

145 FERC ¶ 61,146  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;  
Philip D. Moeller, John R. Norris,  
Cheryl A. LaFleur, and Tony Clark.

Transource Missouri, LLC

Docket No. ES13-56-000

ORDER AUTHORIZING ISSUANCES OF SECURITIES

(Issued November 19, 2013)

1. On September 20, 2013, Transource Missouri, LLC (Transource Missouri) filed an application pursuant to section 204 of the Federal Power Act (FPA)<sup>1</sup> (Application) seeking Commission authorization to issue short-term and long-term debt securities (collectively, Debt Securities) in an aggregate amount not to exceed \$350 million.<sup>2</sup> We will grant the authorizations as discussed below.

**I. Background**

2. Transource Missouri is a wholly-owned subsidiary of Transource Energy, LLC, which was formed as a joint venture between American Electric Power Company, Inc. (AEP) and Great Plains Energy, Incorporated (Great Plains). Transource Missouri will pursue new competitive wholesale transmission projects, as relevant here: the Iatan-Nashua 345 kV line Project (Iatan-Nashua Project) and the Sibley-Nebraska City 345 kV line Project (Sibley-Nebraska City Project) (collectively, the Projects).<sup>3</sup>

3. According to Transource Missouri, the Southwest Power Pool (SPP) issued Notifications to Construct to Kansas City Power and Light Company (KCP&L), a wholly-owned subsidiary of Great Plains, and KCP&L Greater Missouri Operations (KCP&L GMO) for the Iatan-Nashua Project. Further, SPP appointed KCP&L and KCP&L GMO as the designated transmission owners to develop the Iatan-Nashua

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<sup>1</sup> 16 U.S.C. § 824c (2012).

<sup>2</sup> Transource Missouri filed an errata to the Application on September 25, 2013 (Errata to Application). It subsequently amended the Application on October 29, 2013 (First Amended Application) and October 31, 2013 (Second Amended Application).

<sup>3</sup> First Amended Application at 1-2.

Project. Both KCP&L and KCP&L GMO accepted the Notifications to Construct on June 22, 2012.<sup>4</sup>

4. With respect to the Sibley-Nebraska City Project, Transource Missouri states that SPP also issued a Notification to Construct to KCP&L GMO and appointed KCP&L GMO as the designated transmission owner to develop the Sibley-Nebraska City Project. KCP&L GMO accepted the Notification to Construct on September 28, 2010.<sup>5</sup>

5. According to Transource Missouri, under SPP tariff provisions, construction responsibility for transmission projects that are selected through the SPP planning process is assigned to those transmission owning members that own the transmission systems to which the proposed facilities connect. Transource Missouri explains that if those facilities are owned by two different transmission owners, the parties allocate the construction responsibilities between themselves.<sup>6</sup>

6. Transource Missouri states that there are provisions in the SPP tariff for transmission owners to be able to transfer or to transfer and novate a project which the transmission owner has been directed by SPP to build. Transource Missouri states that these provisions ensure that regional projects remain on course to be built, and also afford needed flexibility to the transmission owners who must complete the projects.<sup>7</sup>

7. Transource Missouri states that, on August 7, 2013, the Missouri Public Service Commission (Missouri Commission) issued an order authorizing the transfer of responsibilities for the Projects from KCP&L and KCP&L GMO to Transource Missouri. In the same order, the Missouri Commission issued a Certificate of Convenience and Necessity to Transource Missouri. According to Transource Missouri, the novation of the Projects to Transource Missouri was approved by the SPP Markets and Operations Policy Committee and will be reviewed and voted on by the SPP Regional State Committee and SPP Board of Directors in November 2013. SPP will then file the novation of the projects with the Commission.<sup>8</sup>

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<sup>4</sup> *Id.* at 7.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.* at 7-8.

<sup>7</sup> *Id.* at 8.

<sup>8</sup> *Id.* We note that SPP filed the novation with the Commission on October 30, 2013 in Docket No. ER14-224-000.

8. Transource Missouri states that, on September 13, 2013, KCP&L and KCP&L GMO and Transource Missouri filed an application in Docket No. EC13-145-000, pursuant to sections 203(a)(1)(A) and 203(a)(1)(B) of the FPA<sup>9</sup> and Part 33 of the Commission's regulations,<sup>10</sup> requesting authorization for the transfer from KCP&L and KCP&L GMO to Transource Missouri of certain transmission equipment in connection with the Projects. Transource Missouri states that the approval of the transfer is necessary to allow Transource Missouri to develop, own, and maintain the Projects. Transource Missouri states that upon acceptance from the Commission of the novations and approval of the transfer, Transource Missouri will be the entity mandated to undertake these obligations going forward.<sup>11</sup>

## **II. Application**

9. Transource Missouri states that the proceeds from issuance of the Debt Securities at issue here will be used to fund the design, procurement, construction, installation, ownership, operation and maintenance of the Projects, as well as the administrative costs related to the Projects, and will provide Transource Missouri with working capital to support these activities. Transource Missouri further states that the proceeds from the Debt Securities will be used to fund a portion of certain pre-construction activities, including designing the Projects, obtaining siting approval, acquiring rights-of-way, and engaging engineering and construction firms and other consultants.<sup>12</sup> It requests that the Commission's authorization under the Application be approved for two years.<sup>13</sup>

### **A. Short-Term and Long-Term Debt Issuance**

10. Transource Missouri seeks Commission approval to issue Debt Securities in an aggregate amount not to exceed \$350 million outstanding at any one time. It states that the Debt Securities will consist of one or more secured or unsecured loans, credit or financing agreements, notes, bonds and other forms of debt securities.<sup>14</sup>

11. Transource Missouri expects that a credit facility or construction loan will initially be used to finance a portion of the pre-construction activities, to finance construction

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<sup>9</sup> 16 U.S.C. § 824b(a)(1)(A), (B) (2012).

<sup>10</sup> 18 C.F.R. Pt. 33 (2013).

<sup>11</sup> First Amended Application at 8-9.

<sup>12</sup> *Id.* at 7.

<sup>13</sup> *Id.* at 9.

<sup>14</sup> *Id.* at 4.

expenditures associated with the Projects and to provide Transource Missouri with working capital. Transource Missouri states that any Debt Securities will probably be structured with up to a 40-year maturity date and issuances may be made in multiple concurrent, successive or revolving events.<sup>15</sup>

12. Transource Missouri further states that the interest rates for the Debt Securities will not exceed the greater of: (i) the one-month, two-month, three-month, six-month, or 12-month London Interbank Offered Rate (LIBOR) in effect at the time of issuance, as published in the Wall Street Journal, plus up to 800 basis points, or (ii) the greater of the federal funds rate or the prime rate (defined as the rate of interest per annum publicly announced from time to time by JP Morgan Chase Bank, N.A. as its prime rate in effect at its principal office in New York City) in effect at the time of issuance, plus up to 700 basis points, or (iii) the three-year, five-year, seven-year, 10-year, 20-year or 30-year U.S. Treasury rate in effect at time of issuance, as published at [www.treasury.gov](http://www.treasury.gov), plus up to 600 basis points.<sup>16</sup>

### **B. Waiver Request**

13. With regard to long-term debt and guarantees, Transource Missouri requests a waiver from the Commission's competitive bidding and negotiated placement requirements found at 18 C.F.R. § 34.2 (2013).<sup>17</sup>

### **III. Notices of Filing, Interventions, and Protests**

14. Notice of the Application was published in the *Federal Register*, 78 Fed. Reg. 59,666 (2013), with interventions and protests due on or before October 11, 2013. None was filed.

15. Notice of the Errata to Application was published in the *Federal Register*, 78 Fed. Reg. 61,945, with interventions and protests due on or before October 11, 2013. None was filed.

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<sup>15</sup> *Id.*

<sup>16</sup> *Id.* at 4-5.

<sup>17</sup> Section 34.2 sets forth the Commission's method of issuance requirements. It states, in part, that the utilities may issue securities by either a competitive bid or negotiated placement, provided that competitive bids are obtained from at least two prospective dealers, purchasers or underwriters or negotiated offers are obtained from at least three prospective dealers, purchasers or underwriters. *See* 18 C.F.R. § 34.2(a) (2013).

16. Notice of the First Amended Application was published in the *Federal Register*, 78 Fed. Reg. 67,134 (2013), with interventions and protests due on or before November 8, 2013. None was filed.

17. Notice of the Second Amended Application was published in the *Federal Register*, 78 Fed. Reg. 67,355 (2013), with interventions and protests due on or before November 12, 2013. None was filed.

#### **IV. Discussion**

18. FPA section 204(a) provides that requests for authorization to issue securities or to assume any obligation or liability as guarantor, indorser, surety, or otherwise in respect of any security of another person shall be granted if the Commission finds that the issuance or assumption: (1) is for some lawful object, within the corporate purposes of the applicant and compatible with the public interest, is necessary or appropriate for or consistent with the proper performance by the applicant of service as a public utility and which will not impair its ability to perform that service; and (2) is reasonably necessary or appropriate for such purposes.<sup>18</sup>

19. Typically, under section 204, the Commission utilizes an interest coverage calculation in order to determine whether the undertaking “will not impair [a public utility’s] ability to perform” service as a public utility. And, typically, the Commission bases its finding that a proposed issuance of securities will not impair an applicant’s ability to perform service as a public utility upon the applicant’s demonstration that it will have an interest coverage ratio that is 2.0 or higher.<sup>19</sup>

20. Transource Missouri has filed, as Exhibits C, D and E to the Application, *pro forma* financial statements as of June 30, 2013. Exhibit E of the Application shows that Transource Missouri has an interest coverage ratio of 1.87. Transource Missouri states that, due to its pre-commercial stage of operation, Transource Missouri does not currently meet the interest coverage ratio benchmark of 2.0.

21. Transource Missouri argues, however, that the Commission has accepted its transmission formula rate in Docket No. ER12-2554-000, effective October 30, 2012.<sup>20</sup> Transource Missouri states that this rate incorporates a return on construction work in

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<sup>18</sup> 16 U.S.C. § 824c(a) (2012).

<sup>19</sup> *Startrans IO, L.L.C.*, 122 FERC ¶ 61,253, at P 18 (2008) (stating that “this screen is a mid-way number in a range that has been used by lenders and borrowers and provides a buffer against unforeseen, adverse financial events that might impair Startrans IO’s ability to perform as a public utility”).

<sup>20</sup> *Transource Missouri, LLC*, 141 FERC ¶ 61,075 (2012).

progress prior to the in-service date of the Projects and recovery of pre-commercial costs during the construction period. Transource Missouri further states that its transmission formula rate also provides for the capture and recovery of all costs associated with its investments in transmission facilities, including the cost of operation and maintenance expense, depreciation and amortization expense, interest expense and financing costs, as well as other prudently incurred costs related to the transmission facilities.<sup>21</sup> Accordingly, Transource Missouri states that its debt service costs will be recovered through its transmission cost of service formula rate.<sup>22</sup>

22. We find, based on the statements set forth in the Application, that Transource Missouri has demonstrated that the proposed issuances of securities and assumptions of obligations or liabilities sought in this Application: (1) are for a lawful object, within Transource Missouri's corporate purposes, compatible with the public interest, and necessary, appropriate and consistent for Transource Missouri's proper performance as a public utility and will not impair its ability to perform such service; and (2) are reasonably necessary and appropriate for such purposes.

23. Transource Missouri states that the Debt Securities will fund the design, procurement, construction, installation, ownership, operation and maintenance of the Projects as well as the administrative costs related to the Projects as well as providing Transource Missouri with working capital. The proceeds from the Debt Securities will also be used to fund and/or reimburse a portion of the pre-construction activities.<sup>23</sup> And the costs of servicing the Debt Securities will be recovered through Transource Missouri's formula rate. These factors support a conclusion that the proposed issuances and assumptions of obligations and liabilities by Transource Missouri will not impair its ability to provide service.

24. Accordingly, we authorize the following:

- a. Transource Missouri is authorized to issue short-term and long-term debt securities, in an aggregate amount not to exceed \$350 million outstanding at any one time, subject to the interest rate limitation below. The debt securities may consist of one or more secured or unsecured loans, credit or

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<sup>21</sup> The Commission also granted Transource Missouri's request for recovery of 100 percent of prudently incurred costs associated with abandonment of one or both of the Projects, as well as a return on equity with a 50 basis point RTO adder and 100 basis point adder for risks and challenges of the Sibley-Nebraska City Project. *Id.* PP 61 & 75.

<sup>22</sup> First Amended Application at 13.

<sup>23</sup> *Id.* at 7.

financing agreements, and short-term or long-term bonds, notes or other debt securities.

- b. The interest rates for the short-term or long-term debt securities will not exceed the greater of: (i) the one-month, two-month, three-month, six-month, or 12-month London Interbank Offered Rate (LIBOR) in effect at the time of issuance, as published in the Wall Street Journal, plus up to 800 basis points; (ii) the greater of the federal funds rate or the prime rate (defined as the rate of interest per annum publicly announced from time to time by JP Morgan Chase Bank, N.A. as its prime rate in effect at its principal office in New York City) in effect at the time of issuance, plus up to 700 basis points; or (iii) the three-year, five-year, seven-year, 10-year, 20-year or 30-year U.S. Treasury rate in effect at time of issuance, as published at [www.treasury.gov](http://www.treasury.gov), plus up to 600 basis points.

25. We grant the requested authorizations effective as of the date of this order and they terminate two years thereafter. We will grant the requested waiver of the Commission's competitive bidding and negotiated placement requirements applicable to long-term debt.

26. In *Westar*, the Commission announced four restrictions on all future public utility issuances of secured and unsecured debt.<sup>24</sup> First, public utilities seeking authorization to issue debt backed by a utility asset must use the proceeds of the debt for utility purposes. Second, if any utility assets that secure debt issuances are divested or "spun off," the debt must follow the asset and also be divested or "spun off". Third, if any of the proceeds from unsecured debt are used for non-utility purposes, the debt must follow the non-utility assets. Specifically, if the non-utility assets are divested or "spun off", then a proportionate share of the debt must follow the divested or "spun off" non-utility asset. Finally, if utility assets financed by unsecured debt are divested or "spun off" to another entity, then a proportionate share of the debt must also be divested or "spun off." Transource Missouri states that it will comply with the *Westar* conditions.<sup>25</sup>

The Commission orders:

(A) Transource Missouri is hereby authorized to issue short-term and long-term debt securities in the form of secured or unsecured loans, credit or financing agreements, and short-term and long-term bonds, notes, or other debt securities in an aggregate

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<sup>24</sup> *Westar Energy, Inc.*, 102 FERC ¶ 61,186, at PP 20-21, *order on reh'g*, 104 FERC ¶ 61,018 (2003) (*Westar*).

<sup>25</sup> Application at 10.

amount not to exceed \$350 million outstanding at any one time, subject to the interest rate limitations stated in the body of this order.

(B) The authorizations granted in this order are effective as of the date of this order and terminate two years thereafter.

(C) This authorizations granted are subject to the restrictions on secured and unsecured debt as outlined in *Westar*.

(D) The requested waiver of the Commission's competitive bidding and negotiated placement requirements for long-term debt at 18 C.F.R. § 34.2(a) (2013) is hereby granted.

(E) Transource Missouri must file a Report of Securities Issued, under 18 C.F.R. §§ 34.9, 131.43, and 131.50 (2013), no later than 30 days after the sale or placement of long-term debt securities or the entry into guarantees or assumption of liabilities.

(F) The authorizations granted in Ordering Paragraph (A) above are without prejudice to the authority of the Commission or any other regulatory body with respect to rates, service, accounts, valuation, estimates or determination of cost or any other matter whatsoever now pending or which may come before this Commission.

(G) Nothing in this order shall be construed to imply any guarantee or obligation on the part of the United States with respect to any security to which this order relates.

By the Commission.

( S E A L )

Kimberly D. Bose,  
Secretary.