

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

ILLINOIS POWER COMPANY,)
d/b/a AmerenIP, and)
AMEREN ILLINOIS TRANSMISSION COMPANY)

Petition for (i) a Certificate of Public Convenience and)
Necessity, pursuant to Section 8-406(a) of the Public)
Utilities Act; (ii) a Certificate of Public Convenience)
and Necessity, pursuant to Section 8-406 of the Public)
Utilities Act, authorizing construction, operation and)
maintenance of new 345,000 volt electric lines in)
Monroe, Randolph, St. Clair, and Washington Counties,)
Illinois; (iii) an order pursuant to Section 8-503 of the)
Public Utilities Act approving construction of new)
transmission facilities; (iv) approval of an Agreement)
between affiliated interests; and (v) other relief as may)
be necessary.)

Docket No. 06-0179

**INITIAL BRIEF OF ILLINOIS POWER COMPANY D/B/A AMERENIP
AND AMEREN ILLINOIS TRANSMISSION COMPANY**

Dated: December 29, 2006

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I. SUMMARY OF PETITIONERS' POSITION

Illinois Power Company d/b/a AmerenIP ("AmerenIP") and Ameren Illinois Transmission Company ("Ameren Transco," together, "Petitioners") are seeking (i) issuance by the Illinois Commerce Commission ("Commission") of a Certificate of Public Convenience and Necessity ("Certificate") pursuant to § 8-406 of the Public Utilities Act ("Act"), 220 ILCS 5/8-406, authorizing AmerenIP and Ameren Transco to construct, operate, and maintain new 345 kilovolt ("kV") electric lines and related facilities in Monroe, Randolph, St. Clair, and Washington Counties, Illinois (the "Project"); (ii) issuance by the Commission of a Certificate pursuant to Section 8-406(a) of the Act authorizing Ameren Transco to operate as a public utility; (iii) an order approving the Project pursuant to Section 8-503 of the Act; and (iv) approval, pursuant to Sections 7-101 and 7-102 of the Act, 220 ILCS 5/7-101 & 5/7-102, of a Joint Ownership Agreement ("JOA") between AmerenIP and Ameren Transco.

Petitioners have demonstrated that the Project meets the statutory requirements for a Certificate under Section 8-406. No party has questioned the need for the Project or challenged the granting of a Certificate to AmerenIP. The sole issues in this proceeding are (i) the route of the Baldwin-Rush Line (defined below) from the Village of Baldwin to the Kaskaskia River (no other portion of the routes of the proposed transmission lines is disputed), and (ii) whether to grant Ameren Transco a Certificate to operate as a public utility.

With regard to routing, Staff proposes that Petitioners' preferred Green route for a section of the Baldwin-Rush Line near Baldwin be rejected in favor of an alternative route that surrounds Baldwin on three sides and costs over \$3 million more. Staff's primary justification for this reroute is that it avoids a handful of residences. However, Petitioners' performed a comprehensive balancing of the costs and benefits of its proposed routes to find the best route

option. This balancing included consideration of cost, proximity to residences, proximity to municipalities, agricultural and natural resource impacts, and other factors. Staff has conducted no such balancing, and has not demonstrated that the benefits of its proposed alternate route outweigh the increased cost. Therefore, Staff's proposed alternate route must be rejected.

With regard to the Certificate for Ameren Transco, Ameren Transco is involved in the Project because AmerenIP was concerned that if it undertook financing of the Project on its own, it would face a serious risk of a credit ratings downgrade, which in turn could cause serious operational and financial difficulties. Rather than take such a risk, AmerenIP proposed to undertake the Project with a newly-formed affiliate, Ameren Transco. Under Petitioners' proposal, AmerenIP would own 10% of the Project and Ameren Transco would own 90%. This division of ownership would allow the Project to be built without any meaningful prospect of adverse financial consequences to AmerenIP or its customers.

Staff is the only party that opposes the Certificate for Ameren Transco, and the primary basis for Staff's recommended rejection of a Certificate for Ameren Transco is that Staff believes that AmerenIP can finance 100% of the Project itself. However, Staff's arguments in this respect do not show that the credit ratings of AmerenIP would not be lowered as a result of financing 100% of the Project cost, and thus Staff can neither conclude nor guarantee that significant adverse financial consequences would not result. The fact that AmerenIP's ratings are already under review for possible downgrade to sub-investment grade status demonstrates that there is little "cushion" left in AmerenIP's financial metrics. The effect of the Staff's proposal that AmerenIP finance 100% of the Project is to put AmerenIP and its customers at significant risk of adverse financial consequences just to avoid the use of Ameren Transco as a financing vehicle (which, by contrast, would hold no meaningful risk of adverse consequences for AmerenIP or its

customers). There is no "cost" to AmerenIP of approving the use of Ameren Transco. In fact, there are only benefits, both in terms of enhancing the ability of AmerenIP to maintain its credit ratings and to avoid higher borrowing costs (or worse) which could result from further decline of its ratings. Accordingly, Staff's recommendation is inappropriate, because it places risk on the utility and its customers when that risk is easily avoided, and Ameren Transco should receive a Certificate to allow it to participate in the Project.

II. ARGUMENT

A. **Background**

AmerenIP is a public utility within the meaning of § 3-105 of the Act, 220 ILCS 5/3-105, is an electric utility within the meaning of § 16-102 of the Act, 220 ILCS 5/16-102, and is engaged in the business of supplying electric power and energy throughout its certificated service territory within the State of Illinois. AmerenIP is a wholly-owned subsidiary of Ameren Corporation. Ameren Transco is a newly-formed Illinois corporation that will fund, construct and operate the Project in conjunction with AmerenIP. Ameren Transco is a wholly-owned subsidiary of Ameren Corporation. Ameren Transco seeks a Certificate to operate as a public utility under the Act.

AmerenIP has been notified by Prairie State Generating Company, LLC ("Prairie State"), an independent power producer, that it is developing an electric generating facility near Lively Grove, located along the western edge of Washington County, Illinois ("Prairie State Facility"). Pursuant to Federal Energy Regulatory Commission ("FERC") Order No. 2003, and other tariff requirements, AmerenIP is required to provide nondiscriminatory, standardized generator interconnection service to any generator that requests to connect, and therefore AmerenIP is obligated to supply generator interconnection service to the Prairie State Facility. (Am. Pet., p. 2;

AmerenIP Ex. 1.0, p. 5.) Under the FERC rules, AmerenIP must also ensure that the required upgrades to its transmission system are built to accommodate such interconnection. The Transmission Lines and associated upgrades of the Project related to the request to connect the Prairie State Facility represent the optimal set of transmission upgrades necessary to meet the NERC Reliability Standards and Ameren's Planning Criteria filed with FERC. (AmerenIP Ex. 1.0, p. 25.)

The Project will consist of three new 345 kV transmission lines and related facilities. (Am. Pet., p. 2.) The first line will be approximately one mile in length from the Prairie State Facility south to AmerenIP's existing Baldwin-Mt. Vernon 345 kV line (the "Prairie South Line"). (*Id.*) The second line will be approximately 7.2 miles in length from the Prairie State Facility west to AmerenIP's existing Baldwin-Stallings 345 kV line (the "Prairie West Line"). (*Id.*) These two combined lines will be double circuited, so that the existing AmerenIP lines will be routed in and out of the new switchyard ("Prairie State Switchyard") at the Prairie State Facility. (*Id.*) The third line will be approximately 27.1 miles in length from AmerenIP's Baldwin switchyard, near Baldwin, Illinois, to AmerenUE's Rush Island Power Station, located on the west bank of the Mississippi River directly across from Fults, Illinois (the "Baldwin-Rush Line"). (*Id.*, p. 3.) The proposed transmission lines will be located primarily in AmerenIP's service area near Sparta, Illinois and their general location is shown in AmerenIP Exhibit 5.1 (the three lines are collectively referred to as the "Transmission Lines"). (*Id.*)

B. The Criteria for Issuance of a Certificate of Public Convenience and Necessity Under Section 8-406 of the Act Have Been Met

Section 8-406(b) of the Act, 220 ILCS 5/8-406(b), requires that, in pertinent part:

The Commission shall determine that proposed construction will promote the public convenience and necessity only if the utility demonstrates: (1) that the proposed construction is necessary to provide adequate, reliable, and efficient service to its customers and is the least-cost means of satisfying the service needs of its customers; (2) that the utility is capable of efficiently managing and supervising the construction process and has taken sufficient action to ensure adequate and efficient construction and supervision thereof; and (3) that the utility is capable of financing the proposed construction without significant adverse financial consequences for the utility or its customers.

As explained below, Petitioners have demonstrated that the Project meets these three criteria, and therefore the public convenience and necessity require that the Project be constructed by Petitioners.

1. The Proposed Construction Is Necessary To Provide Adequate, Reliable, and Efficient Service to Prairie State

Petitioners' testimony demonstrates that the Transmission Lines and the Project are necessary to provide reliable interconnection service to the Prairie State Facility. (*See* AmerenIP Ex. 1.0, pp. 25-26; ICC Staff Ex. 1.0, p. 8.) Staff witness Linkenback testified that the Transmission Lines are necessary to provide adequate and reliable service to the Prairie State Facility (ICC Staff Ex. 1.0, pp. 7-13), and no party has questioned the need for the Project.

Petitioners have demonstrated that the Project is necessary through testimony detailing the comprehensive study process that determined that the Transmission Lines represent the best option for connecting the Prairie State Facility. To begin with, Petitioners' planning process (undertaken through Ameren Services Company ("AMS")) includes compliance with NERC Reliability Standards and adherence to the FERC-filed Ameren Transmission Planning Criteria and Guidelines. (AmerenIP Ex. 1.0, p. 6.) These standards and criteria are used to evaluate the reliability of the Ameren bulk electric system and to assess what network upgrades would be

required to meet the needs of an interconnection customer requesting to connect to the Ameren transmission system, and other usages of the transmission system. (*Id.*)

A number of studies were performed, both independently and jointly, by Illinois Power Company ("Illinois Power") prior to its acquisition by Ameren Corporation, AMS, and the Midwest Independent Systems Operator ("MISO") to assess the network upgrades necessary for interconnection of the Prairie State Facility to the AmerenIP transmission system and determine the best option for connecting the Prairie State Facility. The Joint Study, described in more detail below, considered six alternative configurations and concluded that the proposed transmission configuration, as shown in AmerenIP Exhibit 1.1, would adequately accept the Prairie State Facility's power output, would provide the necessary transmission system reliability, and would be the least cost alternative among the six alternatives considered. (AmerenIP Ex. 1.0, p. 8.) This comprehensive study process, described below, produced the option that is now referred to as the Project.

In July 2001, Peabody Energy (the parent company of Prairie State) submitted a request to Illinois Power (now AmerenIP) to perform a facility study for connecting up to 1,500 MW of coal fired generation to the Illinois Power transmission system. (AmerenIP Ex. 1.0, p. 9.) The facility study performed by Illinois Power personnel, described in a report dated October 2001 (AmerenIP Exhibit 1.2), assumed a plan in which Peabody Energy sought to connect the Prairie State Facility to Illinois Power's Baldwin switchyard via two radial 345 kV lines. (*Id.*) The load flow analysis part of the facility study identified various network upgrades to accommodate the Prairie State Facility, including a Baldwin – Rush Island 345 kV line. (*Id.*) The stability analysis part of the facility study also identified a need for this line and some terminal equipment upgrades at the Baldwin switchyard. AMS was not a participant in this facility study. (*Id.*)

Illinois Power evaluated the transmission system impacts of new generation via facility studies according to its Planning Criteria as submitted in the annual FERC 715 filing.

(AmerenIP Ex. 1.2 p. 10.) As described in the October 2001 study report, Illinois Power recommended system upgrades on the Illinois Power system to terminate two 345 kV lines from the Prairie State Facility to the Baldwin Power Station, and a number of reinforcements on the Illinois Power system to mitigate constraints identified in the load flow and stability analyses, including a new 345 kV line from the Baldwin Power Station to the Rush Island Power Station.

(AmerenIP Ex. 1.0, p. 12.) The report also provided cost estimates for the above upgrades, not including the costs of the two 345 kV radial lines, the Prairie State Switchyard cost or costs of the terminal equipment at Rush Island Power Station to terminate the new Baldwin to Rush Island 345 kV line. (*Id.*) After initial review, AMS conducted its own study to assess whether the proposed new line, Baldwin to Rush Island 345 kV, would have a negative impact on the reliability of the Ameren transmission system. (AmerenIP Ex. 1.0, p. 13.)

Due to the tightly integrated nature of the Illinois Power and Ameren utility systems, it was decided that the Joint Study would be the best way to provide a comprehensive review of the system impact of the Prairie State Facility and to determine an optimal set of network upgrades necessary to provide reliable outlet capability. (AmerenIP Ex. 1.0, p. 14.) In addition, the Joint Study process provided the opportunity to conduct the study in a coordinated fashion where the details, assumptions and results could be discussed as the study progressed. (*Id.*) This approach allowed the initial work of Illinois Power to be combined with the later suggestions by AMS into a coordinated review that jointly analyzed system impacts on the collective utilities' system requirements. (*Id.*) The Joint Study process saved time due to involvement of AMS, Illinois Power and the customer (Prairie State) throughout the process. (*Id.*)

Discussions between all relevant parties (AMS, Illinois Power, and Prairie State) resulted in a decision to explore six options for connecting the Prairie State Facility. (AmerenIP Ex. 1.0, pp. 15-16.) Plans 1 through 5 were based upon the configuration where two new 345 kV lines would directly connect the Prairie State Switchyard to the Baldwin switchyard. (*Id.*) This is the same configuration Illinois Power used in the October 2001 facility study, except the radial connection at the Prairie State Switchyard was reconfigured to be a network connection by adding circuit breakers at the Prairie State Switchyard. (*Id.*) As determined earlier, however, this configuration would require an additional outlet line from the Baldwin switchyard. (*Id.*) Therefore, five alternatives were considered for an additional outlet line from the Baldwin switchyard. Plans 1 through 5 considered additional 345 kV lines ranging from 21 miles to 50 miles in length from the Baldwin switchyard to the Rush Island switchyard, Dupo Ferry substation, Stallings substation, Cahokia substation, or W. Mt. Vernon substation. (*Id.*) The connection of the new 345 kV line from Baldwin switchyard to Rush Island, Dupo Ferry, or Cahokia offered connection to the 345 kV facilities located to the west of the Baldwin switchyard. (*Id.*) The connection of the new 345 kV line from the Baldwin switchyard to Stallings or W. Mt. Vernon offered connection to the EHV facilities located to the north or east, respectively, of the Baldwin switchyard. (*Id.*) Plan 6 replaced the radial connection with two double circuit network supplies created by routing two existing 345 kV lines in the area, the Baldwin-Stallings and Baldwin - W. Mt. Vernon lines, into and out of the proposed Prairie State switchyard. (*Id.*)

The Joint Study was conducted in two phases. In Phase I of the Joint Study, all six plans were first evaluated by performing power flow analysis and limited stability analysis. (AmerenIP Ex. 1.0, pp. 17-18.) The configuration in Plan 6 was judged to be superior for the

Prairie State Facility connection as it provided four outlet lines, versus the two outlet lines provided in Plans 1 through 5. (*Id.*) In addition, the total length of the double circuit outlet lines was shorter in Plan 6, at approximately 9 miles, versus 15 miles in Plans 1 through 5. (*Id.*) All six configurations required additional network upgrades to mitigate thermal overloads. The various network upgrades were assessed based on total cost. (*Id.*) As the result of this analysis, the in and out connection of the Prairie State Switchyard identified as Plan 6 and a Baldwin-Rush Island 345 kV line was selected as the best overall set of network upgrades. (*Id.*) The original Plan 6 with the addition of the Baldwin-Rush Island 345 kV line was labeled as modified Plan 6 or Plan 6M. (*Id.*; AmerenIP Exhibit 1.11.)

Cost estimates were developed for all seven plans. (AmerenIP Exs. 1.0, p. 19; 1.12.) The cost estimates of the Plans 3, 4, and 5 were \$89,100,000, \$ 68,580,000, and \$113,800,000, respectively. (*Id.*) Based on these cost estimates, Plans 3, 4, and 5 were eliminated from further consideration due to higher costs compared to other plans. (AmerenIP Ex. 1.0, p. 19.) Plan 2 was later dropped because it involved a connection to proposed but uncertain major network upgrades on the Illinois/Missouri interface, independent of the Prairie State project. (*Id.*) These upgrades included a 345/138 kV substation addition, 8 miles of 345 kV line, and 138 kV line rearrangement and reinforcements in the Dupo area. (*Id.*) If the cost of these upgrades had been assigned to this project, the cost estimate for Plan 2 would have increased significantly, by approximately \$28,000,000. (*Id.*) Based on these costs, it was determined to further evaluate only Plan 1 and Plan 6M. (*Id.*)

In Phase II of the Joint Study, Plans 1 and 6M were further evaluated from the power flow, stability, and short circuit (or fault) perspective. (AmerenIP Exs. 1.0, p. 20; 1.13.) The estimated costs for all the upgrades, including cost estimates for the Prairie State Switchyard,

were included in a total estimated cost for each plan. (AmerenIP Ex. 1.0, p. 20.) The total estimated cost for Plan 1 was about \$77,007,224 versus \$72,931,000 for Plan 6M. (*Id.*) Based on a comparison of the total costs of the two plans and consideration of the robustness offered by Plan 6M with the additional outlet lines, it was the consensus of all parties that Plan 6M should be the final recommended plan. (*Id.*) Thus it was the consensus opinion of the Joint Study group participants that the configuration in Plan 6M was more robust than Plan 1. (AmerenIP Ex. 1.0, p. 22.)

AMS also performed additional power flow, short circuit, and stability studies for the Prairie State connection in 2005, referred to as the "G495" Study. (AmerenIP Ex. 1.0, pp. 23-24.) The G495 study was performed in response to a request by Peabody Energy to increase the Prairie State Facility output by 150 MW from the original request of 1500 MW, to a total net output of 1650 MW. (AmerenIP Ex. 1.0, p. 24.) MISO formed an ad-hoc study group for these studies and provided the initial power flow models for the studies. (*Id.*) The models were reviewed and agreed to by the ad-hoc study group members consisting of SIPC, CWLP, LGEE, Big Rivers, Cinergy, TVA, AMS and MISO. (*Id.*) Due to the relatively small increase in output (150 MW), Plan 6M was selected for this study to verify whether or not it would work for the additional capacity. (*Id.*) The conclusion of the power flow study was that the increased capacity of the Prairie State Facility would not require any additional transmission upgrades, and the stability study identified some necessary changes in breaker-failure relay timings at the Baldwin switchyard. (*Id.*)

The new Baldwin-Rush Line mitigates the thermal and stability constraints imposed by the proposed 1650 MW Prairie State Plant in Washington County, Illinois. (AmerenIP Ex. 1.0, p. 26.) While these constraints can be mitigated by implementing other alternatives,

these alternatives would require costlier upgrades. (*Id.*) Plan 6M, which includes the Baldwin-Rush Line, is also the only alternative which has been studied at the 1650 MW level. (*Id.*) All the other alternatives have been studied at only 1500 MW level. Thus, based on the various studies performed over the last several years and the alternatives considered, the proposed Project - two in/out outlet lines and the Baldwin-Rush Line - offers the best transmission plan for the Prairie State Plant. (*Id.*)

AmerenIP also analyzed alternative routes for the Prairie West Line and the Baldwin-Rush Line to determine the best route option. (AmerenIP Exs. 3.0., pp. 5-7; 6.0, p. 4; 3.2; 6.1.) (No alternate routes were considered for the Prairie South Line because the primary route impacts only one landowner, Prairie State.) As Petitioners' testimony shows, the primary routes were selected because they resulted in the best balance of low impacts to private property and environmentally sensitive areas with cost efficiency considerations. (*Id.*; AmerenIP Ex. 9.0, pp. 1-7, 10-14, 17-22.)

The route analysis found that the primary Baldwin – Rush Line (Green) route is one of the least cost routes, it impacts the least amount of agricultural land, it does not affect any registered centennial or sesquicentennial farms, and it crosses the fewest number of creeks and ponds. (AmerenIP Ex. 3.0, p. 5.) This route maintains an equal distance away from the incorporated communities of Red Bud and Ruma in Randolph County. (*Id.*) This route also avoids the Fults Hill cemetery and provides a more natural buffer to lands controlled by the State of Illinois and designated by the U.S. Department of Interior as a National Natural Landmark. (AmerenIP Ex. 6.0, p. 4.) Although the first alternate Baldwin – Rush Line (Brown) route avoids traversing through the incorporated community of Baldwin and affects the fewest number of occupied houses and buildings within 200 feet of centerline, the first alternate route is the

most expensive, affects the greatest number of centennial farms, has the largest number of major creek crossings, crosses the most karst topography, has a portion of the route in close proximity to a no build zone, traverses in close proximity to Saltpeter Cave, which could pose potential environmental impacts within the cave, and has the largest portion of line within a five mile proximity to state park and conservation areas. (AmerenIP Exs. 3.0, p. 5; 6.0, p. 4.)

The second alternate Baldwin – Rush Line (Red) route also has a number of disadvantages: it affects the greatest amount of agricultural land; it crosses mid parcel through a large centennial farm; it parallels the northern portion of the incorporated community of Ruma within a quarter mile; it has similar quantities of creek and pond crossings as the first alternate; it comes in close proximity to a wetlands area, it is one of the longest in length; it crosses a Late Woodland village and burial site that was evaluated as potentially eligible for the National Register of Historic Places; and it angles across the Mississippi River increasing the crossing span by approximately 400 feet. (AmerenIP Exs. 3.0, pp. 5-6; 6.0, p. 4.) These disadvantages outweighed the advantages of this route: it avoids the incorporated communities of Baldwin and Fults; it affects the least number of landowners; and it crosses or parallels the least amount of designated "flood plain" area. (*Id.*)

The route analysis found that the proposed primary Prairie West Line (Green) route is one of the least cost routes, affects the fewest number of property owners, affects the fewest number of structures within 200 feet of the proposed centerline, maintains the greatest distance from the incorporated community of Marissa, crosses the least number of creeks, is the shortest in length, and maintains the greatest distance from an existing 345 kV transmission line. (AmerenIP Ex. 3.0, p. 6.) These advantages made this route superior to the first alternate Prairie West Line (Brown) route, which, although it follows an existing AmerenIP 345 kV line and it

has fewer buildings or structures within 200 feet of the centerline, is also the most expensive, the longest in length, provides a limited work area during construction, and crosses through the incorporated town of Marissa. (AmerenIP Ex. 3.0, pp. 6-7.) The disadvantages of the second alternate Prairie West Line (Red) route were also significant: this route parallels the boundary of incorporated Marissa; it affects the greatest number of buildings or structures within 200 feet of proposed centerline; and it crosses the greatest number of creeks and ponds with poor accessibility for construction and future line maintenance. (AmerenIP Ex. 3.0, p. 7.) These disadvantages outweighed any potential advantages for this route. (*Id.*)

As a result of these route analyses, in each case the primary route was selected as preferred. As discussed below, none of the alternative routes proposed by Staff or Interveners are justified. Therefore, the primary proposed (Green) routes for the Baldwin-Rush Line, the Prairie West Line, and the Prairie South Line represent the best option for providing adequate, reliable and efficient transmission service.

2. The Proposed Transmission Lines Represent the Least Cost Option

As described above, the option selected during the planning process for the connection of the Prairie State Facility (Plan 6M) was the least cost option. (AmerenIP Ex. 1.0, pp. 20-21.) Staff witness Linkenback agreed that Plan 6M is the "least-cost means of satisfying the service needs of AmerenIP's customers" (ICC Staff Ex. 1.0, pp. 27-28) (although, as discussed below, Mr. Linkenback's proposed route around the Village of Baldwin would increase the Project's cost by over \$3 million). No other party challenged the proposed Project on the grounds that it was not the least cost option. In addition, as described above, the specific routes selected were chosen based in part on cost efficiency considerations. Therefore, Petitioners have demonstrated

that the Project represents the least cost option for connecting Prairie State to the transmission system.

3. Petitioners Are Capable of Efficiently Managing and Supervising the Project's Construction Process

Petitioners are capable of efficiently managing and supervising construction of the proposed lines. The JOA provides that AmerenIP and Ameren Transco will have full management control of the construction of the Project, and therefore will be able to ensure that the Project will be constructed in accordance with all applicable federal and state regulations and orders of the Commission, including 83 Ill. Admin. Code Part 305, and the National Electrical Safety Code. Staff agreed that Ameren is currently capable efficiently managing and supervising the Project's construction. (ICC Staff Ex. 1.0, p. 29.)

IBEW initially expressed concerns about the personnel who would ultimately undertake the construction of the Transmission Lines. (IBEW Ex. 2.0., p. 2.) However, IBEW's concerns in this regard have been resolved, and IBEW now agrees that, "by committing to use personnel-whether in-house or contractor personnel-who actually possess the training and qualifications to comply with the standards of the National Electrical Safety Code when constructing and maintaining the proposed transmission lines and related facilities" (*id.*, p. 6), Petitioners meet the requirements of Section 8-406(b) with regard to management of construction of the lines. (*Id.*, pp. 2-7.) No other party has questioned Petitioners ability to construct the Project. Therefore, the Commission should find that Petitioners are "capable of efficiently managing and supervising the construction process and has taken sufficient action to ensure adequate and efficient construction and supervision thereof." 220 ILCS 5/8-406(b).

4. AmerenIP and Ameren Transco Are Jointly Capable of Financing the Proposed Construction Without Significant Adverse Financial Consequences for AmerenIP or its Customers

Under Section 8-406 of the Act, a utility must demonstrate that the project it intends to undertake will not have "significant adverse financial consequences for the utility or its customers." 220 ILCS 5/8-406(b)(3). In this case, AmerenIP was concerned that if it undertook the Project on its own, it would face a serious risk of a credit ratings downgrade, which in turn could cause serious operational difficulties.

Rather than take such a risk, AmerenIP proposed to undertake the Project with a newly-formed affiliate, Ameren Transco. Under Petitioners' proposal, AmerenIP would own 10% of the Project and Ameren Transco would own 90%. This division of ownership would allow the Project to be built, bringing much needed generation on-line, without raising any meaningful prospect of adverse financial consequences to AmerenIP or its customers.

The only party opposing this solution was the Staff, who dismissed AmerenIP's concerns about a credit downgrade, argued that AmerenIP was better positioned to handle the financial consequences of the Project than Ameren Transco, and contended that the Staff was too busy to regulate any more companies. Petitioners leave the Staff's arguments to the Commission to evaluate. Petitioners do not presume to tell the Commission or the Staff how to marshal or manage resources, and have little to offer on this point. However, Petitioners do strenuously disagree with Staff's arguments regarding the potential, adverse financial consequences of the project for AmerenIP.

Petitioners begin with a belief that is in the best interests of all that the generating station be completed and brought on line. The Commission is well aware of the need of Illinois electric

utilities to purchase generation, since in the main they do not own generation capacity and rely on the wholesale market for their power supply. It follows, Petitioners believe, that the more generation there is, the more aggressive competition will be, and the better the prices that the utilities will be able to obtain on behalf of Illinois consumers.

Accordingly, when approached by Prairie State, the generating project developer, which is not affiliated with AmerenIP, AmerenIP aggressively explored means by which it could complete the Project without jeopardizing service to its customers in any way. AmerenIP could not turn down the developer, even though AmerenIP had very real concerns about its ability to financially undertake the Project. Instead, Ameren Corporation proposed the formation of a new utility, Ameren Transco, to own 90% of the Project.

Before addressing the specifics of AmerenIP's concerns and how its proposal resolves them, or addressing Staff's analysis of the proposal, we think it important to note that the Staff never considered the importance of completing the generating project to Illinois consumers. Staff witness Hardas admitted that he did not take the desirability of adding new generation facilities into account in any respect in developing his analysis, and he was not aware of any position taken by the Staff on this issue. (Tr. 179 (Hardas)). This illuminates a fundamental difference between the Petitioners' approach and that of the Staff: because of the importance of the generation addition, AmerenIP does not wish to assume any meaningful risk that the Project not be completed, whereas the Staff is willing to gamble that things will turn out all right, and assume some level of risk that they do not.

Mr. Lee Nickloy explained that AmerenIP cannot meet the statutory test of Section 8-406, 220 ILCS 5/8-406, which requires a finding that the utility is capable of financing the proposed

construction without significant adverse financial consequences for the utility or its customers. Mr. Nickloy explained that this is so because AmerenIP will receive no incremental cash flows by which to cover or offset the debt incurred for construction of the Project, among other cash flow challenges. (AmerenIP Ex. 4.0, p. 4.) The absence of incremental cash flows has the effect of negatively pressuring key financial measures which are important for the rating agencies' quantitative analyses of AmerenIP's financial condition and the assignment of credit ratings. (*Id.*) Further, the recent downgrade of AmerenIP's credit ratings means it has less capacity to absorb additional debt before its ratings could be downgraded below investment grade. (*Id.*) AmerenIP's current senior secured debt rating from Moody's is Baa2, only one notch above sub-investment grade.

Mr. Nickloy and Mr. Hardas agreed that a downgrade of AmerenIP's credit ratings to sub-investment grade would be both a significant and an adverse impact on AmerenIP. (AmerenIP Ex. 4.0, p. 4; Tr. 180-81 (Hardas).)

The next ratings downgrade at AmerenIP would result in the company receiving a sub-investment grade (or "junk") rating. Such ratings would trigger significant collateral requirements from suppliers of critical commodities such as natural gas and power. Sub-investment grade ratings would also severely limit AmerenIP's ability to finance deferred purchased power costs as part of any plan to phase-in higher electric power costs for its customers as AmerenIP has proposed (AmerenIP Ex. 11.0, pp. 6-7), and the Commission has approved.

The results of a downgrade of AmerenIP's credit ratings could include, but would not necessarily be limited to, higher borrowing and financing costs, more restrictive debt covenants,

limited and/or restricted access to capital, and suppliers of power and natural gas requiring credit enhancement/collateral in the form of cash deposits/margin and letters of credit. (AmerenIP Ex. 4.0, pp. 4-5; Tr. 182 (Hardas)). All of these events could have significant adverse financial consequences to both AmerenIP and its customers.

Indeed, Mr. Hardas admitted that a downgrade to sub-investment grade could cause a cash crisis at a utility. (Tr. 182-83 (Hardas).) A cash crisis could lead to a utility ultimately being unable to pay for the electricity or gas that its customers require. (Tr. 184 (Hardas).) And that could lead to service interruptions, which the Staff witness readily acknowledged, would not be "desirable." (Tr. 184 (Hardas).)

The pressure on AmerenIP's credit ratings from the Project arises from the treatment of construction advances. These advances are reflected as loans, i.e., debt, on the balance sheet of the legal entity receiving such advance, and these advances accrue interest. (AmerenIP Ex. 4.0, p. 6.) There is no cash flow associated with the Project until it goes into service, however, so the utility's books reflect increased debt with an interest cost, but no associated cash flow. (*Id.*, pp. 6-7.)

AmerenIP can withstand shouldering 10% of the cost of the Project. The key to completing the Project is having Ameren Transco shoulder the remainder. Ameren Transco would be a special purpose entity formed to construct a portion of the Project, and, during the construction phase of the Project, this entity would not have any customers. (AmerenIP Ex. 4.0, p. 7.) Currently, Ameren Transco has no other service obligations; it provides no other service but to construct the Project; and it has no current need to make or fund other capital expenditures to maintain other assets. (*Id.*) In addition, during the construction phase, none of the entity's

debt repayment or interest obligations related to the Project would become due and payable. (*Id.*) This would be different if Ameren Transco had other outstanding securities and/or was rated, but it will not. In other words, there could not be any adverse consequences to Ameren Transco resulting from the high degree of debt it will hold. The entity doesn't have any other borrowing needs, its funding is provided in advance by Prairie State, and there are no other external investors.

Staff challenges the Petitioners' proposal in two respects: it argues both that AmerenIP faces no meaningful risk of a credit downgrade, and that Ameren Transco is too weak financially to undertake the Project. Neither position is valid.

Staff's view of the possible effect of the Project is based entirely on its assessment of the "metrics" associated with Standard & Poors' ("S&P") credit ratings. Mr. Hardas conducted an analysis using S&P's ratio guidelines (which ignores AmerenIP's current financial condition and ratings) and by implying – but not directly asserting – that ratings agencies will treat the debt associated with the Project differently from "conventional" debt. Thus, he concluded that AmerenIP's credit ratings will not be affected by financing all of the Project costs.

Mr. Hardas's evaluation is at odds with reality, and is more hope than analysis. He argued first that AmerenIP can finance 100% of the Project cost because the estimated cost of the proposed construction is "small in comparison to AmerenIP's total utility plant and revenue for electric operations." (ICC Staff Ex. 2.0, p. 4.) He then argued that adjusting AmerenIP's financial ratios to reflect the full Project cost would produce resulting financial ratios consistent with S&P's ratio guidelines for A and BBB rated utilities with a business profile score of "4". Thus, he concluded that AmerenIP's resulting financial ratios are consistent with S&P credit

ratings of A and BBB. Lastly, he dismissed the level of Project-related debt on AmerenIP's books, because, in his view, "the project obligations would be less risky than conventional debt." (ICC Staff Ex. 2.0, p. 5.) He then implied that a rating agency would reflect this claimed lower risk in its credit assessment.

Mr. Nickloy explained that there are at least three reasons why Staff's analysis is off-base.

First, Mr. Hardas' analysis presumes that AmerenIP is starting from a position of credit strength. To the contrary, AmerenIP's prospective financial condition and credit ratings have been severely weakened over the last several months. Its credit ratings are currently barely investment grade. Moody's currently rates AmerenIP's senior secured debt Baa2 and has assigned an issuer rating of Baa3 (their lowest investment grade rating). S&P currently rates AmerenIP's senior secured debt BBB- (their lowest investment grade rating), and the Company's issuer rating from S&P is also BBB-. AmerenIP's ratings from Moody's are under review for possible downgrade and its ratings from S&P are under negative credit watch – both indicating a very real threat of further ratings downgrades in the near term. AmerenIP's status as an investment grade rated utility is in dire peril. Any further weakening of its financial condition could produce a sub-investment grade rating. (AmerenIP Ex. 11.0, p. 3.)

Second, by definition, AmerenIP's key financial metrics would be harmed by the incremental capital expenditures and debt (without offsetting incremental cash flow) associated with AmerenIP's financing and construction of 100% of the Project. Although Mr. Hardas may argue that he does not believe such degradation would cause a ratings downgrade, his analysis is based solely on the use of S&P's ratio guidelines. These guidelines are not helpful or instructive in attempting to presuppose any ratings result, or lack of a result, at Moody's. Also, S&P's

ratings approach considers "Ameren" as a consolidated whole and does not focus specifically on individual legal entities as is the case with Moody's. (AmerenIP Ex. 11.0, p. 4.)

Of course, ratios alone aren't the primary determinant of credit ratings. However, a decline in key financial measures should be cause for concern and could give rise to a ratings downgrade. The erosion in metrics may not be material, or such erosion may be mitigated by other factors, but these are factors that would be considered by the rating agencies in making their ratings decisions. (AmerenIP Ex. 11.0, p. 4.)

Third, there is no reason to believe that any ratings agency would treat the debt associated with the Project any differently from so-called "conventional debt." Mr. Hardas cites no statement of any ratings agency, nor provides any example of any instance in which any such distinction was made. Indeed, the debt that accrues to fund Project expenditures bears interest as stipulated by FERC. It is important to note here the distinction of risk differential between/among different forms of indebtedness from the perspective of the issuer/obligor versus that of the investor/lender. Even if it were true that there were differences in risk between the indebtedness related to the funding of the Project expenditures and AmerenIP's other debt, the rating agencies will consider the Company's total amount of debt from the lender's perspective. There is no distinction between FERC-mandated debt and any other. For that matter, it could be argued that there are differences in risk between AmerenIP's senior secured debt, its loan obligations related to its pollution control indebtedness and its transitional funding notes. This doesn't change the fact that in each instance AmerenIP has a future repayment liability associated with this debt and that these are liabilities which are accounted for as debt, and are thus considered as debt in the ratings agencies' assessment of the credit quality of AmerenIP. The funding for the Project expenditures will be accounted for in a similar manner and reflected on

AmerenIP's balance sheet along with along with all of its other debt. In the case of both this and AmerenIP's other indebtedness, these are funds provided to finance AmerenIP's assets whether completed or under construction. If AmerenIP weren't receiving advances/debt from Prairie State to fund the Project costs, it would incur debt from some other source to do so. (AmerenIP Ex. 11.0, pp. 4-5.)

Staff simply cannot validly conclude that the credit ratings of AmerenIP would not be lowered as a result of financing 100% of the Project cost, and thus cannot conclude nor guarantee that significant adverse financial consequences would not result. Staff cannot change the fact that adding debt without offsetting that debt with incremental cash flow will result in degradation of key ratings measures. Staff cannot speak for the rating agencies and thus cannot guarantee any ratings outcome. Staff would have no way of knowing exactly how much "cushion" remains for erosion of AmerenIP's financial metrics before a downgrade would result. The fact that AmerenIP's ratings are already under review for possible downgrade and negative credit watch tells us that the answer to this is likely "not much." (AmerenIP Ex. 11.0, pp. 5-6.)

Staff's assessment of the ability of Ameren Transco to fund the Project is even less sound. Staff simply takes the position that, however weak AmerenIP may be, Ameren Transco is even weaker. That, however, is not the test. The test is what are the financial "consequences." Here, as discussed above, there are no consequences for any weakening of Ameren Transco's position. By bringing Ameren Transco into the Project, AmerenIP is effectively shifting risk away from its customers at no cost.

Staff admits that it did not consider what the consequences of Ameren Transco's participation might be. (Tr. 195-96 (Hardas).) Staff's best effort in this regard was the following weak exchange on redirect:

Q. Mr. Hardas, is there any reason to believe there would be different adverse consequences for a downgrade to Ameren Transco than there would be for any other entity?

A. No.

(Tr. 202 (Hardas).)

Setting aside the fact that it is not "any other entity," but a specific Illinois utility, AmerenIP, at issue, there are several reasons why Ameren Transco would experience different (*i.e.*, no) adverse consequences. First, it has no customers during the construction phase. Unlike AmerenIP, it is not buying electricity or gas for resale to its other customers. It is not obligated under supply contracts that could give rise to collateral calls. It is not trying to finance a deferred payment plan approved by the Commission to phase in a rate increase. Those reasons may not have occurred to the Staff when it conducted this part of its analysis, but they are at the core of the Petitioners' proposal – they are why Petitioners are proposing this arrangement in the first place, and merit more than a casual dismissal.

The effect of the Staff's proposal is to put AmerenIP and its customers at significant risk of adverse financial consequences in order to avoid the use of Ameren Transco as a financing vehicle, which, by contrast, would hold no meaningful risk of adverse consequences for AmerenIP or its customers. There is no "cost" to AmerenIP of approving the use of Ameren Transco. In fact, there are only benefits, both in terms of enhancing the ability of AmerenIP to maintain its credit ratings and to avoid higher borrowing costs (or worse) which could result

from further decline of its ratings. Accordingly, Staff's recommendation is inappropriate, because it places risk on the utility and its customers when that risk is easily avoided.

There is a final reason to approve the Petitioners' proposal. Ameren issued \$1.3 billion of common equity for the purpose of acquiring and recapitalizing Illinois Power Company. The result of this was a restoration of the financial health of AmerenIP, returning it to investment grade status and providing it access to adequate working capital and sources of long-term capital. The maintenance of AmerenIP's investment grade ratings has been a high priority for Ameren. As a result of ratings downgrades at AmerenIP and negative pressure on AmerenIP's key financial measures, Ameren has undertaken actions to prevent AmerenIP's ratings from slipping back into sub-investment grade. AmerenIP has not paid any common dividends during 2006. The proposal to form Ameren Transco to alleviate financial harm at AmerenIP (yet allow for completion of the Project) is yet another example of Ameren's efforts to ensure the financial viability of AmerenIP but also support the Project. (AmerenIP Ex. 11.0, pp. 6-7.) Staff's opposition to the proposed use of Ameren Transco ignores this.

C. Mr. Linkenback's Proposed Reroute Around the Village of Baldwin Is Not Justified

Staff witness Linkenback proposed an alternate route for the Baldwin-Rush Line that goes to the north and east of Baldwin and encircles the Village of Baldwin on three sides. (ICC Staff Ex. 1.0, pp. 19-23; AmerenIP Ex. 18.0.) However, Mr. Linkenback's proposed reroute does not represent the best or most cost-effective route for the Baldwin-Rush Line. (AmerenIP Ex. 9.0, p. 2.) Petitioners' primary "Green" route is 3.1 miles shorter than Mr. Linkenback's proposed route adjustment around the Village of Baldwin. (*Id.*, p. 3.) Petitioners are obligated to find the least cost method of providing service, and Mr. Linkenback's route adjustment would mean approximately \$ 3-3.79 million additional dollars cost for the Project. (*Id.*)

Although Mr. Linkenback's route may be in proximity to slightly fewer residences, the communities' needs along the entire route cannot be outweighed by few individual landowners. The selection of a route must consider and balance the route's overall costs and benefits. The Commission should therefore consider whether the additional \$3.79 million cost, a significant sum, creates any offsetting benefits. Analysis of Mr. Linkenback's proposal shows that there are few benefits and a number of detriments from the Staff route modification. (AmerenIP Ex. 14.0, p. 2.) This adjustment would also impact the Project's schedule, which is customer driven, as cost and construction time would be directly related to the additional mileage. (AmerenIP Ex. 9.0, p. 3.)

By routing the "Green" route along the western fringes of incorporated Baldwin, instead of using Mr. Linkenback's route, Petitioners avoid encompassing Baldwin on three sides of town - north, east, and south. (AmerenIP Ex. 9.0, p. 2.) Petitioners' proposed route also recognizes that the town of Sparta is in the process of constructing two new motels, which are the first motels built in Randolph County in over 20 years, according to the Randolph County Development Department (primarily due to the new World Shooting and Recreational Complex, which is approximately 5 miles east of Baldwin and 3 miles north of Sparta), and the "Green" route avoids interfering with this development. (*Id.*) Mr. Linkenback, by contrast, is of the opinion that the World Shooting and Recreational Complex will not bring the amount of commercial business to the area that Petitioners feel it will. (*Id.*) This opinion conflicts with that of certain Interveners, who expect development to extend east of Baldwin to the World Shooting and Recreational Complex, and the public at large as expressed at the public informational workshop in December 2005. (*See* Guebert Statement of Pos., p. 2.) Mr. Linkenback's route adjustment may also interfere with expansion of Baldwin's water treatment plant to the east.

(AmerenIP Ex. 9.0, p. 3.) Mr. Linkenback did not provide evidence that future community growth, and in particular commercial growth, would not be to the east. By contrast, Petitioners made a good faith effort to address the public concerns that it understood the residents of Baldwin to have by routing the line to the west side of town. (AmerenIP Ex. 14.0, pp. 2-3.)

Mr. Linkenback's proposal has other disadvantages. His proposed alternative requires more infrastructure, which results in a greater visual impact for the public as well as a greater impact on the landscape in general. (AmerenIP Ex. 14.0, pp. 1-2.) The line lengths for the proposed Green route versus the Staff's proposed route are 4.22 miles versus 7.38 respectively. (AmerenIP Ex. 14.0, pp. 3-4.) The affected portion of agricultural cropland and pasture for these two routes would be 61.1 acres versus 121.3 acres, respectively. (*Id.*) Environmentally, the soil erosion level in sections 28, 27, and 26 of the Staff's reroute are higher than along the preferred Green route. (*Id.*) This would lead to additional preventative measures when applying for a storm water runoff permit, which is required for construction. (*Id.*) Also, the Staff's re-route would affect four more land parcels than the Green route. (*Id.*) Given the high cost of Mr. Linkenback's proposal, its negative impacts, and the limited evidence of any benefit, Mr. Linkenback's proposal for re-routing the Baldwin-Rush Line should be rejected.

D. Other Routes Proposed by the Interveners Are Not Justified

1. Prange Black Route

Intervener Merrill Prange proposed an alternative route for the Baldwin-Rush Line known as the "Black" route. (Prange Statement Pos., pp. 2-3.) Mr. Prange states he understands that the "put it in his yard, not in mine" argument solves nothing and accomplishes less. (*Id.*, p. 1.) However, Mr. Prange's alignment does exactly that. (AmerenIP Ex. 9.0, p. 13.) Mr. Prange is a resident of Fults and his proposed alignment is completely removed from the proximity of

the town. (*Id.*) Mr. Prange has chosen to examine his proposed transmission line's proximity to homes using one-eighth and one-quarter mile measurements, but Petitioners cannot reproduce Mr. Prange's results. (*Id.*) This is due, at least in part, to his inaccurate representations of Petitioners' route alignments. (*Id.*) Therefore, Petitioners question whether the Black route really would be in proximity to fewer residences. (*Id.*) Petitioners also note that Staff could not corroborate Mr. Prange's information. (ICC Staff Ex. 1.0, pp. 25-26.)

Moreover, several Interveners whose property would be affected by the Black route, including Interveners Richard and Eugene Stadter, Martha Church, Margarete Schrader, Thomas and Annette Steibel, and Anthony and Rachel Steibel, have expressed opposition to the route, often for many of the same reasons as other Interveners have expressed opposition to the preferred "Green" route or other route options. (AmerenIP Ex. 9.0, pp. 13-14.) For example, these Interveners express concern with impacts to property values, impacts to woodland and other natural features, routing through karst terrain, and proximity to residences. (*Id.*) Selecting the Black route would not eliminate these types of concerns, but simply transfer them from one set of Interveners to another. (*Id.*) As a result, there is no basis for preferring the Black route over Petitioners' Green route (or any other route option) for the Baldwin-Rush Line, and therefore, as Staff points out, the Commission does not need to consider the Black route. (ICC Staff Ex. 5.0, p. 10.)

2. Guebert Blue Route

Intervener Jeffrey Guebert also proposed an alternative route, known as the "Blue" route. (Guebert Statement of Pos., pp. 1-4.) The Blue route, however, does not alleviate the concerns of the Village of Baldwin, as the proposed route crosses through the incorporated area of their community. (AmerenIP Ex. 9.0, p. 20.) The route also has a number of other disadvantages.

From an engineering prospective, the angle point in T4S R7W S22 falls in a swale in the middle of cultivation, which could affect field drainage. (*Id.*) In addition, just south of the third angle point near the Kaskaskia River, the proposed Blue route would cross over the top of structures/buildings on occupied property, which would have to be removed. (*Id.*) Also, two of the three additional angle point locations that the Blue route depicts all fall in areas that appear to be in close proximity to a water source and would require additional foundation design. (*Id.*) For these above reasons, this route is not a preferred route, and there is no basis for selecting the Blue route over Petitioners' preferred Green route (or any other route option) for the Baldwin-Rush Line.

E. The Commission Should Issue a Certificate of Public Convenience and Necessity for Ameren Transco

Ameren Transco requests a Certificate to operate as a public utility pursuant to Section 8-406(a) of the Act. As described above, Ameren Transco's participation in the Project is necessary to prevent the construction of the Project from having adverse financial consequences for AmerenIP. Therefore, it is appropriate for Ameren Transco to be certified as a public utility. However, Staff argues that Ameren Transco should be denied a Certificate, because (i) Staff does not believe that Ameren Transco's participation in the Project is financially necessary (ICC Staff Ex. 2.0, pp. 6-7), and (ii) the "social costs from this unnecessary affiliated utility [Ameren Transco] exceed the social benefits." (ICC Staff Ex. 4.0, pp. 3-4.) Petitioners have shown, as explained above, that Staff's arguments regarding the financial necessity of Ameren Transco's participation are incorrect. Similarly, Mr. Rearden's arguments about social cost, as explained below, are baseless.

Mr. Rearden identifies only two sources of social cost: an increase in resources expended to monitor Ameren Transco's activities, and affiliate abuse. (ICC Staff Ex. 4.0, p. 5.) However, Mr. Rearden presents no evidence that either of these "social costs" actually exist, or would in fact result from the certification of Ameren Transco. His arguments are entirely speculative, and, given the dire financial need for Ameren Transco's participation in the Project, should be completely discounted.

The Commission's resource requirements have varied over time irrespective of the "current regulatory framework and the regulated utilities' organizational structures." (AmerenIP Ex. 12.0, p. 4.) For example, in 2005 Union Electric Company d/b/a AmerenUE ceased being a regulated utility in Illinois and is no longer regulated by the Commission. (*Id.*) As a consequence, the regulatory filings and reports that were made by AmerenUE have effectively ceased and Commission resources are no longer required to regulate AmerenUE. (*Id.*) Nevertheless, there is no indication that the Commission has eliminated any employees because of this occurrence. (*Id.*) In fact, Petitioners' witness Mr. Gary Weiss testified that he and his staff continue to deal with basically the same number of Commission employees that they have for the past several years. (*Id.*)

Mr. Rearden notes the head count of Commission employees has declined from 353 in fiscal year 2003 to 270 in 2006, suggesting the Commission's regulatory burden has increased relative to manpower over the past few years. (ICC Staff Ex. 7.0, p. 2.) However, the change in manpower does not relate to an increase in regulatory burden. (AmerenIP Ex. 17.0, p. 2.) Efficiencies in operations and improved technologies can result in being able to accomplish more with less manpower. (*Id.*) For example, based on approved budget appropriations, the additional cost per Commission employee has risen from \$71,817 in 2003 to \$88,744 in 2006,

suggesting there are more dollars spent per employee, which may be attributable to efficient changes in operations and added technologies. (*Id.*)

In fact, Ameren's Illinois utilities have sought to reduce their regulatory impact by adopting common business practices, including their rates, terms and conditions of service, in a move to "uniformity" (something the Commission has encouraged). (AmerenIP Ex. 12.0, pp. 4-5.) One of the consequences of moving to uniform tariffs is to ease regulatory oversight. (*Id.*) Instead of three separate and different rate schedules for the Commission and its Staff to oversee and regulate, there are now common basic generation service and delivery service rates among the Ameren Illinois utilities. (*Id.*)

The nature and extent of the Commission's regulation of Ameren Transco will be much less than that of AmerenIP or the other Ameren Illinois utilities. (AmerenIP Ex. 12.0, pp. 5-6.) Ameren Transco will not serve retail customers in the State of Illinois. (*Id.*) Ameren Transco will not have any rate schedules. (*Id.*) Ameren Transco will not be making rate filings, which are time consuming for both utilities and Staff (a fact which Mr. Rearden does not appear to disagree with). (AmerenIP Exs. 12.0, pp. 5-6; 17.0, pp. 2-3.) In addition, because Ameren Transco will not have any rate schedules and will not be providing service to retail customers, there will be no opportunity for complaint cases. (AmerenIP Ex. 12.0, pp. 5-6.) In short, the extent of the Commission's regulation of Ameren Transco is likely to be much less than other Illinois public utilities. (*Id.*) Thus, there is no basis to conclude that Ameren Transco will demand an increase in Commission resources.

Moreover, Ameren Transco has agreed to requests from Staff that should ease whatever minimal regulatory burden it causes. Ameren Transco has agreed to submit annual financial

information required by ILCC Form 21 and Section 5-109 of the Public Utilities Act. (AmerenIP Ex. 12.0, p. 6.) Petitioners have also agreed to provide, as described below, a report to the Commission on an annual basis that describes the services and charges provided under the JOA. (*Id.*) Moreover, Petitioners have agreed that Ameren Transco will maintain its accounting records according to the Uniform System of Accounts for Electric Utilities, 18 CFR Part 101 as revised in FERC Order 668, until such time the ICC updates 83 Ill. Adm. Code 415. (AmerenIP Ex. 12.0, p. 7.)

Mr. Rearden's arguments regarding potential affiliate abuse by Ameren Transco are also without merit. Mr. Rearden proposes a scenario that Ameren Transco would incur "high costs" and recover these costs from ratepayers through regulated rates charged by AmerenIP. (ICC Staff Ex. 4.0, pp. 5-6.) To begin with, this argument ignores the fact that Ameren Transco will be a regulated utility, subject to the same Commission regulation as AmerenIP. (AmerenIP Ex. 12.0, pp. 7-8.) If Mr. Rearden's arguments apply to Ameren Transco, they would apply to any Illinois public utility, now existing or proposed in the future. In fact, there are numerous provisions in the Public Utility Act that govern transactions between a utility and its affiliates and protect against affiliate abuse. Given that a utility's affiliated interest transactions are closely supervised by the Commission, and Commission approval is required with regard to many such affiliate transactions, the existence of Ameren Transco does not create an opportunity for the utility to unfairly recover the affiliate's so-called high costs through regulated rates. (*Id.*) For example, Mr. Rearden completely ignores the existence of the JOA, which will control and dictate the recovery of costs and expenses associated with this the Project. (*Id.*) Moreover, even if the utility attempted to recover these "high costs" when it was seeking rate relief, the

Commission, Staff and interveners have every opportunity to test the utility's right to recover these costs in the rate case. (*Id.*)

Mr. Rearden's rebuttal is largely limited to issues regarding the JOA. (AmerenIP Ex. 17.0, p. 3.) Even then, he agrees that the additional reporting under the JOA, described above, is an improvement in terms of ensuring against cross-subsidies. (ICC Staff Ex. 7.0, p. 3.) He also admits the Act provides the Commission with the ability to remedy imprudent behavior. (*Id.*) Mr. Rearden claims, without explanation, that this does not eliminate Staff's concerns about cross-subsidies, suggesting the Commission would not exercise its authority. (*Id.*, pp. 3-4.) Taking Mr. Rearden's position to its logical extreme, this threat of affiliate abuse would require the Commission to reject all affiliate transactions. However, Mr. Rearden offers no specifics as to why affiliate abuse is any more likely to happen between Ameren Transco and its affiliates than any other public utility and its affiliates. Therefore, his rationales for opposing a Certificate for Ameren Transco must be rejected.

F. The Joint Operating Agreement Is Reasonable and Should Be Approved

In order to allow AmerenIP and Ameren Transco to jointly own the Project during construction and operation, Petitioners entered into the JOA on April 6, 2006, which sets forth the terms of their joint ownership and operation of the Project. (*See* Am. Pet., p. 14; Am. Pet. Ex. C.) No party has contested the reasonableness of the JOA, and it should be approved.

Two key sections of the JOA require note. Section 7.1 of the JOA allows two different types of transfer of Ownership Interests: (i) a transfer by an Owner of all or part of its Ownership Interest to any person, and (ii) a transfer of an Owner's Ownership Interest in whole or in part to any other Owner at book value. Therefore, the JOA provides that AmerenIP, as an Owner, may

purchase Ameren Transco's Ownership Interest in the Project at any time for a purchase price equal to book value.

Pursuant to Section 3.1 of the JOA, AmerenIP and Ameren Transco will appoint an "Operator" to manage and supervise construction of the Project during the period of joint ownership. As indicated in the JOA, AmerenIP and Ameren Transco intend to appoint AMS as said Operator. AmerenIP and Ameren Transco also intend that the Operator will be responsible for operation of the Project pursuant to Section 5.1 of the JOA. AMS employees will be providing services related to both AmerenIP and Ameren Transco under the General Services Agreement ("GSA"), including engineering, supervision, accounting, legal, and tax services. Ameren Transco filed a petition to amend the GSA to include Ameren Transco on September 20, 2006 in Docket 06-0633.

Neither Staff nor any other party expressed any opposition to the JOA itself (Staff's baseless concerns with the certification of Ameren Transco are discussed above.) Staff witness Hathhorn recommended, as a condition of approval, that the Commission order the Companies to provide a report to the Chief Clerk of the Commission and to the Manager of the Accounting Department of the Commission, on an annual basis, beginning March 31, 2007, for the prior calendar year, containing a description of services and charges provided by the Companies to their affiliates under the JOA; a description of services and charges provided by the affiliates to the Companies under the JOA; the Companies' monthly billing to and payments received from their affiliates under the JOA; the amounts of any allocated costs under the JOA; and supporting documentation for each allocation. (ICC Staff Ex. 3.0, p. 4.) Petitioners accepted these recommendations. (*Id.*)

Because Petitioners have demonstrated that participation of Ameren Transco is necessary for completion of the Project (*see* Section II.B.4, above) and that the terms of the JOA are reasonable, the JOA is in the public interest and should be approved.

G. The Commission Should Issue an Order Under Section 8-503 of the Act Authorizing Construction of the Project

Section 8-503 of the Act provides that whenever the Commission finds that additions to existing plant are necessary and ought reasonably to be made, or that a new structure or structures ought to be erected, the Commission "shall make and serve an order authorizing or directing that such additions . . . be made, or structure or structures be erected" 220 ILCS 5/8-503. Petitioners have demonstrated that construction of the Project is necessary. Staff agrees that a Section 8-503 order is appropriate and that Petitioners should be granted eminent domain authority. (ICC Staff Ex. 1.0, pp. 29-31.) No other party has opposed a Section 8-503 order or a grant of eminent domain authority. Therefore, an order authorizing the construction of the Project, including the Transmission Lines and all necessary related facilities, should be granted under Section 8-503.

H. No Intervener Has Raised an Issue That Impacts the Commission's Conclusion in This Proceeding

No Intervener has argued that Petitioners should not be granted a Certificate. Rather, the Interveners have raised issues that are, on balance, irrelevant to the Commission's consideration of the approval criteria under Section 8-406(b). In particular, those Interveners (the "Landowner Interveners") other than IBEW, Prairie State, and Dynegey, express a wide variety of concerns related primarily to the route selected for the Baldwin-Rush Line. Petitioners in their testimony responded in detail to the issues raised by all Interveners, including the Landowner Interveners. (*See, e.g.*, AmerenIP Exs. 8.0, pp. 2-3; 9.0, pp. 5-23; 10, pp. 1-7; 13.0, pp. 2-4; 14.0, pp. 4-6;

15.0, pp. 1-3.) Petitioners will respond to any particular issues raised by Interveners in their Initial Briefs in Petitioners' Reply Brief. However, Petitioners address generally here some issues common to a number of the Landowner Interveners (such as concerns about route selection, property values, or EMFs). Petitioners also address issues raised in testimony by DMG.

1. Petitioners Have Properly Accounted for the Proximity of Residences in Route Selection

Many of the Landowner Interveners expressed concern about the proximity of the Transmission Line route to residences. (*See, e.g.*, Seboldt Statement of Pos., p. 1; Bixby Ex. 1, p. 2; Liefer Ex. 1, p. 2.) However, Ameren performed a comprehensive routing study when developing the proposed routes that accounted for residences. (*See* AmerenIP Exhibit 9.01.) Overlays of resource sensitivity (the measure of probable adverse response of each resource to direct and indirect impacts associated with the proposed Transmission Lines) were used to produce a composite GIS representation illustrating potential constraints and opportunities for alternative transmission line corridors. (AmerenIP Ex. 9.0, p. 6.) Three levels of sensitivity - high, moderate, and low, were used in GIS representation. (*Id.*) Areas or features highly sensitive to disturbance from the construction, operation, and maintenance of the transmission line represent the greatest potential constraints or potentially significant changes to the human, natural, or cultural environment. (*Id.*) The proximity of homes and occupied structures within 200 feet was rated as a "High Sensitivity" in this process. (*Id.*, p. 5.) (A "high" sensitivity level was given to: areas of high impact potential because of important or valued resources; resources assigned special status; conflict with existing or planned use; and areas posing hazard to construction, operation, or maintenance of the line. (*Id.*)) Aerial imagery was used to locate and identify buildings within the Project area, and the building location data were then refined to

identify individual residential structures. (*Id.*) Homes were buffered at a distance of 200 feet at the high sensitivity level. (*Id.*, pp. 5-6.) For purposes of the refinement of the assumed Transmission Line centerlines, Petitioners avoided crossing these high sensitivity areas, or minimized the impact if complete exclusion is difficult or impossible. (*Id.*) Using these criteria, the primary Baldwin-Rush Island Green route affects the fewest number of houses, when considering the route is not just from the Baldwin power plant to the Kaskaskia River, but from the Baldwin power plant to the Rush Island power plant. (*Id.*) In fact, very few residences are in close proximity to the proposed Transmission Lines. (AmerenIP Ex. 9.0, p. 10.) There are only three residences that reside within 200 feet of the proposed transmission centerline. (*Id.*) There are two additional residences that reside within 200 - 300 feet of the proposed transmission centerline. (*Id.*) Thus it is clear that Petitioners made a serious effort to minimize the number of residences in proximity to the route.

Ameren also considered issues such as proximity to towns and other communities. (AmerenIP Ex. 9.0, p. 7.) With respect to community impacts, Petitioners sought to avoid routing through populated community areas where possible, although this is not practical in every case. For example, Petitioners' Green Baldwin-Rush Line route avoids encircling Baldwin on three sides. The preferred Prairie West Line route also sought to avoid the incorporated area of Manissa. Petitioners believe that community and residential impacts should be minimized, and Petitioners' testimony demonstrates that Petitioners have, in this case, taken the impact of the Transmission Lines on residences and communities very seriously.

2. The Transmission Lines Have No Impact on Property Values Beyond the Amount Landowners Are Compensated

Several Landowner Interveners also asserted that the Transmission Lines would negatively impact property values. (*See, e.g.*, Liefer Ex. 1, p. 2; Fulton Statement of Pos., pp. 2-3; Bixby Ex. 1, p. 3.) However, this is not the case. A transmission line's impact upon property values is dependent upon, among other things, the unique characteristics of each parcel of real estate and the attitudes and opinions of potential buyers in a particular market. (AmerenIP Ex. 10.0, pp. 2-3.) With respect to the applicability of broad studies (of value impact) to an individual property, these studies' conclusions are disparate, and not applicable to the specific circumstances of this case. (*Id.*) (A fact acknowledged by some Interveners – for example, as stated on lines 3 and 4 in the second paragraph of the "Fact Sheet Property Values", which is Exhibit 6A3 to Mr. Leo Fulton Jr.'s testimony, "The conclusions of these studies have varied widely, with some reporting no effects, others finding small effects and still others reporting substantial effects.")

However, Petitioners do recognize that there may be impact upon a property's value by virtue of placement of a transmission line on that property. (AmerenIP Ex. 10.0, pp. 2-3.) As a result, Petitioners will fairly compensate affected landowners for that impact so that, after the line is constructed, there is no impact upon property value beyond the compensation paid. (*Id.*) It is appropriate to note that an AmerenIP affiliate, AmerenUE, had a study performed by an expert appraisal firm American Appraisal Associates in conjunction with Real Estate Counseling Group of Connecticut regarding transmission line impact upon property values for the McClay transmission line in Missouri in March of 1997. (*Id.*) The conclusions of that study support that there were no impacts upon property value beyond those for which Ameren compensated. (*Id.*) Upon completion of construction, Ameren representatives will also assess and repair or

compensate landowners for damages that may result from transmission line construction activities. This would include damages to crops, soil, fences and other property as the case may be. (*Id.*, p. 3)

Ameren determines its offering of easement compensation by establishing representative values for categories of land, such as agricultural, rural recreational / timber, rural commercial, rural residential, and rural land development. (AmerenIP Ex. 10.0, pp. 3-4.) Those representative values are applied to the area within the proposed easement and multiplied by a factor of 0.75 for arriving at the offer for an easement. (*Id.*) The 0.75 factor represents recognition of the fact that the rights conveyed are easement rights for a specific purpose (the transmission lines) and does not represent the full fee value of the easement land. (*Id.*) The landowner retains all other property rights. Petitioners will consider evidence for differing value opinions if they can be substantiated by accepted valuation methodology. (*Id.*, p. 4.) Thus, Petitioners fairly compensate for impacts to property crossed by transmission lines, and no Intervener has presented evidence refutes this.

3. The Landowner Interveners Have Presented No Evidence of a Demonstrable Concern with EMFs

Certain Landowner Interveners also argue that transmission lines are a cause for health concerns due to the electromagnetic fields ("EMFs") they produce. (*See, e.g.*, Hogan Ex. 1, p. 2; Liefer Ex. 1, p. 4; Bixby Ex. 1, p. 2.) However, the Landowner Interveners have offered only vague expressions of concern, and no factual basis for any health risk from EMFs has been established in this case. All wires that carry current produce electric and magnetic fields. (AmerenIP Ex. 13.0, p. 2.) As a result, there are numerous sources of EMFs, including household wiring, electric appliances and motors, and fluorescent and incandescent lighting. (*Id.*)

In fact, EMFs are produced by human neuromuscular activity and even the earth itself. (*Id.*) The general consensus of the scientific community is that the evidence for any harmful effect related to EMFs is inconclusive. (*Id.*)

Some Landowner Interveners rely on a number of "fact sheets," reports and epidemiological studies that assert there is an association between power lines and various illnesses, and in particular childhood cancer. (AmerenIP Ex. 13.0, p. 3.) An "association" in epidemiology (statistical analysis of disease occurrence in a population) does not mean that a factor "causes" or even "contributes" to a specific result, but rather the result tends to occur in the presence of, or in conjunction with, the factor. (*Id.*) Although some studies have concluded an association exists between EMFs and certain illnesses, most studies have concluded that there is no evidence of any causal link between EMFs and human health, or that the evidence is weak. (*Id.*) In fact, only epidemiological studies have identified any such linkage. (*Id.*) Laboratory research studies, for the most part, have not substantiated claims that EMFs pose a health risk. (*Id.*) As a result, there is no basis to conclude that EMFs present health concerns anywhere, and certainly not in this proceeding, where the Landowner Interveners have offered no specific evidence of or expert testimony regarding any health effects. Nevertheless, although Ameren does not believe that high voltage power lines pose a health risk, Ameren has, for a variety of reasons, sought to minimize the number of residences, daycare centers, schools, and hospitals in proximity to the proposed transmission lines. (*Id.*)

4. Petitioners Have Addressed Concerns About Environmental and Natural Resource Impacts of the Transmission Lines

Certain Landowner Interveners also expressed concern that Petitioners did not consider the environmental or other natural resource impacts of the Transmission Lines. (*See, e.g.,*

Seboldt Statement of Pos., p. 2; Schultheis Statement of Pos., p. 2; Prange Statement of Pos., pp. 1-2.) However, known environmental, wetlands, floodplain and other potential resource impacts were considered in establishing line routing and siting criteria in order to minimize those impacts in establishing line routes. (Ameren Ex. 2.0, p. 6.) In addition, AmerenIP representatives have completed a historic and archeological site records search as part of its planning. (*Id.*, pp. 6-7.) Some historic and archeological features exist within one quarter mile or less of the proposed line route, and the location of these features was mapped in relation to the proposed line route to minimize or avoid impacts to these historic and archaeological resources. (*Id.*)

With regard to routing the Transmission Lines through karst topography, Petitioners have the engineering expertise to construct and maintain transmission lines across Karst topography. (AmerenIP Ex. 9.0, p. 8.) Petitioners have committed to performing detailed geotechnical studies along the proposed route to identify and avoid karst areas that are unsuitable for line construction, operation, or maintenance. (*Id.*) AmerenIP also has consulting engineers on retainer to perform geophysical investigations and exploratory drilling, as well as the assessment and potential design considerations and alternatives for mitigating potential groundwater impacts, during investigation and construction of the Transmission Line. (*Id.*)

In addition, AmerenIP is addressing environmental and natural resource concerns via consultation with the governmental agencies responsible for protection of these natural resources and compliance with their applicable rules and regulations, including the Illinois Department of Natural Resources, Illinois Nature Preserve Commission, U.S. Army Corps of Engineers, U.S. Fish and Wildlife Agency, Illinois Environmental Protection Agency, Illinois Historic Preservation Agency and the Illinois Department of Agriculture. (AmerenIP Ex. 10.0, p. 6.) Petitioners will comply with any applicable requirements imposed by these agencies with respect

to the proposed Transmission Lines. (*Id.*) Notably, these agencies, and not the Commission, will ensure compliance with the rules and regulations that fall within their jurisdiction.

Therefore, there is no basis for the Landowner Interveners to assert that Petitioners have not considered environmental and natural resource impacts in planning the Transmission Lines.

5. The Concerns Raised by Dynegy Regarding Expansion of the Substation Area and the Easement Agreement Are Not Relevant to This Proceeding and Should Be Resolved By Petitioners and Dynegy Through Negotiation or Civil Litigation

Dynegy witness Mason (Dynegy Ex. 1, pp. 7-8) expressed concern about Petitioners' compliance with a certain easement agreement between Dynegy and AmerenIP. Petitioners do not believe the enforcement of private property rights between parties is something of concern to the Commission, and that Dynegy has wrongly interjected this issue in this proceeding. Nonetheless, AmerenIP intends to comply fully with the terms of the easement agreement for the facilities covered by that agreement. (AmerenIP Ex. 10.0, p. 7.) AmerenIP is, of course, amenable to discussing all of Dynegy's concerns, mitigating impacts to Dynegy caused by the proposed project, and reaching agreement to keep Dynegy whole within the context of normal business parameters. (*Id.*)

Mr. Mason also expressed a specific concern that expansion of its Baldwin Plant substation would adversely impact the existing contractor parking lot and Baldwin Plant's operations. (Dynegy Ex. 1.0, pp. 6-7.) AmerenIP is well aware of the parking lot issues referenced by Mr. Mason, and AmerenIP representatives have met on-site with Dynegy representatives regarding this and other issues. (AmerenIP Ex. 15.0, p. 2.) AmerenIP's intent is to reach a mutually agreed solution to the parking lot problem posed by the planned substation expansion within the context of accepted business practices. Such a solution could be an

engineering solution, a financial solution or a combination of both. Data for finalizing proposed solutions is not yet complete. However, finalizing a solution should not unduly difficult or expensive.

III. CONCLUSION

Petitioners respectfully request that the Commission: (i) grant a Certificate of Public Convenience and Necessity to Ameren Transco; (ii) grant a Certificate of Public Convenience and Necessity authorizing AmerenIP and Ameren Transco to construct, operate and maintain three new 345 kilovolt electric lines in Monroe, Randolph, St. Clair, and Washington Counties, Illinois; (iii) authorize construction of the Project pursuant to Section 8-503 of the Act; (iv) approve the Joint Ownership Agreement between AmerenIP and Ameren Transco; (v) reject the alternate route for the Baldwin-Rush Line proposed by Staff witness Linkenback; and (vi) approve the Petitioners' proposed primary routes for the Baldwin-Rush Line, the Prairie West Line, and the Prairie South Line.

Dated: December 29, 2006

Respectfully submitted,

ILLINOIS POWER COMPANY d/b/a
AmerenIP, and
AMEREN ILLINOIS TRANSMISSION
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