

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

Ameren Corporation)
on behalf of:)
 Union Electric Company)
 Central Illinois Public Service Company)
))
American Electric Power Service Corporation)
on behalf of:)
 Appalachian Power Company)
 Columbus Southern Power Company)
 Indiana Michigan Power Company)
 Kentucky Power Company)
 Kingsport Power Company)
 Ohio Power Company)
 Wheeling Power Company)
))
Consumers Energy Company)
))
Exelon Corporation)
on behalf of:)
 Commonwealth Edison Company)
 Commonwealth Edison Company of Indiana,)
 Inc.)
))
FirstEnergy Corp.)
on behalf of:)
 American Transmission Systems, Inc.)
 The Cleveland Electric Illuminating Company)
 Ohio Edison Company)
 Pennsylvania Power Company)
 The Toledo Edison Company)
))
Illinois Power Company)
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The Dayton Power and Light Company)
))
The Detroit Edison Company)
))
Virginia Electric and Power Company)

Docket No. RT01-___-000

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ALLIANCE COMPANIES' ORDER NO. 2000 COMPLIANCE FILING

Pursuant to Section 35.34(h) of the Commission's regulations, 18 C.F.R. § 35.34(h) (2000), the above-referenced public utilities, the Alliance Companies, submit this Order No. 2000¹ compliance filing. As required by the Commission's July 20, 2000 Notice of Guidance for Processing Order No. 2000 Filings, 92 FERC ¶ 61,048 (2000) ("Guidance Notice"), this compliance filing includes an Executive Summary and addresses the proposed Alliance Regional Transmission Organization ("RTO") under each of the RTO characteristics and functions identified in Order No. 2000. The filing demonstrates that the Alliance RTO proposal submitted in Docket Nos. ER99-3144-000 and EC99-80-000 ("Alliance dockets"), as amended by the September 15, 2000 compliance filing, satisfies the RTO characteristics and functions of Order No. 2000. In the Alliance dockets, the Alliance Companies have submitted all of the necessary filings under Sections 203 and 205 of the Federal Power Act ("FPA") necessary to implement the Alliance RTO except for a final Open Access Transmission Tariff ("OATT"). The Alliance Companies will submit rates under the final OATT for the Alliance RTO at least sixty (60) days before the transmission service date.

Because the FPA filings necessary for implementation of the Alliance RTO have been previously submitted in the Alliance dockets, this filing is submitted primarily for informational purposes to demonstrate the Alliance Companies' satisfaction of the RTO requirements of Order No. 2000. The Alliance Companies do not intend for this filing to be a separate FPA Section 205 filing and they reserve their rights to withdraw pending final Commission disposition of this

¹Regional Transmission Organizations, III FERC Stats. & Regs. ¶ 31,089 (1999), order on reh'g, Order No. 2000-A, III FERC Stats. & Regs. ¶ 31,092 (2000).

matter.² Designated portions of this submission include amendments to the Alliance Agreement to admit Dayton Power and Light Company (“DP&L”), Commonwealth Edison Company and Commonwealth Edison Company of Indiana, Inc. (“ComEd”), Illinois Power Company (“Illinois Power”) and Ameren UE and Ameren CIPS (“Ameren”) as parties to the Alliance Agreement³ and Section 203 requests, on behalf of these new members, for authorization to transfer ownership and/or functional control of transmission facilities to the Alliance RTO. The Alliance Companies will file similar amendments to the Alliance Agreement and Section 203 requests as necessary to admit additional new members.⁴ The filing also includes a revised Definitions Exhibit.⁵

As this filing demonstrates, the Alliance Companies’ September 15, 2000 filing in the Alliance dockets satisfies all of the Commission’s directives and guidance for Order No. 2000 RTO requirements. Accordingly, the Alliance Companies request that the Commission expeditiously issue an order finding that the proposed Alliance RTO satisfies the functions and characteristics of an RTO. Approval of the Alliance RTO as an RTO under Order No. 2000 is critical to the ability of the Alliance RTO to become operational by December 15, 2001.

²The Commission confirmed that the Alliance Companies retain this contractual “Regulatory Out” right in Alliance Companies II, 91 FERC ¶ 61,582 (2000).

³The Alliance Agreement is the agreement among transmission owner/participants to propose and form the Alliance RTO. The Alliance Agreement is on file with the Commission in the Alliance dockets.

⁴E.g., Northern Indiana Public Service Company (“NIPSCO”) declared its intention to join the Alliance RTO in its Order No. 2000 compliance filing on October 16, 2000. Docket No. RT01-26-000.

⁵The Definitions Exhibit included in the Alliance Companies’ September 15, 2000 compliance filing in the Alliance dockets inadvertently deleted some terms.

The Alliance Companies intend to host a two-part informal technical conference for stakeholders in March, 2001. As noted in a recent pleading filed in the Alliance dockets, the Alliance Companies will discuss issues related to the *pro forma* Generation Interconnection Procedures and Agreement proposed in the Applicants' September 15, 2000 compliance filing at the first part of the March, 2001 technical conference.⁶ The Alliance Companies also intend to host a second-part, but separate, discussion of the long-term congestion management model described in this filing. The Alliance Companies will receive comments and advice from stakeholders on both proposals.

I. EXECUTIVE SUMMARY

The Alliance RTO will be created in the form of the Alliance Transmission Company, LLC ("Alliance Transco"). The Alliance Transco will be a limited liability company ("LLC") that will be controlled and managed by its managing member. The Alliance RTO proposed in the Alliance dockets, as modified by the September 15, 2000 compliance filing, satisfies each of the four characteristics and eight functions specified in Order No. 2000.

1. Independence (Characteristic 1)

The Alliance Transco will be controlled and managed by the managing member of Alliance Transco LLC. The managing member will be established through one or a combination of approaches described in Section V.A. of this filing. The managing member will be independent of the Alliance Companies and other market participants and will satisfy all of the Commission's requirements for independence, including conformance with limitations on active

⁶Alliance Companies' Answer to Indicated Parties' Motion for Clarification or in the Alternative Motion for Technical Conference Out of Time and Conditional Protest filed December 6, 2000 in Docket Nos. ER99-3144 and EC99-80.

and passive ownership and with the standards of conduct applicable to directors, employees and agents.

Consistent with guidance provided by the Commission in the Alliance dockets and with Order No. 2000 requirements, the governance structure and the decision-making process will be independent of control by any market participant or class of market participants. No market participant may own an active interest in the Alliance Transco. Passive ownership interests in the Alliance Transco convey no control over the Alliance Transco and are consistent with the Commission's directives and guidance from the Alliance dockets and Order No. 2000. Active ownership interest in the managing member of the Alliance Transco will be restricted in accordance with the Commission's requirements:

- a. no individual market participant may have more than a five percent (5%) voting interest in the managing member;
- b. no class of market participants may have more than fifteen percent (15%) voting interest in the managing member; and
- c. a market participant's voting interest in the managing member must cease after a five (5) year transition period, unless otherwise ordered by the Commission.

2. Scope and Configuration (Characteristic 2)

With the addition of ComEd, DP&L, Illinois Power and Ameren to the Alliance RTO, the Alliance RTO will be the largest RTO in the country.⁷ The addition of the four new members of the Alliance RTO enhances the Alliance RTO's scope and configuration because the member systems of the Alliance RTO are tightly interconnected and network interactions with neighboring control areas are extremely limited. The market analysis described by Dr. Patton

⁷It will cover an area of 174,500 square miles in eleven states, encompassing a population of 39.8 million people and representing a peak load of approximately 108 gigawatts and generation capacity of 115 gigawatts. It will provide "one-stop shopping" for transmission service over more than 54,000 miles of transmission lines.

(Attachment C) confirms that markets in the region are well arbitrated despite the transmission pancaked rates in place today, and that delaying or preventing formation of large RTOs in order to compel even larger RTOs to form will not yield significant benefits to the region. Moreover, the addition of ComEd, Illinois Power and Ameren to the Alliance RTO will place many suppliers that were formerly located in the Midwest ISO within the Alliance RTO, thereby dispelling all (unproven) concerns that the Alliance RTO would act as a “tollgate” to block buyers and sellers located in the Midwest and the Northeast.

3. Operational Authority and Short-term Reliability (Characteristics 3 and 4)

The Alliance RTO will have operational authority for all transmission facilities under its control and will have exclusive authority to maintain the short-term reliability of the grid it operates. Transmission owners or control area operators may perform some actual physical operations or tasks, but they will do so under the direction and approval of the Alliance RTO. The Alliance RTO also will be the NERC security coordinator for the facilities that it controls.

4. Tariff Administration and Design (Function 1)

The Alliance RTO will be the sole provider of transmission service over the facilities under its control and the sole administrator of its OATT. During the transition period (which will end on January 1, 2005 or earlier), the Alliance RTO will charge single access charges (i.e., either a zonal rate or a regional rate) for transmission service over the facilities that it controls. After the transition period, the Alliance RTO will have the sole authority to propose a post-transition rate structure in compliance with regulatory requirements.

5. Congestion Management (Function 2)

The Alliance RTO will have an effective protocol for managing congestion on Day 1 of operations which the Commission has found acceptable in the Alliance dockets.⁸ The Alliance Companies are developing a hybrid model for long-term congestion management which combines elements of a flowgate method for managing congestion in the forward market and a locational marginal pricing (“LMP”) method for managing congestion in real-time. The proposal is discussed in Section VI.B. of this filing and described in more detail in Attachment G.

The Alliance Companies intend to present their proposal to stakeholders and receive comments and input before developing a protocol and systems to implement the hybrid model for long-term congestion management. The Alliance Companies’ goal is to have a market-based congestion management program ready for operation prior to the second year of operations of the Alliance RTO.

6. Parallel Path Flow (Function 3)

The Alliance RTO will internalize parallel path flows among the member systems. The addition of the four new members will result in internalization of an even higher level of parallel path flows.

7. Ancillary Services (Function 4)

The Alliance RTO will be the provider of last resort for ancillary services under the Alliance RTO. The Alliance Companies’ September 15, 2000 compliance filing in the Alliance dockets included a proposal for a real-time energy balancing market that the Alliance RTO will

⁸The Commission found that with one change (which was made in the September 15, 2000 compliance filing), the proposal would be acceptable. Alliance Companies II, 91 FERC at p. 61,583.

implement, either directly or with an independent market provider, by its transmission service date.

8. OASIS and Total Transmission Capability (“TTC”) and Available Transmission Capability (“ATC”) (Function 5)

The Alliance RTO will operate a single OASIS site and will independently calculate TTC and ATC. The Alliance Companies have reached an agreement in principle with the Midwest ISO and the Southwest Power Pool (“SPP”) for implementation of consistent TTC/ATC values across interfaces.

9. Market Monitoring (Function 6)

The Alliance Companies’ September 15, 2000 compliance filing includes a market monitoring program for the Alliance RTO which provides for the objective monitoring of markets operated, and services provided, by the Alliance RTO (i.e., transmission and ancillary services, and the energy imbalance market). The market monitoring program will be implemented by an independent expert that will report its findings to the Commission.

10. Planning and Expansion (Function 7)

The Alliance RTO will be responsible for planning the transmission system. It will adopt a planning process that will be open and transparent. Expansion of the transmission system will be done in the most efficient manner without regard to ownership of transmission, distribution or generation facilities.

11. Interregional Coordination (Function 8)

The Alliance Companies have been actively engaged in discussions with other existing and planned regional transmission entities to coordinate activities and address seams issues between the Alliance RTO and its neighbors. The Alliance Companies, the SPP and the Midwest ISO have reached agreement on issues critical to inter-regional coordination, such as

ATC calculations and Day 1 congestion management. The three RTOs are also developing compatible approaches for long-term congestion management solutions. The Alliance Companies have also prepared, and presented in the September 15, 2000 compliance filing, a *pro forma* Inter-RTO Cooperation Agreement which has advanced these discussions and provided a basis for inter-regional coordination between the Alliance RTO and its surrounding regional transmission entities.

II. BACKGROUND

On June 3, 1999, the original five Alliance Companies (American Electric Power Service Corp., Consumers Energy Company, FirstEnergy Corp., The Detroit Edison Company and Virginia Electric Power Company) filed an application under Section 205 of the FPA, seeking approval for creation of the Alliance RTO and acceptance of the proposed Alliance RTO OATT.⁹ On that same day, these Alliance Companies submitted an application under Section 203 of the FPA, requesting the Commission to permit the transfer of ownership and/or functional control of jurisdictional transmission facilities to the Alliance RTO.¹⁰ On October 1, 1999, these Alliance Companies supplemented and amended their applications to include, among other things, lists of transmission facilities to be transferred to the Alliance RTO.

On December 20, 1999, the Commission issued an order conditionally authorizing these Alliance Companies to transfer ownership and/or functional control of their transmission facilities to the Alliance RTO, conditionally approving the general framework of the proposed Alliance RTO, and conditionally accepting the Alliance Agreement and each of the agreements

⁹Docket No. ER99-3144-000.

¹⁰Docket No. EC99-80-000.

and related documents incorporated therein.¹¹ Alliance Companies, 89 FERC ¶ 61,298, at pp. 61,914 and 61,929 (1999) (“Alliance Companies I”). The December 20, 1999 Order also directed the Alliance Companies to submit compliance filings for various aspects of their proposal.

On January 19, 2000, the Applicants and a number of intervenors filed requests for rehearing of the December 20, 1999 Order. The Applicants submitted an initial compliance filing on February 17, 2000. As required by the December 20, 1999 Order, the initial compliance filing provided additional explanation for various aspects of the proposal and modified portions of the proposed ISO Bylaws, the Transco Term Sheet and the Operating Protocol, as directed by the Commission.

On May 18, 2000, the Commission issued an order ruling on the pending requests for rehearing and the Applicants’ initial compliance filing. Alliance Companies, 91 FERC ¶ 61,152 (2000) (“Alliance Companies II”). The May 18, 2000 Order accepted portions of the Applicants’ initial compliance filing, but also required further compliance filings. The Applicants submitted a compliance filing on September 15, 2000. The filing is pending Commission review.

¹¹See Section 205 Application, Docket No. ER99-3144, Appendix 1, The Alliance Agreement Establishing the Alliance Independent Transmission System Operator, Inc., Alliance Transmission Company, Inc. and Alliance Transmission Company, LLC (“Alliance Agreement”), Section 2.2, which incorporates by reference the following agreements and appendices: Appendix 2, Term Sheet for Alliance Transmission Company, Inc. (“Publico Term Sheet”); Appendix 3, Term Sheet for Alliance Transmission, LLC (“Transco Term Sheet”); Appendix 4, Bylaws for Governance of the Alliance Independent Transmission System Operator Inc., a Delaware non-stock corporation (“ISO Bylaws”); Appendix 5, Alliance Regional Transmission Organization Operating Protocol (“Operating Protocol”); Appendix 6, Alliance Regional Transmission Organization Planning Protocol (“Planning Protocol”); Appendix 7, Alliance Regional Transmission Organization Protocol for Transmission Service Pricing, Discounting, Revenue Distribution, and Grandfathered Contracts (“Pricing Protocol”); Appendix 8, Alliance Regional Transmission Organization Operation Agreement (“Operation Agreement”); and Appendix 9, Alliance Regional Transmission Organization Agency Agreement (“Agency Agreement”).

In each of the orders issued in the Alliance dockets, the Commission has analyzed major portions of the Alliance Companies' proposal under Order No. 2000 standards for RTOs and has provided detailed guidance to enable the Applicants to conform their proposal to the required characteristics and functions of an RTO. In their September 15, 2000 compliance filing, the Applicants adhered to this guidance. Thus, the Commission should be able to expedite its review of this filing and find that the proposed Alliance RTO satisfies the RTO requirements of Order No. 2000. Receipt of a Commission order finding that the Alliance RTO complies with the RTO requirements is critical to the Alliance Companies' ability to complete the necessary start-up and infrastructure needs for the Alliance RTO to become operational by December 15, 2001.

When the Alliance Companies received an order acting on the September 15, 2000 compliance filing, they will determine whether any supplements to this Order No. 2000 compliance filing are warranted.

III. DOCUMENTS SUBMITTED

This filing includes the following attachments in support of the filing:

Attachment A	Form of Notice
Attachment B	List of Persons Designated for the Official Service List
Attachment C	Affidavit of David B. Patton
Attachment D	Affidavit of Ronald F. Szymczak
Attachment E	Affidavit of Steven T. Naumann
Attachment F	Affidavit of Shawn Schukar
Attachment G	Alliance Companies' Market Design for Market-Based Congestion Management
Attachment H	Definitions Exhibit
Attachment I	Amendments to the Alliance Agreement

IV. COMMUNICATIONS

Communications and correspondence related to this filing should be directed to the persons listed in Attachment B. The Alliance Companies request waiver of the requirements of 18 C.F.R. § 305.203(b)(3) to permit these individuals to be added to the official service list being compiled in this proceeding.

V. The Alliance RTO Satisfies The Required RTO Characteristics

A. Independence

The independence and governance proposal contained in the Alliance Companies' September 15, 2000 compliance filing satisfies the independence requirement of Order No. 2000.¹² As described in the September 15, 2000 compliance filing, the Alliance RTO will be created in the form of the Alliance Transmission Company, LLC ("Alliance Transco"). Alliance

¹²Consumers Energy reserves the right to pursue an alternate governance structure through appropriate legal processes as it has in proceedings before this Commission (in Docket Nos. EC00-103 and ER00-2869) and the United States Court of Appeals for the D.C. Circuit. Consumers Energy does not believe, nor is it its intent, that this transmittal letter or the attached documents waive any position it has taken or will take in those proceedings. Consumers Energy reserves its rights under Article XI of the Alliance Agreement. Following the Required Regulatory Approvals, including the Commission's issuance of an order on rehearing and its action on the compliance filings, Consumers Energy will evaluate its rights under Article XI of the Alliance Agreement.

Transco will be a limited liability company (“LLC”) that will be controlled and managed by its managing member.¹³

In their initial filing in Docket No. ER99-3144-000, the Alliance Companies proposed to create Alliance Publico as a new Delaware corporation that would be the managing member of Alliance Transco. Alliance Publico was intended to be a publicly-held corporation that would raise capital through a public stock offering shortly after formation.¹⁴ A publicly-held corporation in the position of managing member of Alliance Transco is desirable for several reasons. Among other benefits, a public company would have access to capital markets. In addition, public ownership would provide further assurance of independence by minimizing the likelihood of dominance by one person or set of interests. Consistent with the form of corporate governance in place at most major businesses (including most of the utilities regulated by the Commission), control of the managing member of the Alliance RTO – and, thereby, control of the Alliance RTO, itself -- would rest ultimately with the shareholders of the corporate managing member.¹⁵ The managing member would be motivated to increase the value of its shareholders’ investments by operating the Alliance Transco in an efficient and customer-responsive manner. Ownership of transmission assets by a corporation with publicly-traded stock also allows the

¹³In its May 18, 2000 Order, the Commission found that the proposal to form the Alliance Independent System Operator (“ISO”) could move forward subject to certain minor modifications. Alliance Companies II, 91 FERC at p. 61,569. The Alliance Companies’ September 15, 2000 compliance filing included those required modifications to the ISO Bylaws. While the Alliance Companies do not intend to form the Alliance ISO, their governance proposal for the Alliance ISO satisfies the requirements of Order No. 2000.

¹⁴Alliance Companies’ June 3, 1999 Section 205 Application at p. 28, Docket No. ER99-3144-000.

¹⁵Market participants’ ownership of shares in the corporation would be restricted in accordance with Order No. 2000 requirements.

market to determine the value of those assets and to assess the business opportunities and risks associated with ownership and operation of the assets.

While the Alliance Companies remain committed to having a publicly-held corporation as managing member of Alliance Transco, they have been advised by their financial advisor that an immediate initial public offering (“IPO”) by the managing member would not be assured of success because, among other reasons, the managing member would be a new company in a new business that the market may not understand. The Alliance Companies’ financial advisor has recommended that an IPO be deferred for a period to enable the Alliance RTO to commence operations and to establish an operational and business record that can be assessed by the market. While the exact timing of an IPO must be evaluated by the Alliance Transco based on market conditions, the Alliance Companies anticipate that an IPO would occur within three years of the transmission service date. This should enable the market to appropriately value the Alliance RTO and its managing member’s business.

Regardless of the timing of an IPO of stock of the managing member, the managing member of Alliance Transco will be independent of the Alliance Companies and other market participants and will satisfy all of the Commission’s requirements for independence, including conformance with limitations on active and passive ownership and with the standards of conduct applicable to directors, employees and agents.

The managing member of Alliance Transco will be established through one or a combination of the following approaches. The Alliance Companies are pursuing the possibility of attracting a strategic investor -- i.e., a non-market participant that has experience and expertise in transmission or a related business -- to make an equity investment and to serve as managing member of the Alliance Transco LLC, with or without additional investment by a purely

financial investor. The strategic investor would have to satisfy the Commission's requirements for non-market participant status and would establish an appropriate governance structure that conforms with Commission guidance and requirements for independence. In the event that the Alliance Companies are able to attract financial-only investors (i.e., investors who do not possess operational experience in the electric transmission or related business), the managing member will be established as a corporation (Newco) that will be independent of the Alliance Companies, and its board will be elected by such investors. To ensure that the board consists of members having the appropriate skills and background to govern this business, the Alliance Companies propose the following governance structure and board of director selection process for Newco.

As the managing member of Alliance Transco, Newco would initially be governed by an independent board of directors consisting of seven directors, serving three-year staggered terms. The directors would be independent of market participants and would comply with the standards of conduct included in the *pro forma* Alliance Transco LLC Agreement submitted as part of the Alliance Companies' September 15, 2000 compliance filing. The Alliance Companies propose that Newco initiate a public stock offering within approximately three years of the transmission service date, depending on market conditions prevailing at the time, and that following the IPO, the public shareholders of the corporation select a new board of directors to replace the initial board.

Prior to an IPO and the selection of directors by shareholders, the Alliance Companies propose that Newco be a corporation with an independent, non-stakeholder board of directors. The proposed selection process for the board of directors would begin with the selection of a slate of fourteen qualified candidates by a nationally recognized search firm. The fourteen candidates chosen by the search firm would have to meet the following requirements: (1) they

should have qualifications equivalent to directors of publicly-held corporations with revenues equal to or larger than the revenues that Alliance Transco is expected to have; (2) they should have professional experience in either finance, accounting, engineering, utility law and regulation, electric power generation and marketing, or operations and planning of a transmission system or similar experience in other industries that have undergone restructuring; and (3) at least eight of the candidates must have experience as a director, president, CEO, COO or CFO of a publicly-held corporation.¹⁶

From the slate of fourteen candidates identified by the search firm, six directors would be selected by investors of the managing member of Alliance Transco.¹⁷ A Chief Executive Officer (“CEO”) would be selected by the six chosen directors and would become the seventh member of the board of directors.¹⁸ Two directors would be in a class that has an initial one-year term, two directors would be in a class with an initial two-year term and two directors and the CEO would be in a class with an initial three-year term. Thereafter, each class of directors would serve three year terms, with one class of directors up for election in each year. The non-market participant investors would assign the directors to each class, although the CEO would be assigned to the class with an initial three-year term.

¹⁶The proposed qualifications are consistent with the qualifications contained in the Commission’s directive to the California Independent System Operator and the California Power Exchange Corporation concerning the selection of non-stakeholder boards of directors. San Diego Gas & Electric Co., et al., 93 FERC ¶ 61,121 (2000), as well as the Commission’s recent decision in GridFlorida LLC, 94 FERC ¶ 61,020 (2001).

¹⁷Non-market participants would be permitted to invest in the Alliance Transco LLC and receive voting shares (Class A units) in the LLC. Consistent with the September 15, 2000 compliance filing, the managing member would at all times retain more than 50% of the Class A voting shares.

¹⁸Any vacancies that occur on the board during the transition period before an IPO would be filled by non-market participant investors in the Alliance Transco.

The Alliance Companies' proposed selection process for the initial board of directors is comparable to customary business governance approaches and is consistent with many of the board selection processes used by existing ISOs, as well as the board selection process recently approved in the GridFlorida LLC Order.¹⁹ The key difference between the Alliance Companies' proposal and other proposals previously presented to the Commission involves who selects the directors from the slate of qualified candidates. The Alliance Companies do not propose to rely upon a stakeholder committee, or any other method that relies upon market participants to select the independent, non-stakeholder board of directors. Instead, the Alliance Companies propose to rely upon non-market participant financial investors to make the final board selection.

The inclusion of minimum qualifications in the proposed process and the use of a nationally-recognized search firm to select the slate of qualified candidates ensures that the process will produce qualified candidates. The proposed selection process satisfies the Commission's requirements for independence because no market participant, including the transmission owners, would select the directors. The proposed process also avoids problems that have arisen with stakeholder boards in California and the potential for similar problems that could arise by reliance upon a stakeholder committee to select the board of directors.²⁰ The proposal to allow non-market participant financial investors to select the initial board of directors is also comparable to customary business methods for selecting directors in a corporation in that it places final selection in the hands of those with an equity interest in Alliance Transco (other than the transmission owners/members), i.e., the very people who have the greatest interest in the

¹⁹GridFlorida LLC, 94 FERC ¶ 61,020 (2001).

²⁰The Alliance Companies note that each class of market participants will be represented on the stakeholder advisory committee that will make recommendations to the managing member.

success of Alliance Transco. Unlike market participants, these financial investors will have no competing economic interests to consider when evaluating the qualifications of persons to serve on the board of directors of the managing member of Alliance Transco. Rather, they will be motivated by a desire to select qualified people who will manage and control Alliance Transco in an efficient and profitable manner.

1. The Alliance RTO, its employees, and its non-stakeholder directors will have no financial interests in any market participant.

The governance structure of the Alliance Transco meets all of the Commission's independence requirements. Moreover, the conflicts of interest policy contained in Exhibit C ("Standards of Conduct") to the *pro forma* Alliance Transco LLC Agreement submitted as part of the September 15, 2000 compliance filing ensures that Alliance Transco and its managing member will be independent of all market participants. The agents, officers and employees of the Alliance RTO (Alliance Transco, or "Company" under the Alliance Transco LLC Agreement)²¹ and the directors, agents, officers and employees of the managing member ("Managing Member" under the Alliance Transco LLC Agreement) will not have financial interests in any market participant. The Standards of Conduct included in Exhibit C to the Alliance Transco LLC Agreement are consistent with the Commission's requirements in Midwest ISO, 85 FERC ¶ 61,250 (1998), and GridFlorida, LLC, 94 FERC ¶ 61,020 (2001), and Order No. 2000.

²¹Alliance Transco LLC will be governed by the managing member and as such will not have a board of directors.

2. Independent of control by any market participant or class of market participants.

Active ownership

The Alliance RTO's decision making process will be independent of control by any market participant or class of participants. No market participant may own any voting membership units ("Class A units under the Alliance Transco LLC Agreement) in the Alliance Transco. The managing member will be issued 100% of the voting membership units and has full duty and authority to manage Alliance Transco, except for certain specified decisions or actions that require approval of Class B or Class C members.²² The approval rights of Class B or Class C members are discussed below under the title "Passive ownership." The managing member is prohibited from being a market participant or being affiliated with a market participant and no market participant may own an active (i.e., voting) interest in Alliance Transco.²³

To ensure the independence of the managing member of Alliance Transco, the Alliance Companies submitted *pro forma* Alliance Transmission Company, Inc. Bylaws ("Corporation Bylaws") as part of their September 15, 2000 compliance filing. The *pro forma* Corporate Bylaws will be adopted if Newco becomes the managing member. If an existing corporation or an affiliate of an existing corporation is selected as the managing member, it will be required to

²²Alliance Transco LLC Agreement, Sections 3.9, 3.10, and Article VI (September 15, 2000 compliance filing). As explained below under the "Passive ownership" discussion, Class B members are transmission owners who have divested transmission facilities to Alliance Transco in exchange for non-managing membership interests. Class C members are transmission owners who have not divested transmission facilities to Alliance Transco, but have transferred functional control of their transmission facilities to the Alliance Transco under the terms of an operation agreement. Class C members have certain limited interests in Alliance Transco as discussed below under "Passive ownership."

²³Alliance Transco LLC Agreement, Sections 3.2(a)(i), 3.4(a) and 6.1(a) (Attachment K of September 15, 2000 compliance filing).

adhere to the Commission’s requirements for limitations on active and passive ownership, and the Commission’s directives in the Alliance orders.

The Corporate Bylaws place restrictions on the ownership of capital stock in the managing member such that:

- a. no individual market participant may have more than a five percent (5%) voting interest in the managing member;
- b. no class of market participants may have more than fifteen percent (15%) voting interest in the managing member; and
- c. a market participant’s voting interest in the managing member must cease after a five (5) year transition period, unless otherwise ordered by the Commission.²⁴

The restriction in “a” above is consistent with the “safe harbor” criteria established in Order No. 2000 for individual active ownership interests. The restriction in “b” above is consistent with the “benchmark” criteria established in Order No. 2000 for ownership interests by a class of market participants. The restriction in “c” above is consistent with the requirement established in Order No. 2000 for terminating active ownership interests.²⁵

The Corporate Bylaws identify three classes of market participants: (i) members of Alliance Transco other than independent transmission companies that have no interests in, or affiliation with, a market participant²⁶; (ii) generation owners that are interconnected to the

²⁴Corporate Bylaws, Article V, Section 9; Alliance Transco LLC Agreement, Section 11.23 (September 15, 2000 compliance filing).

²⁵Order No. 2000 at pp. 31,069-72.

²⁶In Order No. 2000-A, the Commission found that “pure transmission companies” that have no interests in or affiliation with sellers or brokers of electric energy do not fall within the definition of market participant solely because of their ownership of transmission facilities for their provision of scheduling and dispatch, and other non-generation related ancillary services. Order No. 2000-A at p. 31,361-62.

transmission system operated by Alliance Transco; and (iii) all other market participants.²⁷ Thus, members of the Alliance Transco (other than independent transmission company members) will be one class of market participants and will be limited to a cumulative active ownership interest in the managing member of 15%. Similarly, generation owners that are interconnected to the Alliance RTO transmission system will be limited to a cumulative active ownership interest of 15%, as will all other market participants. The Corporate Bylaws of the managing member declare that a transfer of shares that results in a violation of these individual or class limits will be void and ineffective against the corporation until such time as the limits are no longer exceeded. Shares held in excess of the individual and class limits will not be entitled to receive dividends or have voting rights so long as the excess ownership exists.²⁸

The Alliance OATT also contains provisions intended to enforce the active ownership restrictions and to ensure the independence of the Alliance RTO. The Alliance OATT requires transmission customers to affirm in their requests for service and their service agreements with the Alliance RTO that neither the customer nor any transmission user associated with the customer's transactions under the Alliance OATT (e.g., the delivering or receiving party, or a marketer/broker intermediary) owns more than 5% of the voting shares of the managing member of Alliance Transco.²⁹ The Alliance OATT requires transmission customers to submit annually a certificate that lists each transmission user associated with the transmission customer's transactions, the transmission user's market participant class, and its percentage active ownership

²⁷Corporate Bylaws, Section 9 (September 15, 2000 compliance filing).

²⁸Id. If a limit is exceeded, only the most recent transfer(s) that result in the excess would be affected.

²⁹Alliance RTO OATT Sections 17.2 and 29.2, and Attachments A, B and F (September 15, 2000 compliance filing).

in the managing member of the Alliance Transco. Transmission customers will be required to update the lists in the interim as the reported facts change. Based on these reports, the Alliance RTO will post the cumulative ownership percentage of a market participant class on the OASIS. The Alliance RTO also will certify as acceptable those transmission users that: (i) hold less than 5% active ownership in the managing member of the Alliance Transco, and (ii) are members of a market participant class that holds less than a 15% interest.³⁰ Violation of the active ownership limitations by a transmission customer, or an associated transmission user, will result in a breach of the service agreement by the transmission customer. The Alliance RTO may then terminate transactions under the service agreement that involve the party that has exceeded the ownership limitations for so long as the breach continues.³¹

Passive ownership

Transmission owners that divest transmission facilities to Alliance Transco will receive some or all of the following consideration in exchange for their capital contributions: cash, debt securities, or non-managing membership interests in Alliance Transco in the form of Class B Units. Class B members will have only passive ownership interests in Alliance Transco and will have no ability to control or manage its affairs. The Class B members will have approval rights over certain material actions set forth in Section 3.9 of the Alliance Transco LLC Agreement. Consistent with the Commission's May 18, 2000 Order³², the managing member must receive the unanimous consent of the Class B members before undertaking: (1) a transaction that results in a change in control of Alliance Transco; (2) changes to the Alliance Transco LLC Agreement

³⁰Id., Attachments R and S.

³¹Id., Attachments A, B and F.

³²Id.

that adversely affect the rights of the Class B members or impair the Alliance Transco's ability to conduct ordinary business; and (3) certain actions related to insolvency or the dissolution of Alliance Transco, such as a voluntary bankruptcy filing.³³

Non-divesting transmission owners will execute an operation agreement with Alliance Transco pursuant to which they will transfer functional control of their transmission facilities, but retain ownership thereof. Non-divesting transmission owners will receive Class C Units in Alliance Transco. Like Class B Units, Class C Units represent a passive interest in Alliance Transco and owners of such units will have no ability to control or manage Alliance Transco's affairs. Class C members will have the right under Section 3.10 of the Alliance Transco LLC Agreement to approve: (1) altering a Class C member's "put right" under section 3.3(c) to exchange its Class C Units for Class B Units; (2) undertaking actions related to insolvency of Alliance Transco, such as a voluntary bankruptcy filing; or (3) changing the terms for distribution to such owners of transmission service and related revenues collected by the Alliance Transco, as set forth in the revenue distribution protocol.

The approval rights of the non-managing members (i.e., the Class B and C members) do not convey control or influence over operations or any aspect of the Alliance Transco's provision of non-discriminatory service. The approval rights also do not impose any limitations on the Alliance Transco's investment decisions or actions beyond what the Commission has recognized as reasonable limitations intended to protect the integrity of the passive owners' capital

³³In addition, two-thirds of the Class B members must consent to the admission of a new member where the new member would receive units that exceed 105% of the fair market value of its capital contribution. This right is intended to prevent dilution of the Class B members' collective investment in the company. Alliance Transco LLC Agreement, Sections 3.3 (b), 3.3(d) and 3.3(e) (September 15, 2000 compliance filing).

investments and to ensure that the Transco maximizes the value of the transmission assets contributed by the passive owners.³⁴

Order No. 2000 lists certain information that the Commission requires to be addressed when an RTO proposal permits passive ownership of the RTO.³⁵ In response to this directive, the Alliance Companies state:

1. The managing member of Alliance Transco will have a duty to manage the business and affairs of Alliance Transco in a manner that protects the integrity of the investment of the members and maximizes the value of assets contributed to Alliance Transco. However, the managing member and Alliance Transco are to disregard the present or future interests of the members in any business, asset or liability other than the members' interest in Alliance Transco. The managing member will be liable for acts of gross negligence or willful misconduct.³⁶ These provisions are consistent with the requirements of Alliance Companies II, 91 FERC at p. 61,580-81.

2. The approval rights of the non-managing members will not impede the Alliance RTO's ability to raise capital or its ability to make investments and financial decisions.

3. The non-managing members will have no control over the selection or removal of the managing member's board of directors. The non-managing members will not have any control over transmission rates, terms and conditions, although the Alliance Companies do propose a rate moratorium that would apply to all transmission owners, including the Alliance Transco, during a brief transition period.

³⁴Alliance Companies II, 91 FERC at p. 61,581.

³⁵Order No. 2000 at p. 31,067.

³⁶Alliance Transco LLC Agreement, Section 6.1(c) (September 15, 2000 compliance filing).

4. The non-managing members will have no direct control over the issuance of new membership interests. The Alliance Transco LLC Agreement requires the managing member to receive the consent of two-thirds of the Class B members before issuing units that exceed 105% of the fair market value of the capital contribution being made in exchange for such units. This right is intended to prevent the dilution of the Class B members' investment in Alliance Transco and is consistent with the Commission's policy of permitting passive owners to take steps to protect their investments. Sections 3.1(b) and (c) of the Alliance Transco LLC Agreement set forth the objective criteria for membership in Alliance Transco, and these requirements are consistent with the Commission's directive in Alliance Companies II, 91 FERC at p. 61,581.

5. The Alliance Transco LLC Agreement requires that Alliance Transco may not contract with the non-managing members for the provision of goods and services that would be available from other providers unless the managing member first solicits competitive bids for the provision of those goods and services.

6. Each member of Alliance Transco will have the right to inspect the books and records of Alliance Transco to the extent permitted by Delaware law and the Standards of Conduct included in the Alliance Transco LLC Agreement.³⁷

3. Following a brief transition period, the Alliance RTO will have exclusive and independent authority under Section 205 of the FPA to propose rates, terms and conditions of transmission service provided over the facilities it operates.

The Alliance Companies' proposal provides that the Alliance RTO will have exclusive and independent authority under Section 205 to propose rates, terms and conditions of transmission service provided over the facilities it operates after the end of a reasonable

³⁷Id., Section 7.3.

transition period. The transition period shall end on the earlier of: (i) December 31, 2004, or (ii) a date agreed upon by all of the transmission owners.³⁸ Neither the transmission owners nor the Alliance RTO may unilaterally file for changes in rates to become effective during the transition period unless the filing is for an adjustment to recover the cost of new investment incurred by the transmission owners (including the Alliance Transco) when that investment exceeds 150% of such owner's annual depreciation expense. Approval of the proposed rate moratorium with respect to the Alliance RTO is necessary to protect transmission owners from experiencing a loss of transmission revenues as a result of joining the Alliance RTO and to minimize the occurrence of cost shifts among the companies and their customers. These are objectives that the Commission has endorsed in Order No. 2000 and in the Alliance Orders.³⁹ Because this limitation on the Alliance RTO's Section 205 authority during the transition period is necessary to provide revenue neutrality to transmission owners, and thereby remove disincentives to joining the RTO, it is reasonable and is consistent with Order No. 2000. Except as limited to preserve the rate design and moratorium during the transition period, the Alliance RTO has the exclusive and independent authority to change the terms and conditions of the Alliance OATT.

- 4. A compliance audit of the independence of the Alliance RTO's decision making process will be performed two years after approval of the Alliance RTO and every three years thereafter, unless otherwise provided by the Commission. The compliance audits will be performed by auditors who are not affiliated with the RTO or transmission facility owners that are members of the RTO.**

Section 7.5 of the Alliance Transco LLC Agreement codifies the requirement for compliance audits of the Alliance RTO's decision making process.

³⁸Alliance RTO Pricing Protocol, Section 2.1.1(a) (September 15, 2000 compliance filing).

³⁹Order No. 2000 at p. 31,172; and Alliance Companies I, 89 FERC at p. 61,929.

The Alliance RTO proposal satisfies the Order No. 2000 requirement for independence.

B. Scope and Regional Configuration

1. The Alliance RTO will be the largest RTO in the country.

The Alliance Companies demonstrated in their September 15, 2000 compliance filing that the scope and configuration of the Alliance RTO represented by the original five member systems is appropriate and satisfies Order No. 2000 requirements. The addition of the four new members enhances the Alliance RTO's scope and configuration. With the addition of ComEd, DP&L, Illinois Power and Ameren, the Alliance RTO will be the largest RTO in the country by virtually any measure. It will cover an area of 174,500 square miles in eleven states, encompassing a population of 39.8 million people and representing a peak load of approximately 108 gigawatts and generation capacity of 115 gigawatts. It will provide "one-stop shopping" for transmission service over more than 54,000 miles of transmission lines. This expansion in the scope of the Alliance RTO will better enable it to manage congestion and loop flows over a broad area and will eliminate an additional transmission charge for numerous transactions. Included as Attachments C and D are the affidavits of Dr. David Patton and Mr. Ronald Szymczak which address the effects of the new Alliance members on the scope and configuration of the Alliance RTO by analyzing the issue of transmission rates and electrical inter-dependence (i.e., network interactions).

2. The Alliance RTO does not act as a "tollgate" or inhibit competition.

Dr. Patton summarizes the market analysis that was included in his affidavit filed with the Alliance Companies' September 15, 2000 compliance filing in the Alliance dockets and explains that the conclusion from his prior analysis that the Alliance RTO satisfies the scope and configuration requirements of Order No. 2000 is enhanced by the addition of new members to

the Alliance RTO. Dr. Patton reaffirms his conclusion that markets in the region are well arbitrated despite the pancaked transmission rates in place today, and that delaying or preventing the formation of large RTOs in order to compel even larger RTOs to form will not yield significant benefits to the region. The market analysis presented by Dr. Patton in the Alliance dockets disproves the theory that the Alliance RTO would act as a “tollgate” that blocks buyers and sellers located in the Midwest and the Northeast. Although the evidence presented by Dr. Patton demonstrates that the presence of more than one transmission charge to traverse from the western Midwest to the Northeast will not inhibit the development of efficient and competitive power markets, Dr. Patton notes that the addition of Alliance RTO members located in Illinois to the Alliance RTO should eliminate concerns that suppliers connected to these systems (formerly located in the Midwest ISO) would be unable to compete with suppliers in the Alliance RTO to make sales into PJM.

3. The member systems of the Alliance RTO are tightly interconnected.

Mr. Szymczak adopts the affidavit of Mr. Carl Bridenbaugh from the Alliance Companies’ September 15, 2000 compliance filing in the Alliance dockets and updates the analysis contained in the earlier affidavit to assess whether transfers among the Alliance members (including Ameren, ComEd, Illinois Power and DP&L) are limited by transmission facilities on non-Alliance RTO transmission systems.

Mr. Szymczak used the 2000 Summer and 2000/01 Winter MAIN Transmission Assessment studies and applied the Power Technologies Incorporated’s (PTI) Managing and Utilizing System Transmission (MUST) software package to identify the location of limiting facilities to transfers between Ameren, ComEd, Illinois Power, DP&L (included in ECAR West) and the other Alliance members. Single contingency transmission outages were simulated for the ECAR, MAIN, MAPP, SPP and SERC regions under each of the transfer scenarios, while

monitoring the facility loadings within each of these same regions. All facilities within these entities rated at a nominal voltage of 138 kV and above were considered. The results of the study show that there are only two instances where transfers between Ameren, ComEd, Illinois Power, ECAR East (which includes the eastern portion of AEP, Allegheny Power, Detroit Edison, Duquesne Light Company, and First Energy) and ECAR West (which includes the western portion of AEP, Big Rivers, Cinergy, Consumers Energy, Edison Sault Electric, DP&L, East Kentucky Power Cooperative, Hoosier Energy, Indiana Municipal Power Agency, Indianapolis Power and Light, Louisville Gas and Electric Energy, Northern Indiana Public Service, Ohio Valley Electric Corporation, Southern Indiana Gas and Electric and Wabash Valley Power Association) are limited by transmission facilities that are not part of the Alliance RTO. The two instances of limiting facilities located outside of the Alliance RTO are not significant and in no way inhibit the Alliance RTO's ability to perform its functions as an RTO.

In the 2000 summer study, the ComEd to ECAR West direction was limited by the Dune Acres-Michigan City 138 kV line owned by the Northern Indiana Public Service Company (NIPSCO). NIPSCO, however, announced its intention to join the Alliance RTO in its October 16, 2000 Order No. 2000 compliance filing. Thus, the limiting facility owned by NIPSCO will be under the Alliance RTO's control. In the 2000/01 winter study, the Ameren to ComEd transfer direction is limited by the Palmyra 345/161kV transformer which is owned by the Associated Electric Cooperative. However, this limit (which does not appear in the summer study) occurs at a relatively high level of 2,600 MW and is not significant under expected conditions. In addition, Ameren has strong coordination with AEC at this substation.

The results of the study indicate few instances where transfers among Alliance members are limited by non Alliance RTO facilities. The results are reflective of the strong

interconnections among the Alliance members. ComEd, Illinois Power and Ameren, for example, have strong interconnections with each other and with AEP to the east. In fact, ComEd has an interconnection with AEP at 765 kV. High voltage facilities have low electrical impedance and tend to carry a large share of flows across a transmission network. DP&L also has strong interconnections with both AEP and FirstEnergy.

The results of Mr. Szymczak's study, including the original Bridenbaugh analysis, indicate that the Alliance RTO member systems are tightly interconnected and that network interactions with neighboring control areas are extremely limited. Thus, the Alliance RTO will have the ability to manage congestion, calculate ATC values and issue firm transmission rights and facilitate long-term expansion of the grid.

The affidavits of Steven Naumann on behalf of ComEd and Shawn Schukar on behalf of Illinois Power explain why the Alliance RTO is the proper RTO for ComEd and why the addition of ComEd and Illinois Power enhances the scope and scale of the Alliance RTO. As members of the Alliance RTO, ComEd and Illinois Power (and other suppliers in their control area) will have better access to electric supplies and will experience lower transmission rates for most import and export transactions than if they remained in the Midwest ISO. Historically, the majority of wholesale transactions by ComEd and Illinois Power have taken place with utilities that are in the Alliance RTO and east of the Alliance RTO. The addition of ComEd and Illinois Power to the Alliance RTO will internalize parallel flows that occur on other Alliance member systems as a result of power sales from their control areas.

This filing demonstrates that the Alliance RTO's scope and configuration will permit it to maintain reliability, effectively perform the required Order No. 2000 RTO functions and support the development of efficient and competitive power markets.

The Alliance RTO proposal satisfies the Order No. 2000 requirement for scope and configuration.

C. Operational Authority

The Alliance RTO will have operational authority for all transmission facilities under its control. It will have the authority to direct switching and reactive resource use and to control line flows and voltage levels. Transmission owners or control area operators may perform some actual physical operations or tasks, but they will do so under the direction and approval of the RTO.⁴⁰ The Alliance RTO will implement performance/audit criteria by which it will judge the operation and performance of transmission owners with respect to functions shared with, or delegated to, the transmission owners. The performance/audit criteria will evaluate the sharing or delegation of control area functions to ensure that such action does not adversely affect reliability or provide any market participant with an unfair advantage. The Alliance RTO will prepare a public report within two years of initial operations assessing whether delegation or sharing of operational authority hinders it in providing reliable, non-discriminatory and efficiently priced transmission.⁴¹ In addition, the Alliance Companies will evaluate the feasibility of consolidating control area functions and will actively work to consolidate certain control area functions when economically feasible within the Alliance RTO.⁴²

The Alliance RTO will be the NERC security coordinator for the facilities that it controls, taking over those responsibilities from other security coordinators currently performing on behalf

⁴⁰Alliance RTO Operating Protocol, Article II (September 15, 2000 compliance filing).

⁴¹Id., Section 1.3.15.

⁴²Id., Section 11.3.1.

of Alliance transmission owners.⁴³ It will have exclusive authority for the security and reliability of the Alliance RTO transmission system and will direct the actions of control area operators, transmission owners, generation owners and transmission users as necessary to ensure the security and reliability of the transmission system.⁴⁴ The Alliance RTO will execute generation interconnection agreements with generators on its system.⁴⁵ Among other things, the Alliance RTO will have authority to designate generation units as “must-run” in order to ensure a secure and reliable transmission system under normal operating and first contingency conditions.⁴⁶ The Alliance RTO will have authority to undertake, and to direct control area operators to undertake, security monitoring and analysis. It will coordinate with other security coordinators, establish operating requirements and practices in accordance with NERC criteria, perform periodic load-flow and stability studies of the transmission system, and develop emergency response procedures.⁴⁷

The Alliance RTO proposal satisfies the Order No. 2000 for operational authority.

D. Short-term Reliability

The Alliance RTO will have exclusive authority to maintain the short-term reliability of the grid it operates. It will implement this authority directly or through directing the actions of

⁴³Id., Sections 5.1 and 5.2.

⁴⁴Id., Sections 5.3 and 5.5.

⁴⁵A *pro-forma* Interconnection Agreement was filed in the September 15 compliance filing in the Alliance dockets and the Alliance Companies have committed to a stakeholder discussion to develop the *pro forma* agreement further. The Alliance Companies also proposed in their *pro forma* Inter-RTO Cooperation Agreement to develop a common Interconnection Agreement with other RTOs.

⁴⁶Id., Section 5.6.

⁴⁷Id., Section 5.4.

transmission owners.⁴⁸ The Alliance RTO will be the exclusive authority for receiving, confirming and implementing all interchange schedules. This includes the authority to direct implementation of all interchange schedules for control areas not operated by the Alliance RTO.⁴⁹

Order No. 2000 also requires that RTO structures which include control area operators that are market participants or are affiliated with market participants to take measures to ensure that these control areas do not receive an unfair competitive advantage from having access to commercially sensitive information.⁵⁰ To address this concern, the Alliance RTO will establish codes of conduct and other procedures to assure separation of reliability personnel and marketing affiliates in situations where control areas are operated by market participants or affiliates of market participants.⁵¹

The Alliance RTO will have authority to direct owners of generation units interconnected to the transmission system to redispatch their units if necessary for reliability of the system. All owners of significant generating units interconnected to the Alliance RTO transmission system, including those owned by the transmission owners, will be required to sign interconnection agreements with the Alliance RTO. The interconnection agreements will require generation owners to offer to redispatch their units, when feasible, for appropriate compensation. The

⁴⁸Id., Section 2.1.12.

⁴⁹Id., Section 3.3.1.

⁵⁰Order No. 2000 at p. 31,104.

⁵¹Alliance RTO Operating Protocol, Section 1.3.16 (September 15, 2000 compliance filing).

generation owners will also be required to submit and coordinate unit schedules that affect transmission capability or reliability.⁵²

The Alliance RTO will produce an annual transmission outage plan that satisfies all reliability standards, provides necessary access to transmission facilities for maintenance and efficiently minimizes transmission congestion. Alliance RTO approval will be required for all planned maintenance of transmission facilities. The Alliance RTO will determine whether such planned transmission maintenance affects available transmission capability (“ATC”), ancillary services, system security or other relevant effects. As part of its review, the Alliance RTO will have the authority to revoke any previously-approved transmission maintenance outage when reliability conditions warrant. The Alliance RTO will document all planned transmission maintenance requests, the disposition of the request and all data supporting the disposition.⁵³

While prior approval is not required for unplanned or emergency transmission maintenance, transmission owners are required to notify the Alliance RTO of such outages.⁵⁴ The Alliance RTO will also coordinate the maintenance of generation units that affect transmission capability or reliability.⁵⁵

It is expected that the Alliance RTO will operate under reliability standards established by NERC and regional reliability councils or their successors. The Alliance RTO will report to

⁵²Id., Sections 1.4.5 and 5.5.2.

⁵³Alliance RTO Operating Protocol, Section 7.1; and Alliance RTO Planning Protocol, Section 4.2 (September 15, 2000 compliance filing).

⁵⁴Alliance RTO Operating Protocol, Section 7.2 (September 15, 2000 compliance filing).

⁵⁵Alliance RTO Operating Protocol, Section 7.3; and Alliance RTO Planning Protocol, Section 4.4 (September 15, 2000 compliance filing).

the Commission if the standards hinder it from providing reliable, non-discriminatory and efficiently priced transmission service.⁵⁶

The Alliance RTO proposal satisfies the Order No. 2000 requirement for short-term reliability.

VI. THE ALLIANCE RTO SATISFIES THE REQUIRED RTO FUNCTIONS

A. Tariff Administration and Design

The Alliance RTO Pricing Protocol requires the Alliance RTO to propose a pricing methodology to become effective during the post-transition period that will create price signals for the efficient use of the transmission system and the efficient location of new generation. The Alliance RTO must evaluate possible rate methodologies to consider how they will provide economically efficient incentives for use and expansion of the transmission system and the siting of new generation.⁵⁷

The Alliance RTO will be the sole provider of transmission service over the facilities under its control and the sole administrator of its own open access transmission tariff (“OATT”). The Alliance RTO OATT will apply to all transmission and ancillary services provided by the Alliance RTO. The Alliance RTO will have sole authority to receive, evaluate and approve or

⁵⁶Alliance RTO Operating Protocol, Section 2.1.6. (September 15, 2000 compliance filing).

⁵⁷Alliance RTO Pricing Protocol, Section 2.2 (September 15, 2000 compliance filing).

deny all requests for transmission service.⁵⁸ It will also review and process all requests for new interconnection under the terms of the Alliance RTO OATT.⁵⁹

During the transition period (which will end on January 1, 2005 or earlier), the Alliance RTO will charge single access charges (i.e., either a zonal rate or a regional rate) for transmission service over the facilities that it controls. The transmission system of each transmission owner participating in the Alliance RTO will form a separate zone within the Alliance RTO.⁶⁰ A transmission customer delivering power to load located within a particular Alliance RTO zone (i.e., an intra-zonal, drive-in or drive-within transaction) will pay a “license plate” zonal rate, with no multiple access charges. A transmission customer who takes service through or out of the Alliance RTO to serve loads outside the Alliance RTO will pay a single regional through and out rate, with no multiple access charges.⁶¹ After the transition period, the Alliance RTO has the sole authority to propose a post-transition rate structure in compliance with regulatory requirements.

⁵⁸Alliance RTO Operating Protocol, Section 4.1.1; Alliance RTO OATT (September 15, 2000 compliance filing).

⁵⁹Alliance RTO OATT, Attachment U; Alliance RTO Planning Protocol, Sections 1.4 and 3.6; and Alliance RTO Operating Protocol, Section 12.1 (September 15, 2000 compliance filing).

⁶⁰Transmission owners may voluntarily agree to form a single, multiparty zone. Similarly, the Alliance Transco may consolidate the former pricing zones of divesting transmission owners. While Consumers Energy and International Transmission Company (“ITC,” a wholly-owned transmission company of Detroit Edison) will form separate pricing zones, there will be no adverse effect on transmission customers in Michigan. Consumers Energy and Detroit Edison currently provide transmission service under a joint tariff. The joint tariff provides that transmission customers located within Michigan pay a license plate rate based upon the location of their load for the use of the combined system, and those customers taking service across the combined system pay the higher of the Consumers Energy and ITC transmission rates. Thus, customers currently taking service under the joint tariff will not be adversely affected by taking service under the Alliance OATT.

⁶¹Alliance RTO Pricing Protocol, Article II (September 15, 2000 compliance filing).

The Alliance RTO proposal satisfies the Order No. 2000 requirement for tariff administration and design.

B. Congestion Management

1. The Alliance RTO will have an effective protocol for managing congestion on Day 1 of operations.

In the Alliance Orders, the Commission found that the Applicants' proposed congestion management procedures are consistent with Midwest ISO, 84 FERC ¶ 61,231 (1998) and would be acceptable provided that all generators on the system were required to bid to provide redispatch.⁶² The Alliance Companies' September 15, 2000 compliance filing requires all generators on the system to bid to provide redispatch. Accordingly, the Alliance RTO will have an effective protocol for managing congestion on Day 1 of operations.⁶³ The Alliance RTO will implement its congestion management procedures to prevent curtailment of firm transmission service. The Alliance RTO will also facilitate reassignment of firm transmission and bilateral redispatch arrangements between generators and transmission customers desiring to protect non-firm transmission or to schedule new firm transmission.⁶⁴

⁶²Alliance Companies I, 89 FERC at p. 61,925, and Alliance Companies II, 91 FERC at p. 61,583.

⁶³Alliance RTO Operating Protocol, Article X, Alliance RTO OATT, Attachment K (September 15, 2000 compliance filing).

⁶⁴Alliance RTO, Attachment K; Alliance RTO Pricing Protocol, Section 2.5 (September 15, 2000 compliance filing).

2. The Alliance Companies are developing a hybrid model for long-term congestion management by the Alliance RTO that will provide efficient prices signals and accommodate broad participation by market participants.

The Alliance Companies are developing a plan for implementing long-term congestion management by the Alliance RTO. As explained in greater detail in Attachment G, the Alliance Companies are proposing a “hybrid” model that combines elements of a flowgate method for managing congestion in the forward market and a locational marginal pricing (“LMP”) method for managing congestion in real-time. The flowgate elements of the model include some form of initial distribution or auction of physical transmission rights (flowgate rights, or “FGRs”) and ongoing periodic auctions of remaining or new FGRs following the initial distribution. The market for FGRs will enable market participants to hedge against the potential cost of commercial congestion at key constraining facilities on the Alliance RTO transmission system (and possibly on neighboring systems) and obtain price certainty. This forward market for FGRs will enable customers to assure themselves of the equivalent of today’s firm transmission and avoid congestion costs.

The LMP method of managing congestion in real-time relies upon redispatch of generation and associated settlement of congestion costs in real-time. The Alliance RTO will use incremental and decremental bids from interconnected generation to calculate nodal prices as the basis for settlement. Generators (and other mitigation alternatives) will settle at nodal prices and loads will settle by pricing or congestion zones (e.g., weighted price of energy corrected for transmission losses in the zone). Transmission customers that serve loads with appropriate metering may also settle at nodal prices.

The hybrid model proposed by the Alliance Companies provides price signals in both the real-time and forward markets and manages congestion in both markets. The hybrid approach

will be compatible with PJM's LMP model and with the congestion management approaches of other neighboring systems, such as the Midwest ISO and the SPP.

The Alliance Companies will develop their congestion management proposal further. The Alliance Companies intend to present their proposal to the Alliance Steering Committee, a stakeholder group that has previously provided advice on the development of the Alliance RTO, in March, 2001. After receiving comments from the Alliance Steering Committee, the Alliance Companies intend to develop a protocol and systems to implement the hybrid model for long-term congestion management. The Alliance Companies' goal is to have a market-based congestion management program ready for operation prior to the second year of operations of the Alliance RTO.

The Alliance RTO proposal satisfies the Order No. 2000 requirement for congestion management.

C. Parallel Path Flow

The Alliance RTO will internalize parallel path flows within the Alliance region. Where parallel flows can be identified, the Alliance RTO will include them in its ATC calculations. Within three years after it commences operation, the Alliance RTO will develop and implement procedures to address parallel path flow issues with other regions.⁶⁵ The Alliance RTO proposal also includes a *pro forma* Inter-RTO Cooperation Agreement which would require participating RTOs to address parallel flows on an inter-regional basis.⁶⁶

⁶⁵Alliance RTO Operating Protocol, Section 3.1.4; and Alliance RTO Planning Protocol Sections 3.10 and 4.5 (September 15, 2000 compliance filing).

⁶⁶*Pro forma* Inter-RTO Cooperation Agreement, Article VI.

The affidavits of Steve Naumann and Shawn Schukar identify the parallel flows that occur on other Alliance member systems as a result of power sales from ComEd's control area, which will now be internalized within the Alliance RTO.

The Alliance RTO proposal satisfies the Order No. 2000 requirement for parallel path flows.

D. Ancillary Services

The Alliance RTO will be the provider of last resort for ancillary services under the Alliance OATT. To the extent permitted by the Alliance OATT, transmission customers have the option of acquiring their own ancillary services.⁶⁷ If transmission customers request the Alliance RTO to provide ancillary services, rather than choosing to self-provide, the Alliance RTO will procure the ancillary services from generators interconnected to the transmission system and from control area operators. To ensure reliable and efficient sources of generation resources for providing ancillary services, the Alliance RTO will require all generators interconnected to its transmission system to execute an interconnection agreement.⁶⁸ The interconnection agreements will require the generation owners to supply ancillary services as determined to be necessary by the Alliance RTO. The generation owners will continue to provide ancillary services until the Alliance RTO determines that sufficient third-party ancillary services are available through a regional power exchange or other market means. When required

⁶⁷Alliance RTO OATT, Section 3; and Alliance Operating Protocol, Section 6.1.1 (September 15, 2000 compliance filing).

⁶⁸Generators that do not have a significant electrical impact on the transmission system are grandfathered from this requirement for the term of their existing interconnection agreements. Alliance RTO OATT Section 39.1.

by the Alliance RTO, control area operators will supply ancillary services under the terms of the Alliance OATT.⁶⁹

The Alliance RTO will have the authority to decide the minimum required amounts of each ancillary service and, if necessary, the locations at which these services must be provided.⁷⁰ The Alliance RTO will have direct or indirect operational control of the provision of all ancillary services. All ancillary services will be operated for the operational benefit of the Alliance RTO.⁷¹

The Alliance RTO will develop and implement, either directly or with an independent market provider, a real-time balancing market by its transmission service date. The Alliance RTO will provide energy imbalance service via a real-time balancing market, and all transmission customers will have access to the market. All energy imbalance for loads and generators will be financially settled in this market based on real-time pricing. Financial settlements will include settlement for losses. No true-up mechanism, such as a bandwidth with time-shifted energy payback, will be applied. Transmission customers that are also control area operators will clear system imbalances and settle them financially according to the same rules as all other transmission customers.

Balanced schedules for load and generation will be required as the starting point for imbalance calculations. The Alliance RTO will take corrective action with respect to inaccurate schedules and assign the resulting incurred costs accordingly. Impacts of redispatch instructions will be accounted for in imbalance settlement and may be settled separately from the imbalance

⁶⁹Alliance RTO Operating Protocol, Article VI (September 15, 2000 compliance filing).

⁷⁰Id., Section 6.1.1.

⁷¹Id., Section 6.1.9.

market. Imbalance market settlement will be accomplished directly with transmission customers that are wholesale, metered customers and local distribution utilities, and indirectly (through the local distribution utilities) with remaining transmission customers, i.e., retail transmission customers.⁷²

The Alliance RTO proposal satisfies the Order No. 2000 requirements for ancillary services

E. OASIS and Total Transmission Capability (TTC) and Available Transmission Capability (ATC)

The Alliance RTO will operate a single OASIS site to receive and process all transmission service requests.⁷³ The Alliance RTO also will independently calculate Total Transmission Capability (“TTC”) and Available Transmission Capability (“ATC”). Attachment C of the Alliance RTO OATT, Section 4.5 of the Alliance RTO Planning Protocol and Section 3.1 of the Alliance RTO Operating Protocol describe how TTC/ATC will be centrally calculated and posted, and how the Alliance RTO will coordinate and share data with neighboring systems. The Alliance RTO will calculate ATC values on a control area basis and will determine values from one hour to one year into the future, consistent with Commission requirements. ATC calculation procedures will identify and adjust for parallel path flows within the Alliance RTO and on neighboring systems. As provided in the pro forma Inter-RTO Cooperation Agreement, the Alliance RTO will coordinate ATC calculations with neighboring systems by sharing base data, identifying mutual impacts on flowgates, and providing data in support of the NERC Interregional Security Network. Such coordination should result in consistent TTC/ATC values

⁷²Id., Section 6.3.

⁷³Id., Sections 3.2.1, 4.1.5 and 11.2(a); and Alliance RTO OATT, Schedule 4 (September 15, 2000 compliance filing).

across interfaces.⁷⁴ In fact, as of the date of this filing, the Alliance Companies, Midwest ISO and the SPP have achieved agreement in principle on how to implement such inter-RTO cooperation.

The Alliance RTO proposal satisfies the Order No. 2000 requirement for OASIS, TTC and ATC.

F. Market Monitoring

Attachment O of the Alliance RTO OATT and Article VIII of the Alliance RTO Operating Protocol describe the market monitoring program proposed for the Alliance RTO. The proposal provides for the objective monitoring of markets operated, and services provided, by the Alliance RTO (i.e., transmission and ancillary services, and the energy imbalance market). The Alliance RTO Market Monitoring program will be implemented by an independent expert (“Market Monitor”) that shall report its findings to the Commission. The Market Monitor will provide periodic reports to the Commission that will provide market data and the results of analyses of that data. The Market Monitor will also respond to requests from the Commission or other interested parties for additional data and analysis. The monitoring program is to identify anticompetitive actions related to the provision of transmission and transmission-related services that result in transactions or operations that are unduly discriminatory or preferential, or that provide the opportunity for the exercise of market power. The *pro forma* Inter-RTO Cooperation Agreement provides that the Alliance RTO will work with other RTOs to jointly hire a market monitor that will monitor markets over a super-region. Such cooperation should reduce the per-unit cost and increase the effectiveness of market monitoring.

⁷⁴Alliance RTO Planning Protocol, Section 4.5 (September 15, 2000 compliance filing).

The Alliance RTO proposal satisfies the Order No. 2000 requirement for market monitoring.

G. Planning and Expansion

The Alliance RTO will be responsible for planning the transmission system. It will adopt a planning process that will be open and transparent. Expansion of the system will be done in the most efficient manner without regard to ownership of transmission, distribution or generation facilities. The Alliance RTO will hold final responsibility for the regional transmission plan, subject to approval by regulatory and other entities with approval authority.⁷⁵ The Alliance RTO's planning and system expansion process will enable it to provide efficient, reliable and non-discriminatory transmission service. The planning and system expansion process also will encourage market-driven operating and investment actions for preventing and relieving congestion and ensure that the best solution to resolving congestion, whether it be in transmission, generation, or other technologies, is undertaken.⁷⁶

The Alliance RTO will accommodate efforts by state regulatory commissions to create multi-state agreements to review and approve new transmission facilities. The Alliance RTO will establish three committees to provide forums for stakeholders and interested parties to provide input into the Alliance RTO transmission and operational planning: 1) the Planning Advisory Committee, 2) the Reliability Planning Committee, and 3) the Operational Planning Committee.⁷⁷ The transmission owners, including the Alliance Transco, will have the obligation to construct new transmission facilities reviewed, approved and ordered to be built by the Alliance RTO

⁷⁵Id., Section 1.3.

⁷⁶Id., Section 3.2.

⁷⁷Id., Article II and Section 4.3.

through the planning process.⁷⁸ The Alliance RTO will coordinate its planning and expansion process with other RTOs where appropriate.⁷⁹

The Alliance Companies are further developing aspects of the proposed Alliance RTO new investment policy to address Order No. 2000 innovative rate structures that can provide incentives for new investment. The Alliance Companies also intend to address new investment in their congestion management proposal by including incentives for new construction and upgrades that relieve congestion. Consistent with Order No. 2000, the Alliance RTO new investment policy will offer opportunities for rate recovery associated with new investment that will provide incentives to upgrade or build new transmission and transmission-related facilities that enhance the reliability of the transmission system and relieve congestion. These opportunities may include deferred accounting for new investment incurred during the rate moratorium, accelerated depreciation and risk-adjustments for rate of return associated with new investment, and market-oriented incentives for new investment. The Alliance RTO should also develop a performance-based rate plan that will promote long-term investment in transmission.

The Alliance RTO proposal satisfies the Order No. 2000 requirement for planning and expansion.

H. Interregional Coordination

The Alliance RTO will endeavor to ensure the integration of (1) the reliability practices within the Eastern Interconnection and (2) market interface practices among regions.⁸⁰ The

⁷⁸Id., Section 3.8.

⁷⁹Id., Sections 2.3(f) and 3.2. In the Inter-RTO Seams Collaborative, the Alliance Companies, the Midwest ISO, SPP and GridSouth Companies have come to an agreement in principle on the coordination for long-term planning.

⁸⁰Id., Section 3.2.

Alliance Companies have been actively engaged in discussions with other existing or planned regional transmission entities to coordinate activities and address seams issues between the Alliance RTO and its neighbors. As an outgrowth of the Order No. 2000 Collaborative Processes from Cincinnati and Kansas City, the Alliance Companies have been engaged in productive negotiations with the Midwest ISO, SPP and Grid South Companies to solve seams issues.⁸¹ The Alliance Companies, the SPP and the Midwest ISO have reached agreement on issues critical to inter-regional coordination, such as ATC calculations and Day 1 congestion management. These three regional organizations are also developing similar and compatible approaches for long-term congestion management solutions.

The Alliance Companies have prepared a *pro forma* Inter-RTO Cooperation Agreement to further advance these discussions and to provide a basis for interregional coordination between the Alliance RTO and its surrounding regional transmission entities. The Inter-RTO Cooperation Agreement, which was contained in the Alliance Companies' September 15, 2000 compliance filing, provides a basis for sharing information, developing common practices and coordinating operations among the RTOs participating in the agreement. The agreement contains procedures for rate discounting reciprocity for transactions that otherwise would incur three or more transmission access charges.⁸² The agreement also contains a process for developing a common inter-regional pricing methodology following a transition period.⁸³ The agreement provides for the development of a standardized methodology for calculating ATC and

⁸¹PJM and Southern Companies attended the last meeting, and GridFlorida Companies indicated their desire to participate in upcoming meetings.

⁸²Inter-RTO Cooperation Agreement, Article II (September 15, 2000 compliance filing). The agreement also provides that other forms of rate reciprocity, such as two-part reciprocity, could be adopted upon agreement of the parties.

⁸³Id.

facilitating “one-stop shopping” for inter-regional transmission requests.⁸⁴ Under the agreement, RTOs would adopt procedures for recognizing the impacts of loop flows in reservation, scheduling, congestion clearing and cost assignment.⁸⁵ Participating RTOs would also share security information, coordinate congestion management and develop market mechanisms for advanced congestion management procedures.⁸⁶ RTOs participating in the agreement would develop a coordinated joint regional planning process for the inter-regional system⁸⁷ and would select an independent market monitor.⁸⁸ The agreement also provides for the development of a common generation interconnection agreement.⁸⁹

The Alliance RTO proposal satisfies the Order No. 2000 requirement for inter-regional coordination.

⁸⁴Id., Section 3.2 and Article X.

⁸⁵Id., Section 3.3.

⁸⁶Id., Article IV.

⁸⁷Id., Article V.

⁸⁸Id., Article VIII.

⁸⁹Id., Article IX.

VII. THE ALLIANCE RTO WILL BE STRUCTURED WITH OPEN ARCHITECTURE

The Alliance RTO proposal is based upon an open architectural structure that permits the Alliance RTO and transmission owners to adjust to changes in the electric industry's landscape by deciding whether and when to divest their transmission assets. Open architecture is also contained in the proposed protocols and *pro forma* agreements for the Alliance RTO such that the Alliance RTO will have the flexibility to adopt practices and procedures for improving efficiency consistent with the RTO minimum characteristics and requirements. The *pro forma* agreements and protocols, and the transition period rate structure, all also designed to facilitate the addition of new members, including members not subject to the Commission's plenary jurisdiction, as evidenced by the recent additions of Dayton Power and Light, ComEd, Illinois Power and Ameren.

The Alliance RTO satisfies the Order No. 2000 requirement for open architecture.

VIII. SECTION 203 REQUESTS FOR AUTHORIZATION TO TRANSFER CONTROL

The Commission has conditionally approved the requests of the five original Alliance Companies to transfer ownership and/or functional control of their transmission facilities to the Alliance RTO. This section of the Alliance Companies' Order No. 2000 compliance filing includes requests by the three new members of the Alliance Companies (ComEd, DP&L, Illinois Power and Ameren) for authorization to transfer ownership and/or functional control of their transmission facilities to the Alliance RTO, pursuant to Section 203 of the FPA. The Alliance Companies request waiver of Part 33 of the Commission's regulations because those regulations are inapplicable to this proposal.

Section 203 of the FPA requires a showing that a proposed transaction is consistent with the public interest. When a disposition of facilities involves a transfer to a regional transmission entity, the Commission does not apply the same criteria as it applies in merger proceedings to determine whether the proposed transaction is consistent with the public interest. For example, in prior cases where the Commission has determined that a proposed transaction involving a transfer of facilities to an ISO, the Commission has focused on the eleven ISO principles.⁹⁰ This filing demonstrates that the proposed Alliance RTO satisfies the Order No. 2000 requirements for an RTO. Formation of the Alliance RTO will eliminate multiple transmission access charges, improve efficiencies in transmission operation and service and provide independent control and operation of the transmission grid within the Alliance region. Accordingly, the proposed transfer of ownership and/or functional control of transmission facilities by ComEd, DP&L, Illinois Power and Ameren to the Alliance RTO is consistent with the public interest.

A. Commonwealth Edison

The amendment to the Alliance Agreement admitting ComEd as a party to the Alliance Agreement is attached as Attachment I.1. to this filing. ComEd previously sought authorization to transfer functional control of its transmission facilities to the Midwest ISO, but on December, 22, 2000, Exelon Corporation, on behalf of its subsidiaries, Commonwealth Edison Company and Commonwealth Edison Company of Indiana, Inc. (“ComEd”), filed a notice of withdrawal of the ComEd transmission system from the Midwest ISO.⁹¹ ComEd’s participation in the Alliance Agreement and its proposed transfer of transmission facilities to the Alliance RTO is conditional upon ComEd’s withdrawal from the Midwest ISO.

⁹⁰New England Power Pool, 79 FERC ¶ 61,374 (1997).

⁹¹Docket No. ER01-780-000.

ComEd is a direct, majority-owned (greater than 99%) subsidiary of Exelon Corporation. ComEd and its affiliates supply wholesale and retail power principally in northern Illinois, and own and operate transmission and distribution facilities in Illinois and Indiana. ComEd owns or operates approximately 3,100 miles of transmission lines and related facilities with voltages from 765kV to 138kV which are used for the transmission of electric energy in interstate commerce. ComEd's transmission facilities were fully identified in its filing with the Commission for approval of reclassification of transmission and distribution facilities under the seven-factor test set forth in Order No. 888.⁹² ComEd requests approval of the proposed transfer of ownership and/or functional control of its transmission facilities to the Alliance RTO.⁹³ ComEd's preliminary list of facilities to be transferred to the Alliance RTO will be provided as a supplement to this filing.

B. Dayton Power and Light

The amendment to the Alliance Agreement admitting DP&L as a party to the Alliance Agreement is attached as Attachment I.2. to this filing.

DP&L is a wholly-owned subsidiary of DPL, Inc. DP&L provides electric service to approximately 500,000 retail customers in West Central Ohio. DP&L operates 1,800 miles of transmission lines and related facilities with voltages from 345kV to 69kV which are used for the transmission of electric energy in interstate commerce. DP&L requests approval of the proposed transfer of ownership and/or functional control of its transmission facilities to the Alliance RTO.

⁹²ComEd's seven-factor classification of transmission and distribution facilities was accepted by the Commission in MidAmerican Energy Company, 90 FERC ¶ 61,105 (2000). The Illinois Commerce Commission had previously approved the reclassification accepted by this Commission.

⁹³The Alliance Companies will supplement this filing with a preliminary list of transmission facilities to be transferred to the Alliance RTO by ComEd.

DP&L requests approval of the proposed transfer of ownership and/or functional control to the Alliance RTO of the transmission assets preliminarily listed in Attachment J. DP&L anticipates that it will file a request for Commission approval of reclassification of its transmission and distribution facilities under the seven-factor test set forth in Order No. 888 later this year. DP&L will conform its list of facilities to be transferred to the Alliance RTO to the reclassification approved by the Commission.

C. Illinois Power

The amendment to the Alliance Agreement admitting Illinois Power as a party to the Alliance Agreement is attached as Attachment I.3. to this filing. Illinois Power previously sought authorization to transfer functional control of its transmission facilities to the Midwest ISO, but on October 13, 2000, Dynegy Inc., on behalf of its wholly-owned subsidiary, Illinois Power, filed a notice of withdrawal of Illinois Power as a transmission owning public utility from the Midwest ISO, effective November 1, 2001.⁹⁴ Illinois Power's participation in the Alliance Agreement and its proposed transfer of transmission facilities to the Alliance RTO is conditional upon Illinois Power's withdrawal from the Midwest ISO.

Illinois Power is a direct, wholly-owned subsidiary of Illinova Corporation which is a direct, wholly-owned subsidiary of Dynegy Inc. Illinois Power owns and operates transmission and distribution facilities in Illinois. The services provided by Illinois Power as a public utility are regulated by this Commission and the Illinois Commerce Commission.

Illinois Power owns or operates approximately 2,829 miles of transmission lines and related facilities with voltages from 345kV to 69kV which are used for the transmission of electric energy in interstate commerce. These facilities were fully identified in Illinois Power's

⁹⁴Docket No. ER01-123-000.

filing with the Commission for approval of reclassification of transmission and distribution facilities under the seven-factor test set forth in Order No. 888.⁹⁵ Illinois Power does not own or control any facilities used for the generation of electric energy. However, affiliates of Illinois Power own and/or control such facilities.

Illinois Power requests approval of the proposed transfer of ownership and/or functional control to the Alliance RTO of the transmission assets preliminarily listed in Attachment J. To the extent the exact list of facilities to be transferred changes due to changes in network configuration, Illinois Power will include a revised list of facilities at the time of actual transfer.

D. Ameren

The amendment to the Alliance Agreement admitting Ameren as a party to the Alliance Agreement is in the process of execution and will be filed as a supplement to this filing as soon as it is available. Ameren previously sought authorization to transfer functional control of its transmission facilities to the Midwest ISO, but Ameren has publicly announced its intention to leave the Midwest ISO and join the Alliance RTO. Ameren's participation in the Alliance Agreement and its proposed transfer of transmission facilities to the Alliance RTO is conditional upon Ameren's withdrawal from the Midwest ISO.

Union Electric Company (dba AmerenUE) and Central Illinois Public Service Company (dba AmerenCIPS) (collectively, "Ameren") are wholly-owned subsidiaries of Ameren Corporation. Ameren provides energy services to approximately 1.5 million electric and 300,000 natural gas customers over 44,5000 square miles in Illinois and Missouri. Ameren owns or operates approximately 5100 miles of transmission lines and related facilities with voltages

⁹⁵Illinois Power's seven-factor classification of transmission and distribution facilities was accepted by the Commission in MidAmerican Energy Company, 90 FERC ¶ 61,105 (2000). The Illinois Commerce Commission had previously approved the reclassification accepted by this Commission.

from 345kV to 138kV which are used for the transmission of electric energy in interstate commerce. These facilities were fully identified in Ameren's filing with the Commission for approval of reclassification of transmission and distribution facilities under the seven-factor test set forth in Order No. 888.⁹⁶

Ameren requests approval of the proposed transfer of ownership and/or functional control to the Alliance RTO of the transmission assets preliminarily listed in Attachment J.

IX. CONCLUSION

As demonstrated above, the Alliance Companies' proposal for the Alliance RTO satisfies the filing requirements of Order No. 2000. The Alliance Companies' request that the Commission approve their proposal. The Alliance Companies also request that the Commission accept the amendments to the Alliance Agreement included in this filing and grant authorization to ComEd, DP&L, Illinois Power and Ameren to transfer ownership and/or functional control of their transmission facilities to the Alliance RTO.

Respectfully submitted,

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⁹⁶Ameren's seven-factor classification of transmission and distribution facilities was accepted by the Commission in MidAmerican Energy Company, 90 FERC ¶ 61,105 (2000). The Illinois Commerce Commission had previously approved the reclassification accepted by this Commission.

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