,  
11 whether they're all the way in the RTOs yet, or not, the  
12 joint operating agreements, which would be kind of a stop  
13 gap between now and October of '04, which is when you've got  
14 common market rules on both the PJM and MISO side of the  
15 fence, what then?

16 THE WITNESS: I think to your first point on the  
17 elimination of through and out rates, while that is  
18 obviously a step in the right direction, the Commission, I  
19 believe, held open the possibility of lost revenue payments  
20 for the elimination of that through and out rate, as well as  
21 an ongoing, I believe Mr. Baker said, any lost revenue  
22 payment would be for a period of time to be replaced by  
23 something else in the future.

24 I think, as I said, while the elimination of  
25 through and out rates is a step in the right direction, the

1 fact is the lost revenue payments and the mechanisms  
2 preferred by the former Alliance companies, puts Detroit  
3 Edison and other entities in the unenviable position of  
4 paying more for transmission than they previously had been  
5 paying.

6 CHAIRMAN WOOD: I'll just, with any money issue,  
7 we can get that solved, that's what our job is. So we'll  
8 get that solved, so check that one off.

9 THE WITNESS: By doing that, you've come a long  
10 way in addressing my concerns.

11 (Laughter.)

12 CHAIRMAN WOOD: I think the bottomline is we've  
13 got to make sure the transmission owners are made whole for  
14 the revenue requirement. I think that's what we do. But I  
15 think the allocation of that issue is where the battleground  
16 is. And I think we can resolve that issue either by  
17 settlement or by an order. So we'll get there.

18 THE WITNESS: I don't know whether you're asking  
19 a question, but settlement will be very difficult to achieve  
20 based upon the numerous settlement conferences I've attended  
21 to address this very issue.

22 CHAIRMAN WOOD: We could probably save you a  
23 whole amount of lost revenue requirement by voiding all the  
24 billable hours.

25 (Laughter.)

1           CHAIRMAN WOOD: The customer's going to pay  
2 either way, so we might as well keep the overall costs  
3 minimized. So that's the reliability issues.

4           And then the market seam issues, those were all  
5 encompassed in our nine conditions in the summer '02 order  
6 for the less-than-ideal seam. I'm not going to call it  
7 irrational because I voted on it.

8           (Laughter.)

9           CHAIRMAN WOOD: Three of us did or four of us  
10 did. I think Linda was here too. Is there a tenth  
11 condition that we didn't put in there that you think needs  
12 to be addressed to create what you're calling a super  
13 regional RTO concept?

14           THE WITNESS: I think by simply addressing the  
15 nine conditions, you go a long way to addressing most of our  
16 concerns.

17           CHAIRMAN WOOD: Your client is in Michigan?

18           THE WITNESS: Correct.

19           CHAIRMAN WOOD: The Michigan Wisconsin Hold  
20 Harmless. Without getting into a whole lot of detail, but  
21 from your company's perspective, what are the issues there  
22 that need to be addressed?

23           THE WITNESS: I would specifically refer to what  
24 the Commission stated which was the Commission was dealing  
25 with the effects of -- and I can site them specifically --

1 the unintended loop flow from the decisions of the former  
2 Alliance companies.

3 CHAIRMAN WOOD: By loop flow, that means  
4 identifying really whether it's Michigan or the Alliance,  
5 the former Alliance company, that has the rights to use  
6 certain transmission facilities based on historic flows over  
7 those facilities, and therefore that's who gets the physical  
8 rights at the boundary.

9 THE WITNESS: I think it's dealing with the  
10 incremental loop flow that is caused by decisions of the  
11 former Alliance companies to join PJM.

12 CHAIRMAN WOOD: I might want to follow up on that  
13 later. I don't know if we'll have everybody back for that  
14 one, but I need to get more specificity on what exactly the  
15 issue is there, because we did say some general language and  
16 I've read quite a lot.

17 THE WITNESS: I would suggest that when Mr.  
18 Ioanidis or Mr. Calley testify, they may be able to do a  
19 better job of expressing that.

20 CHAIRMAN WOOD: Just to give you all a hint.  
21 Thanks.

22 PRESIDING JUDGE: Anything else?

23 COMMISSIONER MASSEY: I just want to get clear on  
24 this one point. Is it your testimony that the creation of  
25 the joint and common market, the compliance with the nine

1 conditions, the elimination of the rate pancaking, would  
2 this make the jagged seam fairly harmless, in your view?

3 THE WITNESS: I don't know whether "harmless" is  
4 the word I would use. I think there were the unintended  
5 outcomes associated with the seam being configured in the  
6 way in which it is configured. I won't call it irrational  
7 anymore. That being said, without being able to predict  
8 what will come of that, I think it's safe to assume that  
9 there will be unintended consequences from that.

10 To your specific point, if the nine conditions of  
11 the July order are actually met, rate pancaking is  
12 eliminated, and the compensation to the transmission owners  
13 is such that it doesn't place an undue burden on any  
14 particular company beyond what their current rate pancaking  
15 places on them. I think it would go a long way. It could  
16 work.

17 COMMISSIONER MASSEY: I understand it's not your  
18 favorite approach, but that's helpful to me. Thank you.

19 PRESIDING JUDGE: Anything further of this  
20 witness?

21 (No response.)

22 PRESIDING JUDGE: Thank you very much, Mr.  
23 Harvill, for your testimony. You're excused.

24 (Witness excused.)

25 PRESIDING JUDGE: The next entity on my list

1 offering testimony is International Transmission Company. I  
2 believe we have a panel here of Mr. Schultz and Mr.  
3 Ioanidis.

4 MR. MacGUINEAS: Actually, your Honor, I'd like  
5 to put the witnesses on serially.

6 Whereupon,

7 GREGORY IOANIDIS

8 was called as a witness herein, and having been first duly  
9 sworn, was examined and testified as follows:

10 DIRECT EXAMINATION

11 BY MR. MacGUINEAS:

12 Q Mr. Ioanidis, please state your name, title, and  
13 business address?

14 A My name is Gregory Ioanidis. I'm director in the  
15 Business Strategy Unit of the International Transmission  
16 Company. My business address is 1901 South Wagner Road, Ann  
17 Arbor, Michigan 48103.

18 Q Did you file direct testimony in this proceeding?

19 A Yes.

20 Q Do you have a copy before you?

21 A Yes.

22 Q It is temporarily marked as GI-1. I would  
23 request that it be permanently marked as ITC-1.

24 (The document referred to was  
25 marked for identification as



1 Exhibit Number ITC-1.)

2 BY MR. MacGUINEAS:

3 Q Was your testimony prepared by you or under your  
4 direct supervision?

5 A Yes, it was.

6 Q Do you have any corrections to your testimony?

7 A I have one minor correction on page one of eight  
8 of my testimony, line 15. The sentence starts "our company  
9 has approximately ..." strike the word "has" and replace it  
10 with "ultimately serves."

11 PRESIDING JUDGE: I'm sorry, what page was that?

12 THE WITNESS: Page one of eight.

13 MR. MacGUINEAS: I've furnished the Reporter with  
14 two copies of the corrected testimony.

15 BY MR. MacGUINEAS:

16 Q Would you summarize your testimony?

17 A Yes, I will.

18 Judge Cowan, Chairman Wood, Commissioner  
19 Brownell, Commissioner Massey, staff, I appreciate the  
20 opportunity to offer testimony in this proceeding regarding  
21 the participation of certain utilities in a regional  
22 transmission organization.

23 I'm testifying on behalf of the International  
24 Transmission Company. International is an independent  
25 transmission company, not affiliated with any market

1 participant. We are located in southeastern Michigan, and  
2 are an ITC under the Midwest ISO.

3 In my prefiled testimony, I address two pricing  
4 issues. ITC's potential impediments to transmission systems  
5 voluntarily participating in an RTO in the Midwest region.  
6 The first issue is the lost revenue claims that stem from  
7 the elimination of through and out rates. The second issue  
8 is the impact of retail rate freezes on transmission owner's  
9 ability to recover RTO tariff administration and other  
10 costs.

11 With respect to the first issue, lost revenues,  
12 to the extent that the elimination of rate pancaking results  
13 in a utility not being able to recover its transmission  
14 revenue requirements, calculated using traditional cost-of-  
15 service principles at an appropriate rate of return, that  
16 portion of the lost revenues which will result in an under  
17 recovery, should be considered for rate relief.

18 Revenue requirements, including prudent lost  
19 revenues, should be allocated to transmission customers who  
20 benefit and not merely assigned according to historic  
21 contract path energy transactions. Using power flows  
22 reflects the physics of the transmission system and, in my  
23 opinion, is a more accurate basis for the purposes of  
24 assigning revenue requirement.

25 With respect to the second issue, retail rate

1       freezes, by joining an RTO, a utility under a rate freeze  
2       would incur new RTO charges with no ability to recover those  
3       costs. One solution is to allow the RTO costs to be treated  
4       as a regulatory asset and recovered in rates at an  
5       appropriate future date.

6                 Another potential solution requires the  
7       cooperation of FERC and state commissions and, as a policy  
8       matter, establish a pass through mechanism for RTO charges  
9       designed in such a way that both the costs and benefits  
10      realized through RTO participation are passed through to the  
11      utilities' ultimate customers.

12                That concludes my summary. Again, thank you for  
13      the opportunity to address the Commission.

14                MR. MacGUINEAS: At this time, I would move into  
15      evidence, ITC-1 and proffer the witness for examination.

16                PRESIDING JUDGE: Is there any objection to  
17      receiving this into evidence?

18                         (No response.)

19                PRESIDING JUDGE: We will renumber it ITC-1 and  
20      receive it into evidence.

21   (The document labeled Exhibit  
22   Number ITC-1 was received in  
23   evidence.)

24                PRESIDING JUDGE: Any questions for this witness  
25      from staff?

1 MR. BARDEE: Yes, Your Honor, Mr. MacLaughlin.

2 PRESIDING JUDGE: You may proceed.

3 CROSS EXAMINATION

4 BY MR. McLAUGHLIN:

5 Q Mr. Ioanidis, I had a couple of questions, one on  
6 the lost revenues. You talk about it from the standpoint  
7 that most are pursuing the lost revenue from a contract path  
8 methodology on an hisotrical basis. I believe you suggest  
9 that the better approach would be power flows.

10 Recognizing that right now other parties and  
11 other witnesses have talked about it on the contract path  
12 basis, as a temporary transitional mechanism, I was curious  
13 about your perspective on it as a temporary transitional  
14 mechanism.

15 A If I understand your question correctly, Mr.  
16 McLaughlin, what I am saying in my testimony is a more  
17 permanent solution to pricing, that is, that revenue  
18 requirement should be borne by customers who benefit based  
19 on their physical use of the transmission system.

20 Q So, from International Transmission Company's  
21 perspective, okay, if I understand it correctly, you're  
22 advocating a new rate design methodology for the price of  
23 the interstate transmission system. Recognizing we have to  
24 get from teh rate design that we're at to a new rate design,  
25 would a temporary surcharge methodology, like a SECA or

1 something else, be an acceptable proposition to achieve a  
2 new rate design?

3 A I think the stakeholders in my footprint and in  
4 the state of Michigan have a lot to say about the  
5 rasonableness of implementing a SECA solution. I'll not  
6 speak for those stakeholders. I think Mr. Harvill did that.  
7 What I see is, first, needing a transmission owner to prove  
8 out that those lost revenues indeed result in a revenue  
9 requirement deficiency. To the extent they do, those  
10 transmission owners shoudl be afforded rate relief. As  
11 Chairman Wood stated, we need to make sure that transmission  
12 owners get to their revenue requirement.

13 At that point in time, what I would advocate day  
14 one as part of an RTO is that we look at how we allocate teh  
15 responsiblity for recovering that revenue requirement among  
16 customers, and I would propose to do so on a flow basis that  
17 rfecognizes the physics of the system, so that those who are  
18 actually using the system are paying for it and paying their  
19 fair share of the transmission owner's revenue requirement.

20 Q So if I'm correct in understanding, you are  
21 basically advocating the new rate design methodology and the  
22 question is, do we jump to it immediately, or do we have a  
23 transition to it. You're concerned with a transition and  
24 how that plays out but you agree that the elimination of  
25 through and out rates, coming up with a new rate design is

1 the appropriate solution?

2 A I believe a new rate design is an appropriate  
3 solution, yes.

4 Q Thank you.

5 On your trapped costs argument, I think that's on  
6 page eight of eight, this arises, and I just want to  
7 generally talk to you about it because it comes up in a  
8 number of circumstances, it seems to be a common thing,  
9 whenever we run into a situation where there's retail rate  
10 freeze, various scenarios, generally how would you see the  
11 regulatory asset playing out? Like I say, this is in more  
12 of a general sense.

13 A Again with respect to sort of the first potential  
14 solution for these trapped costs, obviously again you will  
15 have the timing of rate freezes and when they expire that  
16 would have to be considered as when you'd be able to  
17 actually start amortizing these regulatory assets for  
18 election to rates from customers.

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1           Q       I take it because each state has different rate  
2 freezes, it would be on a transmission company by  
3 transmission company basis, as opposed to an RTO by RTO  
4 basis?

5           A       I think it will have to be because some of the  
6 rate freezes are state legislated rate freezes and, as such,  
7 you would have to look at when those expire, company by  
8 company, for purposes of amortizing the regulatory asset.

9           Q       Your discussion of the idea of a pass through  
10 through the fuel adjustment clause, I believe, do you see  
11 any distorting effects to that. As we talked about, there's  
12 variously potentially trapped costs of various types of  
13 charges that the transmission company, participating in an  
14 RTO, will incur, that theoretically it may not be able to  
15 recover on a current basis?

16          A       The only thing I would like to highlight is the  
17 fact that we need to do this right, and by right, I mean we  
18 need to be able to not only pass through the costs but also  
19 the benefit. That's why we're designing RTOs to ultimately  
20 create a vibrant wholesale market which, in turn, should  
21 benefit ultimate customers. It's key that both the costs of  
22 participating RTOs, as well as the benefits, will find their  
23 way to the ultimate customers.

24          Q       I guess my last question on both of these  
25 impediments, the trapped costs, maybe not the trapped costs

1 but on the two methodologies, kind of the working predicate  
2 is there's a retail rate freeze on the one hand, is the  
3 transmission company being billed any current expenses on  
4 the one hand, and on the other, trying to recover those.  
5 How does the Commission know if you're over recovering and  
6 under recovering with a retail rate freeze, to know if  
7 there's offsetting expenses that you did not incur, so that  
8 in a sense, you really don't have trapped costs other than  
9 just from one account?

10 A I think I understand your question and it's a  
11 very valid question. The only way you'll be able to  
12 understand whether a utility, on an aggregate basis, is over  
13 recovering or under recovering is to examine the utility and  
14 look at their revenue requirement and what they're  
15 collecting from current customers.

16 MR. McLAUGHLIN: Thank you.

17 PRESIDING JUDGE: Anything further of this  
18 witness?

19 MR. BARDEE: No, Your Honor.

20 PRESIDING JUDGE: Any questions from the  
21 Commission?

22 (No response.)

23 PRESIDING JUDGE: Thank you very much. You are  
24 excused.

25 (Witness excused.)







1           I am testifying on behalf of International  
2           Transmission Company, which is an independent transmission  
3           company in southeastern Michigan, and has been a member of  
4           the MISO for about two years.

5           I'm concerned that decisions by AEP, ComEd, and  
6           Dayton to join to PJM create an awkward seams-ridden  
7           configuration. I believe this will very likely degrade  
8           reliability because it produces RTOs inconsistent with  
9           energy flows and trading patterns, and that the reliability  
10          authority is jurisdictional and will not coincide with the  
11          natural trading area.

12          At the time of the blackout on August 14th, no  
13          single reliability authority was responsible for the area of  
14          the proposed PJM ISO joint and common market. As the  
15          systems deteriorated, communications between them were poor.  
16          PJM and MISO are built on different fundamental models.  
17          This intrinsically leads to seams and poor communications.

18          Further, poorly-configured RTOs lead to increased  
19          loop flows and inaccurately calculated LMPs. Loop flows  
20          contribute to poor reliability. The solution is properly  
21          configured RTOs.

22          Thank you.

23          MR. MacGUINEAS: I would request that Mr.  
24          Schultz's testimony be moved in evidence, and he's proffered  
25          for cross examination.



1       intrinsically different, because the electrical grid and its  
2       performance requires a very intimate knowledge of all the  
3       information that's currently in place, and it's almost  
4       impossible to guarantee that those requirements are going to  
5       be met when you have two dissimilar systems like that.

6                With regard to the second question, there are  
7       some fundamental problems with TLR in that there's, first, a  
8       threshold under which some transactions basically entered  
9       into the system. Secondly, if it's intertwined with an LMP  
10      system, some of the internal flows related to the companies  
11      within the LMP market, do not appear in the TLR system, so  
12      therefore they're not accounted for and cannot be properly  
13      reflected in any actions that need to be taken if there are  
14      reliability issues.

15             Q       Mr. Schultz, are you familiar with the nine  
16      conditions that the Commission set in approving the choices  
17      of the former Alliance companies?

18             A       I remember reading them. I don't recall them  
19      individually now but I do remember reading them.

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1           Q       Do you believe that if those conditions were  
2 fully satisfied, that that would address your need, your  
3 call for a single reliability authority?

4           A       If it was, in fact, possible to satisfy those  
5 conditions completely as the Commission set forth, it's  
6 possible, but I don't think it's very likely that it will  
7 actually happen, and I believe the hold-harmless part for  
8 Michigan and Wisconsin, pretty much has broken down.

9                   Secondly, speaking purely from a technical point  
10 of view, the issues that are being addressed by, I believe  
11 it's called the Joint Operating Agreement between the MISO  
12 and the PJM, are so complex, technically, that it's  
13 unlikely, in my opinion, that they would be resolvable.

14                   I'll say also for the record that ITC has  
15 continually basically disapproved that plan whenever it's  
16 been offered to us, at least within the ECAR environment,  
17 and the other Michigan companies have as well, because of  
18 the concerns underlying making all these things work  
19 together.

20           Q       Just to clarify, if you set aside the hold-  
21 harmless condition and its financial aspects for the moment  
22 and focus purely on the reliability effects of satisfying  
23 all those conditions, are those technically achievable and  
24 likely to be effective in preserving reliability or  
25 enhancing reliability?

1           A           I'll point again to the blackout. In effect, a  
2 lot of the things that are expected to be operational down  
3 the road when these two entities operate together, were more  
4 or less in place on August 14th.

5                   And when I say that, you know, we have two  
6 separate reliability authorities. We have different  
7 entities dispatching the market, basically, and that sets up  
8 a condition where, in the best of worlds, while it's  
9 theoretically possible, it's very difficult to get the  
10 information you need when you need it in the timely fashion  
11 that's required to operate the system safely.

12                   MR. KELLY: Thank you.

13                   PRESIDING JUDGE: Mr. Chairman?

14                   CHAIRMAN WOOD: So, should we just have all the  
15 companies that are in the historic footprint of ECAR and  
16 MAAC, be dispatched on an LMP basis by PJM and then MAIN and  
17 MAAC be done by MISO? Is that the easiest way to address  
18 this issue?

19                   THE WITNESS: That can be an improvement, but let  
20 me make the comment that everything in the Northeast, you  
21 know, from Michigan through Ontario, to New York and New  
22 England, back down through PJM and then the MISO footprint,  
23 at least over as far as Chicago, are all so interrelated  
24 that, at best, we have a seam that's jurisdictionally based  
25 with Canada.

1           And so we have a hard problem, no matter how we  
2           approach it, but to the extent you can make it simpler, the  
3           less the better, the more you can align the footprints with  
4           the natural trading patterns, the better chance you have of  
5           producing something that will not degrade the reliability  
6           part of the system.

7           CHAIRMAN WOOD: It's hard to draw a line on the  
8           trading patterns, because it's such a large quadrant of the  
9           continent. They're all trading with each other.

10          THE WITNESS: That actually would be one of my  
11          points, and concerns, is that, in fact, in this whole  
12          Northeast-Midwest footprint, there is so much interaction  
13          that you almost would like to have just a single super-  
14          regional RTO over the entire thing, and, of course, it would  
15          be difficult to accomplish that, because you'd have to  
16          encompass Canada, as well.

17          That should be the goal, because basically  
18          anything that can interact with other parts will potentially  
19          cause some problems, if it's not properly addressed.

20          CHAIRMAN WOOD: Okay. Let's say you've got the  
21          same market rules, let's say the IMO jumps into that, too,  
22          to simplify this example.

23          When you talk about configuration, secondly,  
24          you've got common market rules across this whole region, but  
25          you do have different dispatchers of the LMP system, because



1       it's just so large. There's going to be a seam somewhere,  
2       maybe even in Canada, but let's just say there's a seam  
3       where there is today as a practical matter, because you will  
4       not have a single air traffic controller.

5               How do you have the two air traffic controllers  
6       harmonize so that the handoff is a warm one?

7               THE WITNESS: I think probably look at two  
8       things: One of them, the dispatch decisions, basically that  
9       are part of the market, have to be totally and completely  
10      coordinated so that there is no opportunity for someone to  
11      schedule a transaction that will, in effect, lead to an  
12      overload on some system.

13              CHAIRMAN WOOD: That would be in advance of real-  
14      time operation. You would have some coordination at that  
15      level.

16              THE WITNESS: You'd have to do it at that level,  
17      but you'd also have to dispatch or perform the market  
18      function with some sort of analysis that would identify any  
19      potential problems that would result from that dispatch, in  
20      effect, the security constrained dispatch that LMP does use.

21              But it's critical that all the components which  
22      actually have an interacting effect, are included in that,  
23      even if they are not part of the market in some other sense.  
24      In other words, even something down in TVA may impact flows  
25      on some part of this more northerly market.

1           And those kinds of effects have to be  
2 incorporated at well. That's one part.

3           The other part is the reliability authority  
4 function, which is more or less used to look over what's  
5 going on and take care of the problems that ultimately do  
6 occur from time to time.

7           And for that particular function, the  
8 coordination of information has to be just really complete.  
9 You just don't have time to react if you get yourself into a  
10 difficult situation, so those entities have to have not only  
11 the authority, but they also have to have all the  
12 information and the ability to implement whatever action is  
13 required on a practically real-time basis in order to  
14 prevent things like August 14th.

15           CHAIRMAN WOOD: You mentioned reliability  
16 authority issues. Does ITC's part of MISO, does the tiered  
17 system there, as distinct from the one that exists in PJM --

18           I know I've read and have been informed by MISO personnel  
19 that that's undergoing some revision -- could you tell me  
20 from the perspective of a TO in MISO, what it is like today  
21 and what would be the optimal system for the reliability  
22 purposes, I guess, specifically, to use the new NERC  
23 terminology for the reliability authority functions?

24           THE WITNESS: The important thing for the  
25 reliability authority to have is complete information.

1 That's the single most important aspect of it.

2 That is what apparently was, to some extent,  
3 missing on August 14th, because some of what PJM knew wasn't  
4 necessarily communicated to MISO, and vice versa.

5 And on that day, as well, some of the TOs,  
6 because they were in various stages of joining different  
7 RTOs, weren't necessarily providing all of the information  
8 that would have been needed in the most pure theoretical  
9 sense to maintain viability.

10 So, ultimately, the real issue is the total  
11 access to communication and information as to what's going  
12 on in all systems. That means not only what the state of  
13 the network is, what lines are out of service, but also what  
14 market flows are occurring, what dispatches are occurring as  
15 a result of the market side of the equation.

16 CHAIRMAN WOOD: What level of that do you have  
17 today as a control area operator?

18 THE WITNESS: With MISO being the reliability  
19 authority for ITC, we are relatively in good shape as far as  
20 Michigan is concerned and other entities within the MISO  
21 footprint.

22 But for the loop flow that, in effect, is the  
23 outcome of actions that take place in either AEP or even  
24 related to Com Ed PJM transactions, any of those dispatch or  
25 market decisions that are outside of MISO's footprint, in

1 effect, look like loop flows and flow in through the MISO  
2 systems.

3 MISO has no control or necessarily any knowledge  
4 of what those flows are actually coming from, so if it's  
5 necessary to unwind something, they aren't in a position to  
6 do so.

7 CHAIRMAN WOOD: So should -- I guess, to approach  
8 this, you either take physical steps on the network to  
9 reduce loop flows, or do you have transactions along the  
10 seam be scheduled with both entities, and I guess, if they  
11 get a checkoff from both they move forward, but if one of  
12 them flunks them, then the transaction doesn't go forward?  
13 I mean, if we're going to have -- the seam is going to be  
14 somewhere. As you mentioned, even TVA, there's a seam to  
15 the south, there's a seam there, so should transactions  
16 within an electrical distance from the seam have to schedule  
17 both the neighboring authority and its own local authority,  
18 much like an airline has to do when it's near the edge of a  
19 zone?

20 THE WITNESS: To answer your last question, if  
21 everyone schedules their flows on whatever facilities in  
22 whatever RTOs or whatever other form within, then we're  
23 starting to satisfy the condition of knowing what is  
24 attributable to what, then you have a basis for not only  
25 recognizing the flows but also unwinding them, if

1 transactions need to be changed in some fashion.

2 On August 14th, a fair number of the initial  
3 flows, based on our own internal analysis, were attributable  
4 to loop flows before the event even occurred. That's  
5 because of the contract paradigm that people, of course,  
6 still use.

7 And it also is because of the way the NERC system  
8 for tagging works, so that, in effect, certain flows just  
9 don't show up in the process at all, because they are deemed  
10 to be too small to be considered an actual transaction that  
11 would affect a particular company's facility.

12 And those, collectively, even though individually  
13 they are small, collectively, they can amount to some  
14 significant component of the flows on our system and ITC's  
15 system through Michigan.

16 We are seeing like 30 or 40 percent more flow on  
17 our system at the outset, even before the blackout scenario  
18 started to occur. because of the seams and all the  
19 idiosyncracies of the TLR process and the scheduling process  
20 as it now is set up.

21 CHAIRMAN WOOD: You have a bubble chart on the  
22 back. Could you walk me through and tell me what I'm  
23 supposed to learn from that?

24 THE WITNESS: This was a snapshot of the  
25 transactions that were underway about an hour before the

1       blackout actually occurred. Do you have a colored one?

2                   CHAIRMAN WOOD: I don't. It's shaded enough to  
3       tell.

4                   THE WITNESS: I'll leave you the colored one.  
5       It's just helpful to have the colored one, I think.

6                   (Handing document to Chairman Wood.)

7                   THE WITNESS: This is a NERC tool that's  
8       available to system operators and control area operators,  
9       that shows sort of collectively, a snapshot of what  
10      transactions were underway at the time of the period before  
11      blackout.

12                   The blue dots are basically the exporters and the  
13      red or pink dots are the areas that are importing. Then, in  
14      addition to that, there is a set of lines with arrows that  
15      show the direction of flow embedded in the center of the  
16      arrow and it is a number which is the actual megawatts that  
17      collectively were flowing from one system to the other or  
18      one area to the other.

19                   It doesn't have very much detail. It doesn't  
20      have individual company data, but it does clearly show  
21      things on a regional basis.

22                   I included the transaction originally to just  
23      illustrate that part of what the Commission would like to  
24      see with the market in the future, is, in fact, occurring to  
25      some extent already, in that a lot of the low-cost producers

1 are selling from the Midwest and from the South, up into the  
2 Northeast and upper Midwest, but it also shows that there  
3 were a lot, you know, a significant amount of flows  
4 underway, and, during the blackout and the times leading up  
5 to the blackout, lines were reported to have been  
6 overloading in various systems, and the transactions  
7 themselves will be contributory to the loading that results  
8 in overloads on some of those facilities.

9 And if you have good coordination and full  
10 knowledge of everything that's going on, you will have the  
11 ability to either redispatch or otherwise curtail  
12 transactions that are causing a problem on any facilities  
13 that are showing up as being overloaded, or if they're low  
14 voltages, low voltages can be remediated.

15 So this is just helpful to see that there were a  
16 lot of transactions going on. There was a net bias going  
17 from the West and the South to the Northeast.

18 CHAIRMAN WOOD: Now, these were the transactions  
19 on the contract path, or these are where the flows actually  
20 went?

21 THE WITNESS: It's contract path in the sense of  
22 it's only going from big region to big region. It's not  
23 showing every individual component, but it's pretty much the  
24 final flow, not the contract path flow, the real flow.

25 CHAIRMAN WOOD: I want to come back -- I have

1       been hearing about loop flows for quite a few years now. I  
2       guess you're probably the best witness of all the ones we've  
3       had to try to nail this down.

4               But tell me, are the loop flows, the fact that  
5       the contract path is so different than what the actual  
6       physical path is --

7               THE WITNESS: It's funny you make that comment,  
8       because my very first assignment as a coop student in 1968  
9       was analysis of what they called circulating power, which  
10      was occurring through Michigan at that time. Everyone was  
11      amazed that it was happening and couldn't figure out what it  
12      was.

13              So I have been doing this for some time, but in  
14      effect, the flows on the network, as you have heard many  
15      times, are a property of the network itself, the  
16      configuration and then the pattern of loads and dispatches,  
17      generator operations within the unit, the loop flow results  
18      from the contract path concept where you can schedule from A  
19      to B through a particular route, which doesn't have to match  
20      in any way, with the actual flows.

21              And so, to take an example of one that's easy to  
22      see, when Com Ed actually schedules power from themselves to  
23      Philadelphia, they will probably schedule through AEP,  
24      because that's the direct path and they're the ones, of  
25      course, that have the transmission to accommodate it.



1                   But that transaction will actually have something  
2                   like 12 to 15 percent of its real flow flowing through  
3                   Michigan. That's the loop flow component. It's sort of the  
4                   part that's undefined, that is the difference between what  
5                   really flows and what is scheduled on a contract path.

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1                   CHAIRMAN WOOD: That 12 percent that flows, say,  
2 through your system, you aren't compensated for that by  
3 Exelon?

4                   THE WITNESS: That would be right. Exelon's  
5 scheduled through AEP. They would pay AEP for that  
6 transaction.

7                   CHAIRMAN WOOD: So you built your system 12  
8 percent larger just to handle something you don't get paid  
9 for?

10                  THE WITNESS: Effectively that has been the case.  
11 It's not just us, it's Canada as well, because obviously  
12 anything that flows through us flows through Canada. We in  
13 fact found that to be enough of a problem, back while we  
14 were BTE Energy. We participated in a project with the  
15 Canadians from Ontario to install phase shifting  
16 transformers on the interface on the four circuits between  
17 ITC and Canada.

18                  Those have not, to date, been operational, so we  
19 haven't been able to use it. But it's only a partial  
20 resolution of the problem because it only can stop about 600  
21 megawatts of the flow. So in the end, we have to construct  
22 extra systems to accommodate whatever flow goes through us,  
23 or we would actually see, the generators in Michigan might  
24 have to be operated in some other fashion than the fashion  
25 they choose to operate because there's not enough capability

1 left on the lines because the transactions going through use  
2 up the capacity.

3 CHAIRMAN WOOD: If everybody the day before an  
4 event, just the day before, scheduling all their power in  
5 your area, ComEd is selling stuff to Philadelphia, and you  
6 guys are selling stuff between Michigan and, say, Indiana,  
7 if all those are done with two RTOs right there along the  
8 seam, what would be the ideal solution? Is that just  
9 schedule with both MISO and PJM, what you're planning to do  
10 tomorrow?

11 THE WITNESS: The ideal solution would be to  
12 schedule on all the entities that will see the flow  
13 basically. That would include, theoretically, Canada, it  
14 would include New York, you know, possibly some of the  
15 people to the south, although maybe to a minor extent. In  
16 the end, the NERC tries to capture the phenomena with, I  
17 think it was referred to by Mr. Calley, the ITC interchange  
18 distribution calculator, which is something that captures  
19 all the effective transactions throughout the eastern  
20 interconnect, and allows people to actually identify and  
21 measure what these flows will be on whatever system of  
22 interest.

23 So there is sort of a theoretical basis in place  
24 that would allow you to do the kinds of things we're talking  
25 about. In the end, that's what we should be doing because

1 otherwise any flows that are on a system that aren't  
2 otherwise accounted for, are potential reliability problems  
3 because they take away capacity that otherwise wouldn't be  
4 available.

5 CHAIRMAN WOOD: So is the scheduling, and I guess  
6 I would call it the ATC type, it's not the calculation of it  
7 but it impacts how much transmission is actually there for  
8 you to sell. Is that a separate function going on from the  
9 LMP and real time dispatch function?

10 THE WITNESS: If everyone in the eastern  
11 interconnect was performing at one single location, a  
12 security constrained dispatch which took into effect the  
13 account of every generator action or schedule, in effect,  
14 we'd have a system that would be very functional, that would  
15 not incur overloads. Because, by definition, they would  
16 have reevaluated the dispatch until they found one that was  
17 feasible.

18 When you introduce a seam, like we have between  
19 the MISO system and the PJM system, or any other one that we  
20 can imagine, you have taken away some of the ability to know  
21 what dispatches occurred outside of your region. And so you  
22 don't probably have the ability to account for the flows  
23 that result. The more you break it up, the worse it gets.  
24 Theoretically, if you just did it for the whole  
25 interconnection, if you could do it with a big computer

1 model, you would have no problems at all, and you'd also  
2 have a completely transparent market.

3 The ideal is to keep it as simple as possible  
4 because it's probably not likely, at least in the immediate  
5 future, to do it for the whole eastern interconnect.  
6 There's probably some places where there's not a lot of  
7 business flowing across a particular boundary, and that  
8 might be a basis for making a configuration choice.

9 CHAIRMAN WOOD: You've been very helpful. Thank  
10 you.

11 PRESIDING JUDGE: Any other questions of the  
12 witness?

13 COMMISSIONER MASSEY: It seems to me, what you're  
14 saying, not to prejudge all the facts of the August 14  
15 blackout, but it seems to me that what you're saying is that  
16 properly structured RTO in your region, with appropriate  
17 scope and configuration and full participation by  
18 transmission owners, is a key part of the reliability  
19 solution for the Midwest.

20 THE WITNESS: I believe that's true.

21 COMMISSIONER MASSEY: If you were energy czar and  
22 you could describe the configuration of such an RTO, what  
23 would it be?

24 THE WITNESS: Could I do it for the whole eastern  
25 interconnect? Or do I have to make a choice?

1                   COMMISSIONER MASSEY:  You're making my heart beat  
2                   very fast.

3                   (Laughter.)

4                   COMMISSIONER MASSEY:  I just named you energy  
5                   czar, so go for it.

6                   (Laughter.)

7                   THE WITNESS:  The very first cut I would make is  
8                   probably north and south, somewhere probably between AEP and  
9                   TVA because I know they do a lot of business.  I'd probably  
10                  like to include TVA in there as well, but I think TVA does  
11                  things on both sides, so I don't know if I could do that.  
12                  That might be one of the lines.

13                  And then when we got to the north, I think I'd  
14                  have to give deference to our Canadian entities because they  
15                  don't necessarily have to do everything that we ask them to  
16                  do.  But I would have MISO and PJM operate as a single RTO  
17                  or super regional RTO, and I'd include New York if I could.  
18                  I'd still like to see Canada, but it would be in that order  
19                  basically because the trading patterns that I've seen a  
20                  number of places, including before the Commission, have been  
21                  very much east and west, ultimately going up into New York.

22                  So configuring in a way that overlays those  
23                  patterns means that you will be likely to have the  
24                  information you need to watch over reliability and to maybe  
25                  even proactively, out front ensure that you don't set up

1 anything that's going to cause a reliability problem.

2 COMMISSIONER MASSEY: Thank you.

3 PRESIDING JUDGE: Anything else for the witness?

4 (No response.)

5 PRESIDING JUDGE: Thank you very much, Mr.

6 Schultz. You are excused.

7 (Witness excused.)

8 PRESIDING JUDGE: We're going to take a break

9 now. Please be back at 11:25.

10 (Recess.)

11 PRESIDING JUDGE: We shall resume taking  
12 testimony of other interested entities. I next have PPL  
13 Electric Utilities Corporation. Mr. Kaplan.

14 MR. KAPLAN: Our witness is John F. Sipics, Your  
15 Honor. He was not here yesterday and needs to be sworn.  
16 Whereupon,

17 JOHN F. SIPICS

18 was called as a witness herein, and having been first duly  
19 sworn, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. KAPLAN:

22 Q Please state your name for the record.

23 A John F. Sipics.

24 Q Do you have before you a document marked PPL-1,  
25 Exhibit 1, your direct testimony?

1           A       I do.

2           Q       Do you have any changes or corrections to that  
3 testimony?

4           A       I do not.

5           Q       If we asked you the same questions today, would  
6 you give the same answers?

7           A       I would.

8           Q       Would you please summarize your testimony?

9           A       Thank you.

10                    Good morning, Chairman Wood, Commissioners Massey  
11 and Brownell, and the Honorable William Cowan, I'm here  
12 today to testify on behalf of PPL Electric Utilities  
13 Corporation, and I will also express the views of our  
14 parent, PPL Corporation, as well.

15                    At the outset, I'd like to thank the Commission  
16 for this opportunity to voice important reliability and cost  
17 benefit concerns in connection with the expansion of PJM.

18                    PPL is a member, transmission owner, and load  
19 serving entity in PJM. It was one of the original founders  
20 in PJM in 1927, and I've personally participated in a number  
21 of PJM committees and task forces over the past three  
22 decades. I was a member of the PJM Management Committee in  
23 1997, the team that created the PJM ISO.

24                    There are four points I'd like to make today.  
25 First, PPL strongly supports RTO formation to enhance



1 reliability and to foster robust, competitive wholesale  
2 markets.

3 Second, I don't feel that PJM is ready to expand  
4 at this time.

5 Third, the Commission should review whether the  
6 proposed RTO configuration in the Midwest is appropriate.

7 Fourth, if and when expansion is appropriate, the  
8 costs of expansion must be allocated fairly among all those  
9 who benefit.

10 To the first point, RTOs of proper scope and  
11 configuration are critical to ensuring reliability and  
12 facilitating competitive wholesale electricity markets.  
13 Among other things, an independent and properly structured  
14 RTO must abide by NERC reliability criteria, administer  
15 congestion management, operate the power markets, and manage  
16 information to maintain system reliability.

17 The Commission should do everything in its power  
18 to ensure that every entity with significant generation,  
19 transmission, or load responsibilities, is a member of a  
20 well-functioning RTO. However, RTOs must be of proper scope  
21 and configuration, and prepared to address reliability.

22 Second, my concerns for reliability lead me to  
23 conclude that an expanded PJM would not meet these criteria  
24 and that PJM should not expand at this time. While PJM is  
25 rightly considered the best RTO, it started from a solid

1 platform of over 75 years of joint planning and operating  
2 coordination among its members. As someone who was involved  
3 in the design and building of the current PJM, I feel that  
4 expansion now would jeopardize the RTO that is rightly  
5 recognized as a model for the rest of the country.

6           Despite the long history of PJM, and five years  
7 of independent operation, there are still reliability issues  
8 which we're resolving today. Specifically, not all members  
9 of PJM agree on the ultimate responsibilities for  
10 reliability. We strongly believe PJM is responsible.  
11 Precisely because there's some lack of clarity around this  
12 order, PJM and the PJM transmission owners formed their  
13 Roles and Responsibilities Review Team to clearly define the  
14 reliability responsibilities of the various parties.

15           This group was formed two months ago. Work is  
16 still ongoing. Before PJM can provide sound reliability for  
17 the expansion companies, I believe it must complete this  
18 effort. In short, it must ensure its existing members and  
19 their retail customers of a reliable system before it  
20 undertakes expansion through the consequence of not dealing  
21 with reliability concerns first.

22           If newly-created RTOs east and west do not  
23 adequately ensure reliability, and we suffer a blackout or  
24 other severe system disturbance, RTO development will be  
25 hampered and competition will suffer.

1           Third, the Commission should review whether the  
2 RTO configuration it approved on July 31st 2002 remains the  
3 best RTO scope and configuration for achieving reliable and  
4 efficient operations. The earliest RTOs derived directly  
5 from tight power pools and followed essentially the same  
6 boundaries; New York, New England, PJM.

7           However, as illustrated by this proceeding, the  
8 subsequent formation of new RTOs is not following logical,  
9 electrical or even geopolitical boundaries. While PJM  
10 should be the model for one or more Midwest ITOs, that does  
11 not mean that PJM should be a Midwest RTO.

12           The Commission is right to encourage large  
13 wholesale markets. That does not mean there must be a  
14 single RTO as big as the entire market. Rather, the  
15 Commission should encourage large, seamless wholesale  
16 markets across several RTOs as a way to expand market  
17 opportunities and increase efficiencies.

18           Even if expansion were appropriate at this time,  
19 it's troubling to me that PJM is proposing to depart from  
20 the original plan and integrate ComEd before AEP. This  
21 approach doesn't make sense from a scope and configuration  
22 perspective, and it raises significant logistical and  
23 operational problems that will result in a limited,  
24 constrained transmission path between PJM and ComEd.

25           This result is inconsistent with the founding

1 bedrock principle of PJM free-flowing ties. Moreover, the  
2 PJM market monitor has concluded that under this scenario,  
3 there are market power problems in the ComEd zone.

4 Finally, if and when PJM expansion is  
5 appropriate, the cost of expansion must be allocated fairly  
6 among those who benefit. PJM members and their customers  
7 are being asked to pay most of the \$100 million costs of the  
8 expansion that will bring them little identified benefits.  
9 PJM already has a very efficient energy market. We're  
10 skeptical that there will be meaningful additional benefits  
11 to the existing 25 million PJM electricity customers from  
12 the expansion of PJM into the Midwest.

13 A cost benefit analysis of the impact of the  
14 expansion on existing PJM members must be completed before  
15 this expansion is undertaken.

16 In closing, I want to reiterate that we strongly  
17 support the creation of properly-configured, independent  
18 RTOs. We look forward to working closely with the  
19 Commission, PJM, and other stakeholders to accomplish that  
20 objective. And, by the way, I should say I agree with a lot  
21 of what Mr. Schultz said right before me, although I'm not  
22 sure I'd make the RTO quite as big. I'd try to accomplish  
23 that through coordination.

24 With that, I'd be happy to try to answer  
25 questions.

1 MR. KAPLAN: Thank you, Mr. Sipics.

2 With that, I move the introduction of PPL Exhibit  
3 1.

4 PRESIDING JUDGE: Any objection?

5 (No response.)

6 PRESIDING JUDGE: PPL-1 will be received into  
7 evidence.

8 (The document referred to was  
9 marked for identification as  
10 Exhibit Number PPL-1, and was  
11 received in evidence.)

12 MR. KAPLAN: The witness is available for  
13 examination, Your Honor.

14 PRESIDING JUDGE: Any questions from Commission  
15 staff?

16 MR. BARDEE: Yes, Your Honor. Ms. Fernandez.

17 PRESIDING JUDGE: You may proceed.

18 CROSS EXAMINATION

19 BY MS. FERNANDEZ:

20 Q Good morning, Mr. Sipics. I guess I'd like to  
21 start up first in your oral testimony today. You mentioned  
22 there's a group within PJM that's looking at reliability  
23 issues within PJM. Is there a time frame for completion of  
24 that project?

25 A The group was only started in July. They're just

1       developing some of the specific aspects of the charter. I'm  
2       not aware of a specific time frame for the completion of  
3       that.

4               Q       Given your past experience within PJM, do you  
5       have any guess as to how long it may take?

6               A       I think with the appropriate focus, if you got  
7       the people there -- that's one of the difficult things,  
8       getting the people from PJM and the member companies to meet  
9       on a frequent basis -- if there were emphasis on it, I could  
10      see that could be done in a matter of a month or two. That  
11      would require probably quite a few sessions. If it's going  
12      to be one of these where you meet once a month, that's going  
13      to drag out.

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1           Q       In terms of getting the people involved, is your  
2 concern getting the stakeholders or getting the PJM people  
3 involved?

4           A       A little bit of both. I'm not sure all of the  
5 member companies share PPL's concerns. We would certainly  
6 make every effort to get people there because we feel it's  
7 important. One of our best senior technical people is  
8 actually at Princeton now full time working on the root  
9 cause of the blackout. But we still have other people we  
10 could make available.

11          Q       Are there any special reasons why PPL is  
12 concerned about reliability within PJM?

13          A       Maybe I'm very conservative. When I grew up I  
14 taught power system analysis for six years. Actually one of  
15 our case studies when I was teaching at Lehigh University  
16 was the ConEd blackout of 1977. We've seen some things in  
17 recent times that suggest to me that maybe there's a bit  
18 more of a focus on showing the economics of the new world  
19 maybe at the expense of reliability, taking it for granted.

20                   That troubles me. I think then you take  
21 reliability for granted and take your focus off it. That's  
22 when you're going to have problems. You saw an example of  
23 it in the Midwest. I saw people come out and say it's  
24 because we have a third world transmission grid and I don't  
25 believe that for one second. We could operate this grid

1 within reliability criteria. I believe you'll find when  
2 they finish the blackout review that it was probably  
3 preventable with appropriate coordination and information  
4 available and analysis and actions after the first few  
5 events took place. There was a fair amount of time between  
6 the initial events, the loss of the early generators like  
7 East Lake and the loss of the 345 line at 3:00 and another  
8 one at about 3:25.

9           It sounds to me like that sag from loading as a  
10 result of the earlier 345 line loss only because it takes  
11 about 20 to 30 minutes per line to get to its new sag after  
12 it gets loaded to a higher level, you know? So if you  
13 follow NERC criteria and operate the system so that you  
14 could withstand the loss of any single facility without  
15 overloading anything else, then following that event you  
16 readjust the system such that no other facility results in  
17 overloading of any other facilities. You might have been  
18 able to prevent it. But there's lots of things going on and  
19 maybe the focus isn't quite there.

20           Q       Turning to another area, you were one of the few  
21 representatives of the PJM stakeholders and I think what's  
22 become known as the classic PJM, sort of the classic and new  
23 Coke of the RTO world.

24                   (Laughter.)

25           THE WITNESS: We're classic coke.



1 BY MS. FERNANDEZ:

2 Q Earlier, primarily yesterday, AEP talked about a  
3 proposed interim solution. I guess I'd like to ask sort of  
4 from a PJM stakeholder and the classic PJM, what do you  
5 think of that proposal and what do you think are the  
6 benefits or the risks to short of the classic PJM?

7 A I read it on the way down here actually. I  
8 didn't take a lot of time to contemplate it. One of the  
9 concerns I had, I think what you really need is consistent  
10 rules across the markets. I'd like to see the locational  
11 marginal price dispatch be used more broadly. I think that  
12 makes the most economic generators run. It makes it easier  
13 to do analysis as several prior witnesses have pointed out.

14 I'm not sure what you'd gain by doing essentially  
15 what was day one with some undetermined time until you get  
16 to day two where you actually get to that new protocol to  
17 dispatch by LMP.

18 Essentially you contribute your facilities but  
19 you don't run the same dispatch protocol so what does that  
20 mean? What do I gain out of that? I don't see reliability  
21 benefits from it.

22 Q Is it fair to say, I guess, from the classic PJM  
23 standpoint there may be benefits to having sort of the full  
24 integration but short of that you don't see the benefits.

25 A There could be but even then I'd want to make

1       sure that the costs of that expansion are properly borne.  
2       When there's suggestions of lost revenue that are based on  
3       historic sometimes really old data that aren't necessarily  
4       what studies suggest flows would be like in the future, you  
5       could have the PJM classic companies' customers ultimately  
6       share owners until rate caps come off paying for the  
7       integration of these new companies. That's a concern to me.  
8       That's a secondary one to reliability issues, but it is a  
9       concern.

10       Q       So the treatment of lost revenues for the new  
11       members joining would also be a concern?

12       A       Especially when you can't tell where in PJM it  
13       came, so you just socialize it across all the companies.  
14       Some import. Some don't.

15               (Pause.)

16       Q       In your testimony you express some concern about  
17       Commonwealth integrating into PJM prior to AEP. Could you  
18       sort of explain what your concerns are?

19       A       Again, I grew up in PJM where we operated as a  
20       single system for a long time. We dispatched it as if it  
21       didn't matter if there was PPL, Public Service and PECO, GPU  
22       and Pepco and Baltimore Gas and Electric in there. You  
23       dispatched it as a whole, you looked at what the load was,  
24       you looked at what available generation was and you  
25       dispatched it. A security constrained economic dispatch so

1       you could meet them both operating criteria and the loss of  
2       that facility didn't overload anything else. And we took  
3       care of any net transaction purchases and sales in an  
4       accounting exercise after the fact.

5                So actually moving to an RTO wasn't, I shouldn't  
6       say it wasn't challenging, there was lots of work and all  
7       the people in PJM would confirm that, I'm sure, but PJM  
8       especially and even the member companies, but you knew the  
9       system, you know where the limits are, and there are limits  
10      to system operation that aren't reflected just in the  
11      security constraint dispatch. We could look at one line out  
12      at a time on any other line. That's good for thermal  
13      overload. That's not good for issues of voltage problems,  
14      reactive problems or stability concerns.

15               So a lot of times we did off line analyses. We  
16      would suggest that, if this facility is out of service, you  
17      need to invoke this operating scheme and I think that gets  
18      more difficult to do when you're trying to paint that over  
19      areas that aren't part of the same electrical system. Of  
20      course, they're interconnected and what happens there  
21      affects us.

22               But there's a lot of systems in between but I  
23      don't see the efficiencies there. It's almost too separate  
24      analyses.

25               Q        Would the concerns be lessened if AEP and

1 Commonwealth Edison at Dayton were integrated at the same  
2 time?

3 A And they operated on the same basis? Yes, there  
4 would be, absolutely.

5 MS. FERNANDEZ: That's all I have.

6 PRESIDING JUDGE: Any other staff questions for  
7 the witness?

8 MR. BARDEE: No, Your Honor.

9 PRESIDING JUDGE: Chairman, do you have anything?

10 CHAIRMAN WOOD: I'm contrasting two engineers  
11 with good pedigrees and I'm trying to find out how to  
12 connect all these dots. I'm going to ask you to help me.  
13 You made some comments about the blackout and about  
14 reliability issues perhaps being overlooked or lesser in  
15 importance than some of the market issues, yet you talk  
16 about in response to Alice's question about the upper LMP  
17 market that kind of halfway measure that AEP put forward.

18 Do you have, can you move to LMP and get  
19 reliability issues dealt with? What's left behind?

20 THE WITNESS: If you have LMP if you choose to  
21 operate to the reliability criteria I think you can. It's a  
22 matter of find LMP out here and a little pipeline and a lot  
23 of other electrical facilities in between and an LMP here.  
24 What happens to all the other information along the way so I  
25 can do this system analysis?

1           I think ultimately you had earlier mentioned, Mr.  
2 Chairman, about air traffic analogy. I like that because I  
3 think that's what RTOs are. I can fly from San Francisco to  
4 Lehigh Valley Airport and I go through many air traffic  
5 controllers space and they operate on a common set of rules  
6 that is fairly seamless. We need to work on those rules  
7 both for the market and for reliability standards.

8           I wish there were a lot more like NPOs that are  
9 mandatory, there are penalties for noncompliance, and you  
10 feared having somebody say you're not operating to these  
11 standards as you do if your NPO rating drops. There's  
12 penalties and significant penalties for that so people  
13 operate nuclear systems, I think, very reliably and safely.

14           I don't have the same confidence that all of the  
15 market participants have that same focus on reliability with  
16 the electrical system. There's rate caps, there's pressures  
17 otherwise and much as we want to be altruistic, I think some  
18 people maybe don't have the same focus.

19           CHAIRMAN WOOD: Perhaps mandatory reliability  
20 rule could change that focus?

21           THE WITNESS: I think it would.

22           CHAIRMAN WOOD: Yet with those same concerns as I  
23 heard from the prior witness, from ITC, you for I guess for  
24 pretty local reasons don't want to see PJM be that air  
25 traffic controller or at least an air traffic controller

1 over a larger territory.

2 Do we then revisit the Alliance Company choices  
3 and say you're all going to MISO?

4 THE WITNESS: If I were the energy Czar I would  
5 probably draw the boundaries a little more on the lines of  
6 the way the reliability council boundaries were drawn in the  
7 past and ensure common markets and coordination among those  
8 RTOs as opposed to having one painted over the entire  
9 Northeast.

10 CHAIRMAN WOOD: In the past two years we've tried  
11 both.

12 THE WITNESS: I understand and I appreciate your  
13 frustration.

14 CHAIRMAN WOOD: The money side two years ago.  
15 What's the fee per megawatt hour that PPL, I guess, who  
16 spilled that? The load serving entity?

17 THE WITNESS: Most of that is to the load serving  
18 entity. The numbers I remember being on the management  
19 committee back I think it was in 1996, I was objecting to an  
20 increase in the operating budget to \$25 million. Our share  
21 of that was about 1/8th. It was around \$3 million.

22 There were some costs for facilities too that are  
23 now PJM facilities, capital costs to be fair. That would  
24 probably add like another \$2 million, but the budget for  
25 next year for PPL is \$22 million. To just schedule Non

1 Ancillary Service One it is over fifteen.

2 CHAIRMAN WOOD: That's schedule nine?

3 THE WITNESS: Service One is essentially PJM  
4 costs to PPL, over \$15 million. It's gone up fairly  
5 substantially. The economies of scale. I guess I haven't  
6 seen them yet. I'm sure we would have had them.

7 CHAIRMAN WOOD: Is that assessed in the cents per  
8 megawatt hour charge?

9 THE WITNESS: It is. I don't remember the  
10 numbers. I can get that if you'd like.

11 CHAIRMAN WOOD: Has there been an assessment on  
12 top of that to recover the costs of the new market  
13 attachment?

14 THE WITNESS: Actually the budget didn't include  
15 the market expansion costs but we can get you the specific  
16 numbers if you'd like.

17 CHAIRMAN WOOD: I'd like to see what you've got.  
18 I think that's all, Judge.

19 PRESIDING JUDGE: Does any other commissioner  
20 have questions? Commissioner Massey?

21 COMMISSIONER MASSEY: So your approach would be  
22 two RTOs in the Midwest region with a different seam? You'd  
23 draw the boundary differently? Would you have each of them  
24 operating in the security constraint dispatch with LMP?

25 THE WITNESS: I would and I would require

1 coordination among the RTOs.

2 COMMISSIONER MASSEY: And the security  
3 constrained dispatch with LMP, do you see that as a  
4 reliability feature?

5 THE WITNESS: I do if you follow the guidelines,  
6 if you truly operate to the loss of the worst single  
7 facility, yes. It allows you to operate the system reliably  
8 with the best information about what adjustments you need to  
9 make to operate reliably. Somebody could choose not to but  
10 it might be obvious and at least you'd know your remedies  
11 when you do need to make system adjustments.

12 Right now you'd need information from other  
13 parties because of what Dr. Schultz described as loop flows.  
14 It does affect your own system flows and I think to just  
15 rely on the real time runs is expecting a lot of the  
16 operators when the system is not fully intact, which is a  
17 lot of the time because there's a transmission line out for  
18 maintenance or facilities out for other reasons.

19 I know we did a lot of work in the past in what  
20 was an operations planning branch and it's still done at PJM  
21 now to understand the implications of that beforehand.

22 So you need some information actually the day  
23 before, more than real time, especially for contingencies  
24 that aren't as simple as a thermal overload.

25 COMMISSIONER MASSEY: Thank you.



1                   COMMISSIONER BROWNELL: You've raised reliability  
2 concerns that candidly we have not heard from the other  
3 members. Who else is on your working group? Did you  
4 convene the working group? Did NERC express some concerns  
5 about reliability? Where did the working group evolve from?  
6 Who are the members and who shares your concern among the  
7 membership.

8                   THE WITNESS: Commissioner Brownell, the working  
9 group, I believe, originated from a visit that Larry  
10 deSimone, who is essentially the COO of PPL and I, had with  
11 Phil Harris, Mike Kormos and Frank Koza from PJM, where we  
12 expressed some concerns and heard back that some of the  
13 companies didn't share our views of how much of the  
14 reliability responsibility was on PJM.

15                   PJM convenes that group and all of the  
16 transmission owners and PJM are represented on that group.  
17 Some of the members from our conversations with them share  
18 our concerns but I guess not a lot of them publicly.

19                   COMMISSIONER BROWNELL: Well, a pretty strong  
20 statement to make publicly, and as we evolve from what we've  
21 learned on August 14, I think something we all did take and  
22 take more seriously today. So I'd be interested in getting  
23 comments from the other members of PJM about specifically  
24 what those concerns are. I'm not sure how a market issue  
25 could compromise a reliability issue and I'd like to flesh

1 out, if you will, kind of what is behind the statement that  
2 you have made that markets are taking precedence over  
3 reliability.

4 THE WITNESS: Well, one example I could give now  
5 that brings me concern. We had a pilot program on the  
6 Delmarva Peninsula this past summer where, instead of  
7 operating such that you would adjust it to the generation  
8 beforehand to the worst contingency. You would adjust  
9 generation after the contingency occurs because it occurs  
10 very infrequently.

11 If you do that, you'll show a savings of course  
12 because now you ran the more economic generation outside the  
13 peninsula to get it in the peninsula. But you are operating  
14 closer to the edge. If you couldn't move the generators, if  
15 you didn't get the information to know that the contingency  
16 occurred, which may be what happened in the Midwest, I'll  
17 wait for the report, you've taken some margin away. That  
18 causes me concern.

19 Other members I know, public service, for  
20 example, expressed a similar concern when the pilot was  
21 proposed.

22 COMMISSIONER BROWNELL: It will be interesting to  
23 get the comments. Delmarva Peninsula is a rather unique  
24 situation. I'd like to hear a little bit more on some other  
25 examples and some other markets. You suggested RTOs will

1       only be accountable if they are for profit and suggest, I  
2       think you're suggesting, that maybe we somehow mandate that.  
3       Isn't that decision a decision up to the members of the  
4       cartel?

5                   THE WITNESS: That was kind of secondary, but  
6       you're right. I did allude to that. What I was trying to  
7       do was find some way and regulating for profit by FERC could  
8       be one way to have some incentive to hold down costs. When  
9       it's a pass through as it is now, PJM costs are passed  
10      through to the members. Ten percent of the members pay  
11      3/4ths of the costs and it's pretty tough for votes to  
12      control costs. A lot of the people have a very small  
13      portion of the cost and aren't necessarily then voting the  
14      bottom line where the few people who are affected are kind  
15      of outnumbered.

16                   COMMISSIONER BROWNELL: The independent board  
17      doesn't have responsibility for ensuring efficiency in  
18      management. I think our view is that that do.

19                   THE WITNESS: It would be my view that they do  
20      also. I'm not sure I'm convinced that we're as efficient as  
21      we could be.

22                   COMMISSIONER BROWNELL: Thank you.

23                   PRESIDING JUDGE: Anything else for the witness?

24                   (No response.)

25                   PRESIDING JUDGE: Thank you very much for your

1 testimony. Mr. Sipics, you are excused.

2 (Witness excused.)

3 PRESIDING JUDGE: The next entity that we will  
4 take testimony from this morning is Edison Mission Energy,  
5 Edison Mission Marketing and Trading, Inc., and Midwest  
6 Generation EME LLC.

7 Mr. O'Donnell?

8 Whereupon,

9 JOHN P. MATHIS and REEM J. FAHEY,  
10 Witnesses, having been called for examination, and having  
11 first been duly sworn, were examined and testified as  
12 follows:

13 DIRECT EXAMINATION

14 BY MR. O'DONNELL:

15 Q Could each of you give your name, address and  
16 business address?

17 A (MATHIS) My name is John Mathis, President and  
18 Associate General Counsel, Edison Mission Energy. My  
19 business address is 555 12th Street, N.W., Washington, D.C.  
20 20004.

21 A (FAHEY) My name is Reem Fahey, regional Vice  
22 President for Market Policy. My address is One Financial  
23 Place, 414 South LaSalle, Chicago, Illinois 60605.

24 Q Did the two of you prepare and file the joint  
25 testimony of John P. Mathis and Reem J. Fahey, on behalf of

1 Edison Mission Energy and Edison Mission Marketing and  
2 Trading and Midwest Generation EME LLC, in response to the  
3 Commission's inquiry in this case?

4 A (MATHIS) Yes we did.

5 Q Was that testimony prepared by you or under your  
6 supervision?

7 A (MATHIS) Yes it was.

8 A (FAHEY) Yes.

9 Q If I asked you the questions that appear in the  
10 testimony today, would your answers be the same as shown  
11 therein?

12 A (MATHIS) They would.

13 A (FAHEY) They would.

14 Q Attached to the testimony are four exhibits  
15 marked EME-1 through 4. Are those also prepared by you or  
16 under your supervision?

17 A (MATHIS) Yes, they were.

18 A (FAHEY) Yes.

19 Q I'd ask you to summarize your testimony at this  
20 time.

21 A (MATHIS) Thank you very much.

22 Chairman Wood, Commissioner Brownell,  
23 Commissioner Massey, Judge Cowan, we really do want to take  
24 the opportunity to thank the Commission for initiating this  
25 inquiry into the current impediments to and proposed

1 solutions for RTO formation in the Midwest and allowing us  
2 to present testimony and speak to you today on this  
3 important topic.

4 We both are appearing today on behalf of Edison  
5 Mission Energy and its subsidiaries. That's Edison Mission  
6 Marketing and Trading and also Midwest Generation EME LLC,  
7 which is our Midwestern generation company.

8 As the largest independent generator in the  
9 Midwest, Midwest Generation has a vital interest in ensuring  
10 the development of a reliable, competitive wholesale energy  
11 market in the Midwest.

12 For this reason we have consistently supported  
13 the original proposal since July of 2002 for Com Ed and AEP  
14 to join PJM together.

15 However, for the same reason, we along with other  
16 parties in filings made with the Commission made last May,  
17 have vigorously opposed Com Ed's what we consider abrupt  
18 decision last May to join PJM on a stand alone basis.

19 Com Ed's stand alone integration in PJM produces  
20 no apparent net economic benefits to the public. The  
21 proposed 500 megawatt bilateral transmission pathway between  
22 Com Ed and PJM that exists and is under contract to Com Ed's  
23 affiliate, Exelon Generation, is less than three percent of  
24 Com Ed's total export capability.

25 This case is unlike a merger proceeding which a

1 minimal contract path is proffered mainly to satisfy the  
2 requirements of the Public Utility Holding Company Act, is  
3 proffered mainly to satisfy the requirements of the Public  
4 Utility Holding Company Act.

5 Integration for purposes of Order 2000 requires a  
6 lot more. This path is wholly inadequate to implement the  
7 requirements of Order 2000. It requires market based  
8 congestion management such as LMP. Moreover, the proposal  
9 raises a host of significant reliability and competitive  
10 concerns, some of which you have already heard. Most  
11 importantly, the failure to integrate into PMJ  
12 simultaneously with Com Ed or having Com Ed come after it,  
13 leaves a vast hole in the middle of PJM, as the rest of PJM  
14 and MISO market monitors have acknowledged.

15 This seam is unlike the seams between the RTOs  
16 that the Commission has addressed through the conditions in  
17 its July 31, 2002 order, because neither PJM nor MISO will  
18 have control over the AEP system in that particular  
19 situation.

20 Nonetheless, the joint operating agreement  
21 between PJM and MISO is entirely silent on this deficiency  
22 despite the concerns expressed by both market monitors.

23 Further, the PJM market monitors preliminary  
24 analysis of the stand alone Com Ed market indicates that it  
25 would potentially experience generation and monopsony power.

1 While we don't endorse the methodology employed by the  
2 market monitor in his analysis, the conclusion is dismaying  
3 because there is no evidence of market power or monopsony  
4 power in the market today.

5 How could PJM recommend this proposal if the  
6 market monitor finds that it creates market or monopsony  
7 power concerns that do not exist today? What then do we  
8 recommend that the Commission should do to promote  
9 competitive and reliable markets?

10 We believe that the Commission should proceed to  
11 implement as quickly as possible the original RTO  
12 configuration proposed by the new PJM companies with the  
13 conditions set forth in the Commission's July 31, 2002,  
14 order.

15 Although Com Ed and the other new PJM companies  
16 have challenged the lawfulness of these provisions in a  
17 petition for review of the Commission's July 31, 2002,  
18 order, filed with the D.C. Circuit, we believe such  
19 conditions are imperative to ensure that those RTO choices  
20 of the former Alliance Companies are in the public interest.

21 In this regard we applaud the Commission for  
22 directing PJM and MISO to eliminate the through and out  
23 rates for transactions sinking in the combined PJM/MISO  
24 footprint.

25 The Commission, we believe should promptly finish



1 the job it started. To this end it should require the  
2 former Alliance Companies to eliminate their through and out  
3 rates for transactions sinking in the combined PJM/MISO  
4 footprint as PJM has proposed, with the opportunity for each  
5 utility to recover lost revenues and prevent cost shifting  
6 through alternative rate designs. It should reject other  
7 measures that would subvert its efforts to eliminate  
8 pancaked rates in the Midwest region and, in this regard,  
9 Your Honors, we note that Com Ed recently filed with the  
10 Commission an application to substantially increase rather  
11 than eliminate its transmission rates, including its firm  
12 point to point transmission rate for transactions sinking in  
13 the combined PJM/MISO footprint.

14 We also believe that the principal impediment to  
15 proper RTO configuration in the Midwest is regrettably the  
16 obstructive actions of some state commissions. Here we  
17 agree with Com Ed. It comes as a surprise to them that we  
18 agree with Com Ed on this point, that the commission has the  
19 authority to preempt inconsistent state laws that frustrate  
20 the Commission's orders and its exclusive jurisdiction over  
21 transmission and wholesale sales in interstate commerce.

22 We do recognize that the Commission might wish to  
23 make a final attempt to reach a settlement among the  
24 parties. Prior to the hearing yesterday we had thought the  
25 split system concept for the AEP system might be a potential

1 basis for settlement but AEP appears to have taken that  
2 possibility off the table with their testimony.

3 If the Commission, nevertheless, wishes to  
4 provide a last clear chance, we would hope and we would  
5 suggest that it should impose a deadline for agreement of no  
6 more than 30 to 60 days.

7 In all events, the Commission should make it  
8 clear to all parties that AEP, Com Ed and DPL must be  
9 integrated into PJM by October 1, 2004.

10 Chairman Schreiber's comment that it's time to  
11 pull the trigger comes to mind in this connection.

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1           In closing, we would like to reiterate the need  
2           for the Commission to get the process of RTO formation in  
3           the Midwest right. In this case, right, we believe, means  
4           the full integration of AEP, ComEd and DPL into PJM.

5           The Commission's competitive market policies  
6           stand at a critical juncture. The recent California energy  
7           crisis and the August 14th blackout have caused numerous  
8           parties to express doubts concerning the feasibility of  
9           competition in the electric industry. It is because we are  
10          committed proponents of the Commission's pro-competition  
11          policies that we must express our deeply felt concern that  
12          such policies could ill afford another crisis of any kind.

13          Accordingly, we urge the Commission not to roll  
14          the dice by allowing ComEd to integrate with PJM before the  
15          hole that separates ComEd from PJM, that is AEP, also  
16          becomes a member of PJM. That is what the new PJM companies  
17          promised to the Commission before it issued the July 31,  
18          2002 order accepting the RTO choices of the former Alliance  
19          companies. And the Commission should accept nothing less.

20          The integration of ComEd into PJM on a stand  
21          alone basis requires reliance on a configuration that has  
22          never been implemented before, and relies for its  
23          integration on a modest virtual path that crosses a utility  
24          that will not be a member of either RTO. If that  
25          configuration should fail, as we fear that it would, ComEd

1 and PJM will not be the only ones to suffer. The  
2 Commission's competitive market policies will also suffer  
3 widespread loss of public confidence and thus, of course, we  
4 urge you to make sure that the RTO formation process in the  
5 Midwest is done correctly.

6           Once again, thank you for this opportunity to  
7 present our views.

8           Q       One further question, directed to Ms. Fahey. You  
9 were present, I believe, during the discussion yesterday of  
10 AEP's what has been referred to as interim proposal. Do you  
11 have any comments on that proposal?

12           A       (Fahey) Yes. Edison Mission does not support  
13 the AEP proposal for the following four reasons:

14                   The first one is that proposal does not get us  
15 into an integrated market across the whole PJM footprint,  
16 and frankly we're afraid we're going to end up with actually  
17 three sets of rules within that PJM footprint.

18                   The first set of rules would be within the PJM  
19 class. You have LMP-style markets and you have the FTR  
20 paradigm, the financial transmission rights, then you have  
21 AEP sort of sitting in the middle with point to point  
22 transmission. We have TLRs. Frankly, it is as it exists  
23 today, so we have another set of rules in sort of the so-  
24 called PJM.

25                   Then you also end up with a third set of rules

1 for ComEd, even though ComEd will be under an LMP. They  
2 will not be truly integrated in PJM because of the limited  
3 500 megawatt pathway. And actually, the preliminary  
4 analysis PJM has done showed that PJM would have to end up  
5 with its own resource adequacy market, its own capacity  
6 market that's not exactly the same as PJM. We have  
7 different spinning reserve markets and ancillary markets,  
8 and we believe that's just not acceptable.

9 The second reason is that we don't really believe  
10 it's a good offer because actually it's the status quo. As  
11 they mentioned in their testimony yesterday, we already have  
12 SPP that's doing ATC and TTC calculations and granting  
13 transmission service. They already have an independent  
14 market monitor. Further, FERC intends to eliminate the rate  
15 pancaking for the combined MISO/PJM footprint and to the ex-  
16 Alliance companies. So for them to say, we're offering the  
17 elimination of rate pancaking, we've already got that.

18 Accordingly, I believe that AEP's proposal will  
19 deprive the consumers from the largest benefit of RTO  
20 participation, which is the efficient, economic central  
21 dispatch of generation.

22 The third issue we have with this -- and I did  
23 not hear others mention it -- is that we believe this  
24 proposal actually gives the AEP generation affiliate an  
25 unfair market advantage because what basically they would be

1       doing is, on one side of them, you have PJM classic that  
2       will dispatch all of PJM's load in the day-ahead and real  
3       time market. And AEP, because of interface pricing points,  
4       will be able to compete for that market without having a  
5       bilateral transaction with any of the other entities within  
6       PJM.

7               The same would be true if you implement on the  
8       other side, the ComEd proposal where they would have an LMP  
9       market. Then, again, AEP has interface points with ComEd,  
10      and again, they will be able to compete for that load in the  
11      day-ahead and the real time market, except that the biggest  
12      concern for us is that there is no process for us to do the  
13      same thing. What they're saying is, our load is not up for  
14      grabs, it's not going to be dispatched by PJM, so this is  
15      truly an unfair market advantage to them.

16             I'm actually very pleased that Chairman Wood  
17      picked up on that and I'm very pleased that you've asked  
18      both Dr. Patton and Mr. Bowring to come back in nine days, I  
19      believe, to specifically comment on that sort of market  
20      manipulation issue. I'm very pleased you picked up on that.

21             Finally, actually we agree with ComEd that if we  
22      accept the AEP proposal, this is a very problematic policy  
23      issue because it allows entities to opt out of certain RTO  
24      functions in response to state pressure. If FERC accepts  
25      the AEP proposal, will FERC than allow a state to pressure a

1 utility to opt out of LMP?

2 Thank you.

3 MR. O'DONNELL: I'd like to move the admission of  
4 Exhibits EME 1 through 4, as well as the prepared testimony,  
5 which I would suggest be marked EME-5.

6 PRESIDING JUDGE: Any objections in receiving EME  
7 1 through 5 into evidence?

8 (No response.)

9 PRESIDING JUDGE: We will receive them into  
10 evidence.

11 (The documents referred to  
12 were marked for  
13 identification respectively  
14 as Exhibits Numbers EME 1  
15 through 5, and were received  
16 in evidence.)

17 PRESIDING JUDGE: We're ready for questioning.  
18 Staff, do you have any questions of the witnesses?

19 MR. BARDEE: Yes, we do, Your Honor. Ms.  
20 Fernandez.

21 PRESIDING JUDGE: You may proceed.

22 CROSS EXAMINATION

23 BY MS. FERNANDEZ:

24 Q I'd like to ask you a few questions, sort of in  
25 your summary today, and also it's talked about in your

1 written testimony. You expressed some concerns about  
2 reliability I think primarily attributable to the partial  
3 integration of Commonwealth Edison. I guess I'd like  
4 starting with if all the former Alliance companies are  
5 integrated into MISO and PJM, and the conditions that the  
6 Commission imposed on those choices, if those actually go  
7 through, do you see any reliability concerns.

8 A (Mathis) I'll comment first, then I'll let Reem  
9 comment in a more competent way.

10 We basically have signed off on the concept of  
11 the conditions alleviating concerns that we would have had  
12 otherwise with the configuration. To that extent, we don't  
13 think it's ideal. Our preference, if we had been making the  
14 decision about which way ComEd should go, it would have been  
15 in a different direction, but having made their decision,  
16 and again combined with AEP, and again the eloquence with  
17 which they tied their decision to the decision of American  
18 Electric Power, was a pretty significant factor in our being  
19 willing to support their decision to do that. It seemed  
20 sincere. It reflected the market realities as we understood  
21 them.

22 And so when that announcement was made, and it  
23 was a total package going to PJM, we thought, it's not our  
24 choice but we can live with that, subject to the conditions  
25 which include such matters as the elimination of pancake



1 rates getting to a common market, because a lot of our  
2 market is in MISO. We want to get to a common market as  
3 soon as possible under the schedule that the Commission  
4 contemplates.

5 Reem, do you want to comment further?

6 A (Fahey) I don't think we don't have any  
7 reliability concerns. We truly do support the FERC  
8 July 31st, 2002 order, when it accepted the Alliance  
9 companies' RTO choices, with the qualifier that all the  
10 conditions need to be implemented.

11 However, we do have reliability concerns with the  
12 ComEd stand alone proposal because if you look at the joint  
13 operating agreement, in essence, we believe that when FERC  
14 put that as a condition, back in July of 2002, it was with  
15 the assumption that AEP was going to be part of that joint  
16 operating agreement.

17 If you read the joint operating agreement, it's  
18 only between MISO and PJM. AEP is not part of that. We  
19 hope this Commission will not accept that if AEP is not part  
20 of it. I was actually very encouraged to hear PJM,  
21 yesterday, testify that they hoped AEP would actually also  
22 sign that operating agreement.

23 Q So all your reliability concerns come about, is  
24 it mainly because AEP would not be part of an RTO?

25 A (Fahey) Absolutely. We just don't like this

1 huge gap in the middle.

2 Q How would the huge gap in the middle affect the  
3 markets in the Midwest and the Mid-Atlantic?

4 A (Fahey) It's a great question. I would actually  
5 focus my answer to the Midwest and more selfishly on the  
6 ComEd side. But frankly, we don't believe the proposal has  
7 actually any benefits. We had hired a very reputable market  
8 expert, Dr. Roy Shanker, who actually did a critique of the  
9 benefits that PJM showed for the implementation of the ComEd  
10 stand alone basis.

11 If I may just pick on one item that I think we  
12 believe was done incorrectly, was they assumed this 500  
13 megawatt pathway is new. We believe they double counted  
14 that. The 500 megawatt transmission pathway exists today.  
15 The Exelon affiliate owns that today. It's used today.  
16 They're a very savvy entity. It's not sitting idle, it's  
17 being optimized as we speak.

18 So the benefits that they saw were from, oh,  
19 we're going to have this 500 megawatt pathway, and we're  
20 going to do dispatch, which exists today. We saw very  
21 little benefits and a lot of harm.

22 Q Does Edison Mission have any capacity between  
23 Commonwealth Edison and PJM through AEP?

24 A (Fahey) No, we don't. PJM isn't necessarily our  
25 market, it's Exelon's market because of their nuclear

1 energy, and their portfolio makes frankly, our market is the  
2 Midwest; Wisconsin, Ameren, AEP, Cinergy and so forth.

3 Q So you're concerned that it would create market  
4 power that may not exist today?

5 A (Fahey) Yes. The critique of the market  
6 analysis report is because this sort of, if I may, funky RTO  
7 configuration --

8 (Laughter.)

9 WITNESS FAHEY: You have PJM classic, and we have  
10 two states, a huge gap in the middle. And then ComEd sort  
11 of integrated on that other side. In essence, they're using  
12 New Jersey and Maryland generators to be competing with the  
13 ComEd generators with blinders on what the true market is.  
14 AEP has a lot of generation they sell into ComEd all the  
15 time. It's in Exelon's testimony.

16 We believe the market analysis report was flawed  
17 because they just integrated the market through 500, and  
18 that's how they dispatched it.

19 BY MS. FERNANDEZ:

20 Q You also mention in your oral testimony today, a  
21 concern that AEP's interim proposal would give them an  
22 advantage in making sales of energy. I was wondering if you  
23 could sort of explain that a little bit further.

24 A (Fahey) Absolutely. It's a huge concern for us.  
25 Basically, the way it works -- let's just focus on the PJM

1 classic side because ComEd is similar -- but on the PJM  
2 classic side, and it happens today, where in essence the  
3 whole load, PJM tries to commit enough generation and runs a  
4 security constraint dispatch and commits the most efficient  
5 generation to serve the load, both on the day-ahead and real  
6 time market. So even though AEP is not part of that  
7 dispatch, there's interface points and AEP ships a  
8 substantial amount of energy into PJM through the interface  
9 points, because you can bid on that.

10 In essence, they are competing with the rest of  
11 the PJM classics to serve that load, which is fine. You  
12 know, competition is a good thing, as long as it's  
13 reciprocal, but the opposite isn't true because there is no  
14 LMP style market within AEP, and their proposal, and I  
15 believe I highlighted this, is that the only way you can  
16 serve the load is by having a bilateral transaction with  
17 AEP. That's a huge, unfair market advantage.

18 Q I guess if I could summarize it, it's basically  
19 you see it that under that proposal, AEP's generation can  
20 compete with that in the classic PJM, but there's no ability  
21 for the low-cost generation within the classic PJM to  
22 compete in AEP's market?

23 A (Fahey) Exactly.

24 MS. FERNANDEZ: Thank you, that's all I have.

25 WITNESS MATHIS: The same thing would be true viz

1 a viz comment on the western side.

2 PRESIDING JUDGE: Anything further from staff?

3 (No response.)

4 PRESIDING JUDGE: Do any of the Commissioners or  
5 the Chairman have any questions.

6 CHAIRMAN WOOD: With the elimination of the  
7 regional through and out rate, all throughout the area, what  
8 impediments are there to Edison Mission Energy selling your  
9 generation into what will, by October '04, be in the MISO  
10 footprint and the LMP market, as well. Is it a transition  
11 issue that's a business concern for you?

12 WITNESS FAHEY: The biggest issue, Chairman Wood,  
13 is the point to point paradigm doesn't work.

14 CHAIRMAN WOOD: I got that.

15 WITNESS FAHEY: If you eliminate rate pancaking,  
16 you still have to submit -- well, let's just talk about a  
17 transaction that I may attempt to do to sell into PJM.  
18 That's great that the ComEd side is LMP, but then you have  
19 this big gap, and it's a physical gap. To get across AEP, I  
20 have to put in --

21 CHAIRMAN WOOD: I'm sorry. Let me just say,  
22 let's assume we've got AEP and ComEd and Dayton in this LMP  
23 market in PJM.

24 WITNESS FAHEY: I have no issue with that, then.  
25 We care about Dayton as well. I don't want to leave them

1 out of this.

2 (Laughter.)

3 WITNESS FAHEY: AEP for us is actually the glue  
4 that connects the gap between PJM and Illinois. So if AEP  
5 is fully integrated in that market, we do not have an issue.  
6 And we believe your order of July 2002, given the condition,  
7 is something we applaud. We can live with it.

8 CHAIRMAN WOOD: Couldn't all those conditions  
9 fairly be met, based on your experience living under them  
10 for 14 months, 15?

11 WITNESS FAHEY: It's always interesting, when  
12 people want to get something done, they'll find a way to get  
13 it done. Frankly, we have two very large entities, both  
14 ComEd and AEP, engaged in a very complex merger agreement,  
15 and they got things done because it was in their best  
16 interest to get it done.

17 So I believe, yes, you can get them done.

18 WITNESS MATHIS: I think, Mr. Chairman, a little  
19 help from the Commission might also be in order.

20 CHAIRMAN WOOD: That's what's going on at this  
21 hearing. Thanks.

22 PRESIDING JUDGE: Anything further from the  
23 Commissioners?

24 (No response.)

25 PRESIDING JUDGE: Thank you very much for your

1 participation. You're excused.

2 (Witnesses excused.)

3 PRESIDING JUDGE: We have one last entity in this  
4 group. That's the Michigan and Wisconsin Stakeholders  
5 Group. Mr. Bachman?

6 Whereupon,

7 JAMES R. KELLER

8 was called as a witness herein, and having been first duly  
9 sworn, was examined and testified as follows:

10 DIRECT EXAMINATION

11 BY MR. BACHMAN:

12 Q Mr. Keller, please state your name, title and  
13 business address for the record.

14 A My name is James R. Keller. I am Director of  
15 Policy and Planning for Wisconsin Electric Power Company.  
16 My business address is 333 West Everett Street, Milwaukee,  
17 Wisconsin 53203.

18 Q You have before you, and I've provided to the  
19 Court Reporter, a copy of what has been marked for  
20 identification purposes as MI/WI-1. Is that correct?

21 A That's correct.

22 Q Is that the testimony you filed on  
23 September 23rd, 2003, as prefiled initial testimony in this  
24 Commission inquiry?

25 A Yes, it is.

1           Q       Was this testimony prepared under your direction  
2 and supervision?

3           A       Yes, it was.

4           Q       Are there any additions or corrections you'd like  
5 to make to the testimony at this time?

6           A       I just have one correction. On the last page,  
7 page 17, line 3, the word "intra" is misspelled. That  
8 should read "intra-RTO."

9           Q       Thank you.

10                    If I were to ask you the questions that were  
11 posed to you in that prefiled testimony today, would your  
12 answers be the same as they are in that now-corrected  
13 testimony?

14           A       Yes, they would.

15           Q       Mr. Keller, could you please summarize your  
16 testimony?

17                    PRESIDING JUDGE: Before he summarizes the  
18 testimony, I make note of the fact that we have a motion to  
19 strike the testimony from American Electric Power Service  
20 Corporation. I also received a response from the Michigan  
21 Wisconsin stakeholders to strike the testimony basically on  
22 the grounds that it goes into issues, operation and  
23 financial impacts of loop flows and congestion that are  
24 beyond the scope of this proceeding.

25                    I think I've decided to admit the testimony here



1       for the purpose of informing the record as to impediments  
2       for utilities joining RTOs and proposals for resolving those  
3       impediments. I think we have, through the questioning today  
4       and yesterday, gone into some of these matters, and I think  
5       it would probably be appropriate that we continue to do so  
6       here. So I am going to admit the testimony.

7                    You may proceed with your summary.

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1 (Exhibit Number MI/WI-1 was  
2 marked for identification and  
3 received in evidence.)

4 THE WITNESS: Thank you, Judge Cowan, Chairman  
5 Wood, Commissioners Brownell and Massey. I am employed by  
6 the Wisconsin Electric Power Company, but I am here today on  
7 behalf of stakeholders in Michigan and Wisconsin.

8 The list of stakeholders is found on page 4 of my  
9 testimony. It includes transmission-dependent utilities,  
10 diversified energy companies, stand-alone transmission  
11 owners, public power agencies, cooperatives, and end-use  
12 customers.

13 In addition, the Michigan and Wisconsin State  
14 Commissions have supported the stakeholders' efforts in  
15 their own testimony that we heard yesterday and in comments  
16 filed in this inquiry.

17 The interests of this broad stakeholder group are  
18 similar -- to hold Michigan and Wisconsin utilities harmless  
19 from the effects of loop flow and congestion as a result of  
20 the decisions of the new PJM companies to join PJM, and the  
21 resulting seams that are formed along the southern borders  
22 of these two states.

23 Recall that Michigan and Wisconsin are cut off  
24 electrically from the rest of the Midwest ISO by the RTO  
25 choices of AEP and Com Ed. We've also had some discussion

1 already today about recent experiences with significant  
2 seams, namely lessons from August 14th.

3 The early lessons, without drawing any  
4 conclusions, are that it appears that seams issues and loop  
5 flows and congestion management are, indeed, vitally  
6 important issues. The Commission correctly recognized this  
7 when you established the hold-harmless condition back on  
8 July 31st, 2002.

9 You reaffirmed the importance of hold-harmless  
10 for Michigan and Wisconsin in your Orders of February 26th  
11 and June 4th of this year. My testimony here today is  
12 simply to remind you to not brush aside the hold-harmless  
13 issue.

14 It is not an impediment to RTO formation.  
15 Instead, it remains a vitally important condition to be  
16 satisfied. Included in my testimony are the Michigan and  
17 Wisconsin stakeholders' high-level views on how to address  
18 the hold-harmless issue.

19 We recognize that today's proceeding may not be  
20 the venue to resolve this issue, but we've been trying to  
21 reach resolution on hold-harmless for 14 months now. The  
22 Michigan and Wisconsin stakeholders look forward to an  
23 effective joint operating agreement between MISO and PJM.

24 We've had a fair amount of discussion here over  
25 the last two days on that joint operating agreement. At

1 this point, the JOA is only a draft.

2 We feel that it's not likely to address all of  
3 the hold-harmless issues. I note that even AEP, in their  
4 motion to strike my testimony, apparently recognizes this as  
5 they propose to submit a plan to address what they term as  
6 residual effects.

7 It's not clear when we will see that plan, and,  
8 of course, the joint operating agreement is not intended to  
9 address the financial aspects of the hold-harmless  
10 condition. I was pleased to hear in Ms. Moler's testimony  
11 yesterday, that Com Ed has a financial proposal in mind.

12 Unfortunately, they have chosen not to advance  
13 the proposal at this time. In conclusion, the hold-harmless  
14 condition remains an important condition to be met for the  
15 new PJM companies to join PJM, and the Michigan-Wisconsin  
16 stakeholders stand ready to resolve this issue.

17 Thank you very much.

18 MR. BACHMAN: The testimony having been admitted  
19 already, I make the witness available for questioning.

20 PRESIDING JUDGE: Thank you, Mr. Bachman. Does  
21 Staff have any questions of this witness?

22 MR. BARDEE: Yes, we do. Mr. McLaughlin?

23 PRESIDING JUDGE: Proceed, Mr. McLaughlin.

24 CROSS EXAMINATION

25 BY MR. McLAUGHLIN:

1           Q       Mr. Keller, I just have a few questions. On page  
2 of your testimony, you state the purpose of your  
3 testimony; am I correct; that you are starting from the  
4 predicate that you're working to implement the conditions  
5 imposed on July 31st, 2002. Is it Michigan and Wisconsin's  
6 goal to try to achieve that paradigm?

7           A       What we are trying to achieve is that specific  
8 condition, one of the nine, which is the hold-harmless  
9 condition, to get that resolved.

10          Q       As I recall, last year when the Commission was  
11 addressing the issue of the elections of the former Alliance  
12 Companies, the Michigan and the Wisconsin stakeholders had  
13 a number of concerns and a number of reservations about  
14 that.

15                   I just wanted to be clear that you're not second-  
16 guessing or wanting to reopen that issue, but just want to  
17 move forward.

18          A       That's correct. I think you heard a number of  
19 member entities in Michigan and Wisconsin, express concern  
20 about the choices and concerns that perhaps this isn't the  
21 most logical choice of RTOs.

22                   But what I'm here testifying about today is not  
23 any second-guessing. This is to meet the conditions of the  
24 July 31st Order.

25          Q       Yesterday, in discussions with AEP -- we'll

1 explore the option of AEP joining PJM, but without running  
2 the PJM congestion management system. Do the Wisconsin-  
3 Michigan stakeholders -- have they thought about that? Do  
4 they have any position on that?

5 A I have not been able to consult with the members  
6 of the stakeholder group since that has come out. I guess I  
7 don't have a unified position on that.

8 I can give you my own opinion, which is that it's  
9 sketchy, at best, at this point, and sort of looks like the  
10 status quo. Certainly, the Wisconsin-Michigan stakeholders  
11 are concerned about the patchwork nature of how RTOs are  
12 apparently coming together here and the all important seams  
13 on our southern borders.

14 Q I realize it's a short period of time, but if the  
15 Wisconsin-Michigan stakeholders could supply for the record,  
16 their position on that, I would appreciate it in the  
17 timeframe we've talked about.

18 A We'll attempt to do that.

19 Q We'd appreciate it. On page 9 of your testimony,  
20 you talked about you believe there must be a uniform  
21 congestion management system implemented simultaneously for  
22 PJM and Midwest ISO. First, I'm assuming that at least  
23 within that predicate, you're assuming that AEP would be a  
24 participant in the PJM system and using your congestion  
25 management system.

1           Do you believe it would -- does it have to be  
2 simultaneously connected at the same time, or could there be  
3 some period of time where, say, the Midwest ISO is  
4 operational or PJM brings up some of the former Alliance  
5 Companies? Does it have to be at the exact same time, or  
6 can there be some transitional period there?

7           A       I think some reasonable transition, weeks or  
8 something, certainly not years of transition. We are really  
9 concerned about a number of the issues that have been  
10 discussed in the last two days, the sort of things that have  
11 come up from the market monitors, the market-to-non-market  
12 concerns.

13                   We really need to minimize that as much as we  
14 can.

15           Q       So that I understand, some short transition may  
16 be acceptable, but a transition with no end date will be  
17 problematic or unacceptable?

18           A       Again, I haven't consulted with the rest of the  
19 group, but that is certainly long-term, months or years,  
20 would be unacceptable. We'd be concerned about that.

21           Q       The other question I had was, I don't want -- I  
22 know a lot of your testimony was addressed to the hold-  
23 harmless and the various issues that are being explored  
24 there.

25                   I don't want to engage -- I don't want to ask

1 questions about each of those, but do you have a suggestion  
2 as to a process that the Commission could pursue to move  
3 that forward? As I understand, there has been a settlement  
4 process before the Commission which has now been  
5 discontinued. Do you have a recommendation for the  
6 Commission on a process?

7 A On the hold-harmless issue itself and how to  
8 resolve it?

9 Q Yes.

10 A The settlement process, we all put a lot of time  
11 and effort into it. Unfortunately, it was not successful,  
12 so as much as I would like to think that people sitting down  
13 in a room together can work things out, that has not been  
14 the case.

15 So it probably will require some amount of  
16 Commission intervention to sort it out.

17 Q As I understand it, to date, the Commission's  
18 Order is that that would be an issue that must be addressed  
19 before the former Alliance Companies joined PJM.

20 As we heard yesterday, I think from Ms. Moler,  
21 who was talking about Commonwealth Edison was exploring and  
22 had some ideas and may be making a proposal in the future,  
23 would that be the appropriate time then to further explore  
24 that issue?

25 A That would be welcome. I believe the July 31st



1 Order had some requirements on plans being provided and 14  
2 moths later, we don't have one yet.

3 Q We also don't have the companies in PJM.

4 A No.

5 MR. McLAUGHLIN: Thank you, sir.

6 PRESIDING JUDGE: Anything else of this witness?

7 (No response.)

8 PRESIDING JUDGE: Do the Chairman and  
9 Commissioners have any questions?

10 (No response.)

11 PRESIDING JUDGE: Thank you very much for your  
12 testimony, Mr. Keller. You're excused.

13 (Witness Keller excused.)

14 PRESIDING JUDGE: At this point, we're going to  
15 take a lunch break. Before we do that, I just want to  
16 remind folks that we stated earlier that we would provide an  
17 opportunity for rebuttal, and that's the task that remains  
18 before us under my schedule.

19 If there's anybody that feels that they needed to  
20 go into the first round of testimony, please let me know  
21 that.

22 MR. COOK: Your Honor, could I inquire on behalf  
23 of NERC? The Commission asked that NERC be present for this  
24 hearing. I just wanted to raise that at this time.

25 COMMISSIONER BROWNELL: We may have some data

1 requests.

2 MR. COOK: Thank you.

3 PRESIDING JUDGE: We appreciate your attendance,  
4 Mr. Cook, and availability. Let's reconvene at 1:45 in this  
5 room. We will start with AEP's rebuttal, assuming that they  
6 have some.

7 (Laughter.)

8 (Whereupon, at 12:40 p.m., the hearing was  
9 recessed for luncheon, to be reconvened this same day at  
10 1:45 p.m.)

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1                   PRESIDING JUDGE: Very well, we'll do the best we  
2 can with it.

3                   MR. DUFFY: We will supplement the Exhibits.

4                   PRESIDING JUDGE: I assume either you or Mr.  
5 Baker are going to identify these more specifically.

6                   MR. DUFFY: Yes, Your Honor.

7                   The exhibits we have provided the bench, the  
8 staff, and the Court Reporter are as follows. There's an  
9 Exhibit entitled TR, which stands for transmission service  
10 revenue billed to Michigan companies. We would ask for that  
11 to be marked as Exhibit AEP-6.

12                   PRESIDING JUDGE: It will be so marked.

13   (The document referred to was  
14   marked for identification as  
15   Exhibit Number AEP-6.)

16                   MR. DUFFY: There's another exhibit, also a one-  
17 page exhibit, it is headed "total revenue and TWH delivered  
18 to MECS." We would ask that be marked as Exhibit AEP-7.

19                   PRESIDING JUDGE: It will be so marked.

20   (The document referred to was  
21   marked for identification as  
22   Exhibit Number AEP-7.)

23                   MR. DUFFY: And there is a third exhibit, also  
24 one page, entitled "long term firm reservations by MECS."  
25 We would ask that that be marked as Exhibit AEP-8.



1 evidence.)

2 PRESIDING JUDGE: Do you just want to have Mr.  
3 Baker proceed?

4 MR. DUFFY: Yes.

5 PRESIDING JUDGE: You may proceed, Mr. Baker.

6 THE WITNESS: I'd like to discuss three major  
7 areas that we've had a lot of discussion about over the last  
8 day-and-a-half.

9 One is the enforcement of AEP's merger  
10 conditions, the lost revenue approach that has gotten a  
11 great deal of discussion, and then some discussion about  
12 blackout and reliability.

13 On the enforcement of the conditions, there was a  
14 lot of discussion yesterday about whether AEP's proposal  
15 would comply with our merger condition. Let's be clear. We  
16 will continue to expend the resources to enhance the  
17 competitive market and fulfill our merger condition. What  
18 we are suggesting is a compromise that will allow us to  
19 fulfill our merger condition as soon as reasonably  
20 practicable.

21 We understand that many parties want full  
22 functionality. The Commission has the difficult task of  
23 arriving at a solution that may be less than ideal from  
24 various parties' standpoints, but moving things forward in a  
25 way that does not harm federal/state relationships and

1 regulated utilities.

2 That said, there are a few comments I'd like to  
3 make to provide our perspective. There were two pertinent  
4 merger commitments, the stipulation with the FERC trial  
5 staff, and the conditions imposed by the Commission. The  
6 stipulation with the trial staff was entered into on May 24,  
7 1999, seven months prior to Order 2000. The stipulation  
8 provides that, prior to the merger, AEP will file a proposal  
9 to transfer to an RTO the operation of its bulk transmission  
10 facilities in AEP East. It provides that if AEP does not  
11 transfer its facilities to the MISO, then it will transfer  
12 to an alternative RTO its functions relating to transmission  
13 service, transmission security, and control area  
14 responsibility.

15 These alternatives, except for the control area  
16 responsibility which really dealt with the balancing of load  
17 and generation, not economic dispatch, are fully covered by  
18 AEP's proposal in this docket. At the time of the  
19 stipulation, AEP was prepared to join the Alliance. The  
20 Alliance did not contain LMP and planned a form of  
21 congestion management that did not require the dedication of  
22 generating units to an LMP scheme.

23 The merger order similarly provides for  
24 applicants to transfer operational control of their bulk  
25 transmission facilities to a fully-functioning, Commission-

1 approved RTO by December 15th, 2001, that date being tied to  
2 the time specified by the Commission for industry-wide RTO  
3 applications, a date later extended.

4 The language of the condition makes it plain that  
5 AEP was to choose which RTO was to assume the operational  
6 control over its facilities. The merger order issued on  
7 March 15th, 2000, just a few months after Order Number 2000  
8 issued December 20, 1999, Order Number 2000 obviously did  
9 not prescribe the elements of SMD. In fact, the merger  
10 order recognized that AEP had already filed to join the  
11 Alliance and planned to transfer functions related to  
12 transmission service, transmission security, and  
13 reliability. At that time, it was conditionally approved.

14 While Order 2000 provided for congestion  
15 management by market mechanisms within one year of  
16 commencement of service, it did not specify the mechanism  
17 for doing so. Though a number of commentators proposed that  
18 the Commission require LMP for congestion management, it did  
19 not do so. Indeed, a number of elements of SMD were  
20 proposed to the Commission but it elected not to accept a  
21 prescriptive approach. Thus, at the time of the merger  
22 conditions, it was understood that AEP's involvement, RTO  
23 commitment involving transfer and control in a manner  
24 consistent with the principles of Order 2000, not the  
25 specific imposition of LMP generation control and other



1 attributes more currently required.

2           Though AEP voluntarily the merger condition, it  
3 only accepted what was on the table at the time, compliance  
4 with the principles of Order 2000. Indeed, the Commission,  
5 in its third Alliance order, found the Alliance had an  
6 effective program for managing congestion, and I don't  
7 believe ever altered that conclusion. It did not use LMP.

8           Today, the scope of the Commission's RTO regime  
9 has changed dramatically from May 1999 to include the  
10 features of SMD. In short, the undertakings that we agreed  
11 to when we proceeded with the merger are now different than  
12 what some parties are asking us to undertake now in some of  
13 the things that were discussed yesterday.

14           But I want to reiterate what I said yesterday,  
15 that we will expend the resources to meet our conditions and  
16 we recognize that that means congestion and markets that  
17 were different than what was fleshed out at the time.

18           Now I'd like to move on to lost revenue approach.  
19 The Michigan companies and the State Public Service  
20 Commission raised issues regarding our calculation of our  
21 lost revenues and our proposed lost revenue recovery  
22 approach. Both Detroit Edison and the Michigan Commission  
23 say that Detroit's charges for transmission service show  
24 that AEP's lost revenues are over stated. They compare  
25 AEP's revenues loss number of \$27.5 million for 2002 to

1 transmission charges paid directly by Detroit Edison to AEP  
2 of \$7.07 million.

3 What appears to have happened since the needs to  
4 import power into Michigan don't seem to have changed  
5 significantly, is that Detroit Edison is started having to  
6 sell or buy the transmission in import transactions. I  
7 would note that drop in AEP billings corresponds to an  
8 increase in billings to other parties delivering into  
9 Michigan and came in the year after the IP settlement.

10 If you'll look at Exhibit Number 6, you will see  
11 that the turquoise line at the top is the total billing into  
12 Michigan for deliveries into Michigan, and as you'll see,  
13 there was an increase from 2000 to 2001, and then I would  
14 call a slight decrease in an order of magnitude from 2001 to  
15 2002. The yellow, and I think it's fuchsia, I'm not sure of  
16 the color, lines would indicate billings to consumers and  
17 other transmission customers. What you'll see is a large  
18 dropoff in the billings to Detroit.

19 The SECA method is intended to reflect a zone's  
20 future benefits if TO rates are eliminated. An LSC may or  
21 may not have been the transmission customer for a test year  
22 transaction where e-tag data shows one or more transmission  
23 systems in the proposed footprint were used to deliver power  
24 to the LSC. Nevertheless, the LSC benefitted from the use  
25 of the transmission system, and the generator or marketer

1 incurred the costs for the OATT transmission service in the  
2 first instance. Those costs were undoubtedly passed along  
3 to the LSC.

4 In the future, however, if those costs are  
5 eliminated, the LSC's cost of delivered power will be  
6 reduced to reflect the savings on the elimination of  
7 transmission costs. In a competitive market, the  
8 generators/marketers will pass along the savings to the LSC.  
9 If one does not accept this premise, then I would question  
10 the need to ever have eliminated the pancaking of revenues.  
11 The elimination has been done to increase competition and to  
12 lower costs to customers, the end user.

13 The Michigan parties now claim that our lost  
14 revenue information is misleading because it's based on past  
15 data and imports into Michigan they say are decreasing  
16 because of new, independent generation in the state. But  
17 the fact is that Michigan imports haven't decreased  
18 materially in terms of megawatts, megawatt hours or  
19 revenues.

20 I would point you to Exhibits 7 and 8. Exhibit 7  
21 shows at the top, the fuchsia line, is the revenues as I  
22 showed on a previous exhibit. Next, we look at the megawatt  
23 hours or terawatt hours that have been imported in Michigan  
24 for the years 2000, 2001 and 2002. Again, we don't see much  
25 in the way of a decline after the generation has come in. I

1 think you have to look at it both from an energy standpoint  
2 and a firm transmission request. So what we did in Exhibit  
3 8 was show it as the firm request for transmission of people  
4 wanting to import into Michigan.

5 The Michigan parties also claim that our stated  
6 transmission rates haven't been changed in a while, and that  
7 any lost revenue effect may be offset by increases in volume  
8 so that we won't under recover our cost of service.  
9 However, we recently filed with the Commission an analysis  
10 supporting the rates charged for out and through service  
11 using a 2001 test year. This 2001 data was used to develop  
12 the lost revenue estimates. 2002 revenue credits are  
13 virtually the same as 2001.

14 Now I'd like to move to the blackout and  
15 reliability issues. Some parties have argued that if there  
16 were a so-called properly configured RTO in the Midwest, the  
17 August blackout would not have occurred. It is argued that  
18 having two reliability coordinators led to gaps in  
19 communication which led to the events of August 14. AEP  
20 takes these claims seriously because we're serious about  
21 reliability. No one yet knows the root cause of the  
22 blackout but everyone seems to be using it to support their  
23 preexisting positions.

24 Note, for example, the diametrically opposed  
25 positions of the Kentucky Commission and the Michigan

1 parties, both using the blackout as evidence. Until the  
2 results are in or the various inquiries are in, it is  
3 premature for anyone to draw conclusions. But since parties  
4 are jumping to conclusions, we will respond.

5 Based on what AEP knows, in the period leading up  
6 to the blackout, the problems on AEP and surrounding systems  
7 were local problems. There have been no indications that  
8 the event was caused by the over scheduling of the  
9 transmission system.

10 Mr. Schultz says that transactions should have  
11 been curtailed, but AEP lines were not overloaded until  
12 lines in First Energy and with First Energy tripped. As  
13 lines trip, other lines load up. At the time, there was not  
14 enough time for TLRs to be implemented. There are some  
15 suggestions that if hold-harmless were in effect, the  
16 blackout wouldn't have occurred. That unfortunately is too  
17 simplistic.

18 There's been no evidence put forward that the  
19 loop flow effects of transactions on ComEd's and AEP's  
20 systems were the problem. On a going-forward basis, with  
21 MISO/PJM joint operating agreement, we'll deal with the  
22 reliability effects of loop flow on Michigan, as well as the  
23 much larger effects of Michigan transactions on AEP.  
24 Transactions just between consumers in Detroit within the  
25 state of Michigan have three to four times the loop flow

1 effect on AEP that transactions that AEP has with PJM or  
2 with ComEd have on the Michigan system. The question is  
3 whose system may be under built.

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1           I would also note that Michigan restructuring law  
2           required the Michigan companies and AEP to upgrade the  
3           transfer capability into Michigan. This increases loop  
4           flows into Michigan under ordinary conditions. Loop flows  
5           are inevitable.

6           The key is having adjoining RTOs know the effects  
7           of the transactions on one another. The Joint Operating  
8           Agreement will do that.

9           Let's not pretend that this is connected with the  
10          blackout, at least till we know what the facts are. ITC and  
11          others argued that AEP's choice, among others, creates a  
12          jagged seam that harms reliability.

13          I would also note that Detroit Edison appears now  
14          to want a single RTO in the Midwest and chose to separate  
15          itself from Consumers and First Energy, who were in the  
16          island, thereby creating the islanding issue that Detroit  
17          and ITC are now complaining about.

18          This was, as well, an economic decision,  
19          apparently driven by the Alliance rate design and Detroit's  
20          desire to sell its transmission system.

21          The jagged-edge concept assumes that the Michigan  
22          companies, NIPSCO and First Energy's RTO choices are  
23          correct. If those companies were in PJM with AEP, Dayton,  
24          and Com Ed, the configuration would be dramatically  
25          different.

1                   That is my oral rebuttal.

2                   PRESIDING JUDGE: Thank you. Does Staff have any  
3 questions of the witness?

4                   MR. BARDEE: I do, Your Honor, just a question or  
5 two. I'm not sure about the others.

6                                   FURTHER CROSS EXAMINATION

7                                   BY MR. BARDEE:

8                   Q       Mr. Baker, at the time that AEP first announced  
9 its choice to join PJM, did PJM have a congestion management  
10 model based on LMP?

11                  A       Oh, yes.

12                  Q       Did they have real-time, day-ahead markets at  
13 that time?

14                  A       Yes, they did. As we said, we were ready to go  
15 forward. We would still go forward.

16                                What has happened is, as the various states have  
17 had a chance to review what is in PJM, they have started to  
18 raise questions and have wanted to go through a process to  
19 determine whether or not the benefits of that kind of market  
20 structure exceed the costs.

21                  MR. BARDEE: I believe that others may have  
22 questions, Your Honor.

23                  PRESIDING JUDGE: Does any other Staff member  
24 have questions?

25                  MR. GRAMLICH: Ron Gramlich from Chairman Wood's



1 staff.

2 FURTHER CROSS EXAMINATION

3 BY MR. GRAMLICH:

4 Q Mr. Baker, how are you?

5 A Hi, Ron.

6 Q Could you describe control area responsibilities?

7 You mentioned in your commitment with Trial Staff, in May  
8 1999, certain responsibilities that would be transferred to  
9 an RTO, including transmission service, transmission  
10 security and reliability, and control area responsibilities.

11 Could you describe those control area  
12 responsibilities?

13 A My recollection -- and I will admit that it's a  
14 few years ago when we actually -- you and I negotiated that  
15 arrangement. And somebody wrote it down. I don't remember  
16 who.

17 The area that we spent a lot of time talking  
18 about was the instantaneous balancing of load and generation  
19 which, at the time, we both, I think, believed would be an  
20 RTO function.

21 That's what my recollection of the dialogue was  
22 around. As I have reviewed the documents, there is further  
23 statement about AEP would retain the economic dispatch of  
24 its generating units and providing the signal back to the  
25 generating units to move up or down, once it got the

1 balancing value back from the RTO.

2 Q Would the actual balancing then be done by the  
3 RTO?

4 A At the time, that was what we thought they might  
5 be doing.

6 Q And in your current proposal, would the balancing  
7 be done by the RTO?

8 A I don't believe, as an interim step, that we  
9 could do that. I haven't talked to PJM about whether that's  
10 a feasible solution or whether it provides any benefit, but  
11 it's not in the solution that we have proposed.

12 Q And what you describe as the Day Two Design, or  
13 what you had proposed before, is the Day Two Design where it  
14 would be in an LMP design operated by PJM. In that case,  
15 would the RTO be doing that balancing function?

16 A Yes, they would be doing the control area  
17 balancing and sending the signals back for us to move our  
18 generators up and down.

19 Q So AEP in 1999, voluntarily committed to having  
20 an RTO perform that balancing function?

21 A That's correct.

22 Q And AEP right now is not proposing for the RTO to  
23 perform that balancing function?

24 A As we suggested yesterday, we offered this as a  
25 starting point for dialogue, to see if there could be a

1 resolution that parties could get comfortable with, I think,  
2 this Commission, the state commissions, and the RTO that we  
3 would be moving our assets.

4 Q I understand the various political reasons why  
5 you might have proposed it, but the commitment in 1999 is  
6 identical to what you describe as the Day Two Market Design  
7 where the RTO --

8 A No, no, no, I would disagree with that. A  
9 component of the Day Two is control area balancing. There  
10 are many more components to Day Two in PJM than just control  
11 area balancing. That's a small part.

12 MR. GRAMLICH: Thank you.

13 PRESIDING JUDGE: Anything else from Staff?

14 MR. BARDEE: No, Your Honor.

15 PRESIDING JUDGE: Chairman and Commissioners, do  
16 you have any questions of Mr. Baker?

17 CHAIRMAN WOOD: How does your proposal differ  
18 from what was characterized yesterday as your Day One, I  
19 guess it would have been, in the prior schedule, March of 03  
20 implementation with PJM?

21 THE WITNESS: I haven't gone through, point-by-  
22 point, with PJM, but I think it very closely replicates what  
23 was the Day One proposal for PJM.

24 CHAIRMAN WOOD: Is AEP a net buyer or seller in  
25 the market, as regards its retail load operations to meet

1 its obligations?

2 THE WITNESS: To meet its retail load  
3 obligations?

4 CHAIRMAN WOOD: Do you have more energy than you  
5 need, or do you go out and buy?

6 THE WITNESS: We buy very little energy to  
7 support our retail. It's only when we find that we either  
8 lose some generating unexpectedly, which is rare that it has  
9 that much of an impact, or we find some incredibly low-  
10 priced, perhaps nuclear power at night that we would be  
11 buying.

12 CHAIRMAN WOOD: Thank you.

13 PRESIDING JUDGE: Anything else from the  
14 Commission?

15 (No response.)

16 PRESIDING JUDGE: Very well. Anything else of  
17 this witness?

18 (No response.)

19 PRESIDING JUDGE: Thank you very much, Mr. Baker,  
20 you are excused again.

21 (Witness Baker excused.)

22 PRESIDING JUDGE: We're next going to hear from  
23 Commonwealth Edison.

24 MS. HILL: Yes, Your Honor. Ms. Moler does have  
25 some rebuttal testimony.



1 raise reliability concerns.

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

7 PRESIDING JUDGE: Does staff or the Commission  
8 have any questions of Ms. Moler?

9 (No response.)

10 PRESIDING JUDGE: Thank you very much.

11 (Witness excused.)

12 PRESIDING JUDGE: Does Dayton Power and Light  
13 have any rebuttal?

14 MS. BRUNER: Dayton has no rebuttal.

15 PRESIDING JUDGE: Has Illinois Power?

16 MR. PALMER: No, Your Honor.

17 PRESIDING JUDGE: Ameren Services?

18 MS. THOMPSON: Yes, Your Honor.

19 PRESIDING JUDGE: Please proceed.

20 Whereupon,

21 DAVID WHITELEY,

22 a witness having been previously called for examination and  
23 having been previously sworn, was further examined and  
24 testified as follows:

25 FURTHER DIRECT EXAMINATION

1 BY MS. THOMPSON:

2 Q Mr. Whiteley, you have been at this proceeding  
3 the entire time, both days, correct?

4 A I have.

5 Q You testified yesterday?

6 A Yes I did.

7 Q You now have the opportunity to present some  
8 rebuttal.

9 A Thank you. With respect to a couple of issues  
10 that came up yesterday, I want to clarify that, as I was  
11 speaking with respect to the Missouri proceedings, and our  
12 application with the Missouri Public Service Commission, to  
13 join the Midwest ISO through Grid America, limited to the  
14 settlement discussions with parties in the Missouri case, I  
15 want to clarify that I was not implying that the Missouri  
16 Public Service Commission or the commissioners themselves,  
17 were participating in that settlement and I certainly could  
18 not speak for the Commission. They will have the  
19 opportunity to speak for themselves, obviously, if we can  
20 reach a settlement that then will be filed with the Missouri  
21 Commission.

22 So I wanted to clarify that point.

23 There is also a point I believe Ms. Fernandez  
24 raised about our CILCO commitment. I had an opportunity  
25 last night to review the specific wording in the order with

1       our CILCO acquisition. It had been some time since I had  
2       read the specific wording and it does call for Ameren to  
3       join the Midwest ISO and to seek the Commission's approval  
4       to withdraw from the Midwest ISO.

5               That said, the comments that I made with respect  
6       to Illinois Power and their possible move to seek to join  
7       PJM, and that that would cause Ameren to reassess its  
8       position, obviously that reassessment would include whether  
9       or not the conditions that this Commission has placed on the  
10      original choice, which has changed and apparently may change  
11      back with Illinois Power, those original conditions, if they  
12      are not met, that will certainly play into that reassessment  
13      and I would assume that reassessment would, if it would  
14      conclude that Ameren should do something other than join the  
15      Midwest ISO, that reassessment would form the basis for  
16      approaching this Commission for permission to do whatever  
17      that reassessment showed was the appropriate thing.

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

22              But rest assured Illinois Power's eleventh hour  
23      change, or I should say Commonwealth Edison's notice that  
24      they would, at the eleventh hour, change IP's designation of  
25      RTO is a surprise to Ameren. We will review it with respect



1 to the commitments that this Commission imposed on that  
2 original choice.

3 With that, I'll conclude my rebuttal.

4 PRESIDING JUDGE: Thank you, Mr. Whiteley. Does  
5 staff have any questions?

6 MR. BARDEE: No, Your Honor.

7 PRESIDING JUDGE: Do any of the Commissioners?

8 (No response.)

9 PRESIDING JUDGE: Thank you very much, Mr.  
10 Whiteley.

11 (Witness excused.)

12 PRESIDING JUDGE: The next entity that testified  
13 was the PJM interconnection.

14 MR. SPECTOR: We have no rebuttal, Your Honor.

15 PRESIDING JUDGE: Michigan I don't think is on  
16 line today. Do any of the entities that offered testimony  
17 today, Detroit Edison, International Transmission, PPL  
18 Edison and Michigan-Wisconsin Stakeholders, wish to offer  
19 anything further?

20 MR. SMITH: Yes, Your Honor. Detroit Edison  
21 would like to offer some rebuttal.

22 PRESIDING JUDGE: Please take the stand.

23 Whereupon,

24 TERRY S. HARVILL,

25 a witness having been previously called for examination and

1       having been previously sworn, was further examined and  
2       testified as follows:

3                               FURTHER DIRECT EXAMINATION

4                               BY MR. SMITH:

5               Q       Mr. Harvill, were you in the room a few moments  
6       ago when Mr. Baker gave his rebuttal testimony on behalf of  
7       the AEP Company?

8               A       I was.

9               Q       Did you hear statements regarding lost revenue?

10              A       I did.

11              Q       Would you please respond to those statements?

12              A       Yes. Let me begin by apologizing to the  
13       Commission for delving into the minutiae of those lost  
14       revenues, but in reality this is where the rubber meets the  
15       road for Detroit Edison.

16                       As I mentioned in my previous testimony, Detroit  
17       Edison has done everything in its power to support the  
18       Commission's RTO policies and the formation of RTOs in the  
19       Midwest Region.

20                       The issue of lost revenues, as Mr. Baker states,  
21       has been designed in such a way that, at least in Detroit  
22       Edison's opinion, puts us at a severe disadvantage for  
23       making our initial RTO decision to join the Midwest ISO.

24                       About the best example that I can come up with, I  
25       was thinking about this over lunch, to explain the situation

1 that we're facing, last week I ordered a book from Amazon.  
2 com. In the process of ordering that book I received free  
3 shipping for that book. The book was sent to me, I received  
4 it, yes I indeed did benefit from that book being shipped to  
5 me but I would also argue that Amazon.com benefitted by the  
6 sale of that book to me as well.

7 If you look at who actually paid for delivery of  
8 that book, you could argue that it was embedded in my costs.  
9 But I could argue that it was embedded in the cost that  
10 Amazon.com incurred.

11 We went back and pulled every transmission  
12 invoice for 2001, 2002 and up through August 2003. Those  
13 transmission invoices are in no way comparable to the  
14 results that you get when you apply the former Alliance  
15 Companies preferred methodology for recovering lost  
16 revenues. I have the hard invoices in front of me that  
17 totaled \$7 million, to the extent AEP or any other  
18 transmission entity proposes that we pay in excess of that  
19 amount of money, I would respectfully request that they  
20 provide to us copies of their transmission invoices or  
21 receipts that actually show who paid them what for  
22 transmission.

23 To the extent that they are rolled in or part of  
24 bundled sales, to the extent that they can identify those to  
25 us, that would be wonderful. We will take a hard look at

1 those and take a look at that analysis.

2 The other point that Mr. Baker makes is with  
3 regard to the new generation in Michigan. I'd also point  
4 out that Michigan is a retail choice state. Detroit Edison  
5 has lost considerable load and our transmission purchases  
6 are going down accordingly. We don't need as much  
7 generation as we have in previous years.

8 That being said, any methodology that relies on  
9 historical period to recover lost revenues is essentially  
10 making Detroit Edison or any other entity pay for the use o  
11 the system that they may indeed not use. They may very well  
12 use it but, in this instance, our transmission purchases are  
13 going down.

14 So in conclusion I would just like to say that  
15 Detroit Edison is not opposed to lost revenue recovery. We  
16 just feel that it needs to be logically based on what we  
17 actually paid to the extent that any entity seeking lost  
18 revenues would like to present to us invoices or receipts  
19 for what we actually paid to them, I'd be happy to take a  
20 look at those and comport that with what we have. Thank  
21 you.

22 PRESIDING JUDGE: Thank you, Mr. Harvill.

23 Any questions?

24 MR. BARDEE: No, Your Honor.

25 PRESIDING JUDGE: Commissioners?

1 (No response.)

2 PRESIDING JUDGE: Thank you.

3 (Witness excused.)

4 PRESIDING JUDGE: Does any other entity on the  
5 list I previously read off wish to offer any rebuttal? Does  
6 anybody else in the room wish to offer any rebuttal?

7 (Laughter.)

8 PRESIDING JUDGE: Don't take me up on that.

9 (Laughter.)

10 COMMISSIONER BROWNELL: Is AEP going to provide  
11 the information that Mr. Harvill asked?

12 MR. DUFFY: Will we provide the information that  
13 he's asked for? No. There's no dispute that their  
14 transmission reservations went down. Mr. Baker made the  
15 point that imports had stayed the same. They just had  
16 someone else audit the transmission, so it's not a factual  
17 dispute.

18 If the Commission believes that would add  
19 something?

20 COMMISSIONER BROWNELL: Can't hurt.

21 MR. DUFFY: We can do that but I don't think  
22 there's any fact in dispute.

23 PRESIDING JUDGE: If the Commission wants it I  
24 think maybe you should provide it.

25 (Laughter.)

1                   MR. DUFFY: The other thing I should add though,  
2 Your Honor, is that there will be a hearing on lost revenues  
3 and perhaps it's more appropriate there.

4                   PRESIDING JUDGE: It may be instructive in this  
5 record as well.

6                   MR. DUFFY: We will provide it.

7                   PRESIDING JUDGE: Thank you.

8                   CHAIRMAN WOOD: Give me some clarity on that.  
9 This docket, I guess, the lingering effects of the July '02  
10 order, the PJM and New Companies dockets, even the Grid  
11 America docket, all these are all wrapped together and I  
12 think one of the things we're all suffering from in this  
13 room is a million little campfires but no bonfire and we  
14 need to get all this in the bonfire and burn it and get it  
15 over with.

16                   (Laughter.)

17                   CHAIRMAN WOOD: I go where my mouth leads.

18                   (Laughter.)

19                   CHAIRMAN WOOD: I do think, though, that those  
20 issues, certainly the lost revenue issues, are certainly  
21 very relevant. This Commission has got a pretty good  
22 history of making sure that utilities have adequate rates to  
23 cover their costs. So we're not at the end of that game.  
24 But that issue is important to a number of the TOs here. I  
25 understand that.

1           But setting up the market in an organized way is  
2 also important for the rest including the TOs and I think we  
3 have a responsibility to really address all the issues.

4           I think if we can learn more, collectively, in a  
5 single form, we can do a better job than just react to the  
6 60 day filings and comment on policy.

7           PRESIDING JUDGE: Very well. Does staff have  
8 anything further that they wish of any of the witnesses?

9           MR. BARDEE: No we do not, Your Honor.

10          PRESIDING JUDGE: Let's just be clear, than, that  
11 we are expecting submissions from the parties in response to  
12 the AEP offer within nine days of today. I think that  
13 opportunity extends to making further comments on other  
14 matters in the proceeding, anything that you believe would  
15 help the Commission add to the record.

16          Feel free to let us know what that is in your  
17 written submissions.

18          CHAIRMAN WOOD: I just want to thank you, Judge,  
19 for your leadership here with this slightly unorthodox  
20 format. I hope we use it again.

21          (Laughter.)

22          CHAIRMAN WOOD: It's been very helpful. Staff  
23 chuckles with sick dread.

24          (Laughter.)

25          CHAIRMAN WOOD: I want to thank the parties very

1 much for your very short notice and timely helpful  
2 participation. There was a lot of information that was  
3 useful, I do acknowledge, that a more comprehensive cross  
4 exam from a number of different parties would have  
5 eliminated the record further, but please know that, as  
6 those opportunities are necessary to go forward, we will  
7 provide the requisite due process in that regard.

8 But in lieu of having a comprehensive cross  
9 examination, I do want to thank our staff for what you did  
10 in the way of getting out the issues that we are trying to  
11 grapple with and very professionally so. Thank you very  
12 much.

13 PRESIDING JUDGE: Any other Commissioner want to  
14 say anything?

15 (No response.)

16 PRESIDING JUDGE: We are adjourned.

17 (Whereupon, at 2:30 p.m., the proceedings were  
18 adjourned.)  
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1 (FERC - THE NEW PJM COMPANIES DOCKET NUMBERS  
 2 ER03-262-001 ET AL.; WASHINGTON, D.C.; VOLUME 2;  
 3 TUESDAY, SEPTEMBER 30, 2003.)

4 C O N T E N T S

5	WITNESS	DIRECT	CROSS	REDIRECT	RECROSS
6	JAMES P. TORGERSON				
7	by Mr. Teichler	255			
8	by Mr. McLaughlin		255		
9	by Mr. Bardee		274		
10	by Mr. Kelly		275		
11	TERRY S. HARVILL				
12	by Mr. Smith	291			
13	by Mr. Kelly		302		
14	by Mr. McLaughlin		307		
15	GREGORY IOANIDIS				
16	by Mr. MacGuineas	314			
17	by Mr. McLaughlin		318		
18	RICHARD A. SCHULTZ				
19	by Mr. MacGuineas	323			
20	by Mr. Kelly		326		
21	JOHN F. SIPICS				
22	by Mr. Kaplan	345			
23	by Ms. Fernandez		351		
24					

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 2 ER03-262-001 ET AL.; WASHINGTON, D.C.; VOLUME 2;  
 3 TUESDAY, SEPTEMBER 30, 2003.)

4 C O N T E N T S -- continued

5	WITNESS	DIRECT	CROSS	REDIRECT	RE CROSS
6	JOHN P. MATHIS & REEM J. FAHEY				
7	by Mr. O'Donnell	366			
8	by Ms. Fernandez		377		
9	JAMES R. KELLER				
10	by Mr. Bachman	385			
11	by Mr. McLaughlin		390		
12	J. CRAIG BAKER				
13	by Mr. Duffy	399			
14	by Mr. Bardee		410		
15	by Mr. Gramlich		411		
16	DAVID WHITELEY				
17	by Ms. Thompson	416			
18	TERRY HARVILL				
19	by Mr. Smith	420			
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22	RECESSES: A.M. -	345			
23	NOON -	396			
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1 (FERC - THE NEW PJM COMPANIES DOCKET NUMBERS  
 2 ER03-262-001 ET AL.; WASHINGTON, D.C.; VOLUME 2;  
 3 TUESDAY, SEPTEMBER 30, 2003.)

4 E X H I B I T S

5	NUMBER	DESCRIPTION	IDENTIFIED	RECEIVED
6	S-2	Final Report on Market		
7		Redispatch program	276	276
8	DE-1	Testimony of Terry S. Harvill	291	291
9	DE-2	Attachment A testimony on		
10		behalf of the Detroit Edison		
11		Company	291	291
12	DE-3	Attachment B testimony on		
13		behalf of the Detroit Edison		
14		Company	291	291
15	ITC-1	Direct testimony of Gregory		
16		Ioanidis	314	317
17	ITC-2	Direct Testimony of Richard A.		
18		Shultz	323	326
19	ITC-3	Bubble Diagram for Tagdump		
20		Dump	324	326
21	PPL-1	Direct testimony of John F.		
22		Sipics	351	351
23	EME-1	Resume of John P. Mathis	377	377
24	EME-2	Resume of Reem J. Fahey	377	377
25				

1 (FERC - THE NEW PJM COMPANIES DOCKET NUMBERS  
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 3 TUESDAY, SEPTEMBER 30, 2003.)

4 E X H I B I T S -- continued --

5	NUMBER	DESCRIPTION	IDENTIFIED	RECEIVED
6	EME-3	Joint Non-Binding Statement of		
7		Issues	377	377
8	EME-4	State Corporation Commission	377	377
9	EME-5		377	377
10	MI/WI-1	Testimony of James R. Keller	388	388
11	AEP-6	Tr. Service Revenue billed		
12		to Michigan Companies	398	399
13	AEP-7	Total Revenue and TWh		
14		delivered to MECS	398	399
15	AEP-8	LT Firm Reservation by MECS	399	399

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