

153 FERC ¶ 61,099  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Norman C. Bay, Chairman;  
Philip D. Moeller, Cheryl A. LaFleur,  
Tony Clark, and Colette D. Honorable.

South Central MCN LLC

Docket No. ER15-2594-000

ORDER ON TRANSMISSION FORMULA RATE PROPOSAL AND INCENTIVES,  
ACCEPTING AND SUSPENDING FILING, AND ESTABLISHING HEARING AND  
SETTLEMENT JUDGE PROCEDURES

(Issued October 29, 2015)

1. In this order, we conditionally accept South Central MCN LLC's (South Central) proposed formula rate template and formula rate protocols (together, Formula Rate) to establish a mechanism to recover costs associated with facilities South Central will own, including transmission projects it intends to own and develop as part of Southwest Power Pool, Inc.'s (SPP) Order No. 1000 competitive transmission owner selection process.<sup>1</sup> We accept the Formula Rate, to be effective once the template and protocols are filed with the Commission to become part of SPP's Open Access Transmission Tariff (Tariff), consistent with the effective date established in that future proceeding, subject to a further compliance filing.
2. In addition, we accept South Central's proposed base return on equity (ROE) for filing, suspend it for a nominal period, to be effective November 2, 2015, subject to refund, and set it for hearing and settlement judge procedures. We grant South Central's proposed 50 basis points adder for participation in a regional transmission organization (RTO), subject to the resulting ROE being within the zone of reasonableness established for South Central, and deny South Central's requested 100 basis points adder for being a

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<sup>1</sup> *Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities*, Order No. 1000, FERC Stats. & Regs. ¶ 31,323 (2011), *order on reh'g*, Order No. 1000-A, 139 FERC ¶ 61,132 (2012), *order on reh'g*, Order No. 1000-B, 141 FERC ¶ 61,044 (2012), *aff'd sub nom. S.C. Pub. Serv. Auth. v. FERC*, 762 F.3d 41 (D.C. Cir. 2014).

Transco.<sup>2</sup> We conditionally grant, under section 205 of the Federal Power Act (FPA), South Central's request to use a hypothetical capital structure consisting of 60 percent equity and 40 percent debt, subject to a compliance filing to be made within 30 days of the date of this order.<sup>3</sup> We grant, under section 205, South Central's request to establish a regulatory asset for prudently-incurred, non-capitalized start-up costs, including pre-commercial and formation costs, and defer recovery until South Central has \$75 million in rate base. We also grant, under section 219 of the FPA, South Central's request to include 100 percent construction work in progress (CWIP) in rate base for the North Liberal—Walkemeyer 115 kV transformer project (Walkemeyer Project) if South Central is the successful bidder.<sup>4</sup>

## **I. Background**

3. In Order No. 1000, the Commission required public utility transmission providers to eliminate provisions in Commission-jurisdictional tariffs and agreements that establish a federal right of first refusal for an incumbent transmission provider with respect to transmission facilities selected in a regional transmission plan for purposes of cost allocation. In addition, the Commission required public utility transmission providers to revise their Open Access Transmission Tariffs to, among other things, (1) establish qualification criteria to determine whether an entity is eligible to propose a transmission project for selection in the regional transmission plan for purposes of cost allocation; (2) identify information a prospective transmission developer must submit in support of a transmission project proposed for selection; and (3) describe a transparent and not unduly discriminatory process for evaluating proposals for selection in the regional transmission plan for purposes of cost allocation. The Commission noted that, although not mandatory, public utility transmission providers in a transmission planning region could use, for example, a non-discriminatory competitive bidding process as one method to comply with the requirements of Order No. 1000.<sup>5</sup> In response to the requirements of

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<sup>2</sup> A Transco is a stand-alone transmission company that has been approved by the Commission and that sells transmission services at wholesale and/or on an unbundled retail basis, regardless of whether it is affiliated with another public utility. *Promoting Transmission Investment through Pricing Reform*, Order No. 679, FERC Stats. & Regs. ¶ 31,222, at P 201 (2006), *order on reh'g*, Order No. 679-A, FERC Stats. & Regs. ¶ 31,236, *order on reh'g*, 119 FERC ¶ 61,062 (2007).

<sup>3</sup> 16 U.S.C. § 824d (2012).

<sup>4</sup> 16 U.S.C. § 824s (2012).

<sup>5</sup> Order No. 1000, FERC Stats. & Regs. ¶ 31,323 at P 336.

Order No. 1000, SPP established a process under which qualified transmission developers can bid to develop transmission projects that were designated in SPP's regional transmission plan for competitive bidding (Competitive Upgrades).<sup>6</sup>

4. On September 1, 2015, South Central filed an application that requests approval of its Formula Rate, in advance of bidding on SPP-awarded competitive transmission projects. In support, South Central states that it is a start-up, stand-alone transmission company that was formed to operate within SPP. South Central states that it is a wholly-owned subsidiary of GridLiance Heartland LLC (Heartland), which is owned by GridLiance Holdco, LP (GridLiance). GridLiance is controlled by affiliates of the Blackstone Group L.P. (Blackstone).<sup>7</sup> South Central states that its business model is to partner with and serve as agent for non-jurisdictional electric cooperatives, municipally-owned electric utilities, and joint action agencies (collectively, Public Power Partners) with which it has co-development agreements for the planning, construction, and operation of SPP-controlled transmission assets.<sup>8</sup>

5. Additionally, South Central states that it is a member of SPP and is a Qualified Request for Proposal Participant under Attachment Y of SPP's Tariff. South Central further states that currently it does not own or control any transmission facilities, but it anticipates acquiring jurisdictional facilities either simultaneously with, or shortly after, the date the Formula Rate becomes effective.<sup>9</sup> South Central explains that, on August 14, 2015, South Central and the City of Nixa, Missouri (Nixa) executed an asset purchase agreement for South Central to acquire approximately 10.82 miles of transmission line and 10 breakers.<sup>10</sup> South Central also states that, on August 17, 2015, South Central and

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<sup>6</sup> Generally, Competitive Upgrades are integrated transmission plan or high priority upgrades operated at or above 100kV that are not rebuilds of existing transmission facilities. *See generally* SPP, Open Access Transmission Tariff Sixth Revised Volume No. 1, Att. Y §§ I.1, II (2.0.0).

<sup>7</sup> Transmittal at 4-5; *see also* Rahill Testimony at 6.

<sup>8</sup> Transmittal at 2-5.

<sup>9</sup> *Id.* at 5.

<sup>10</sup> *Id.*

Tri-County Electric Co-Operative, Inc. (Tri-County) executed an asset purchase agreement for South Central to acquire 410 miles of transmission line.<sup>11</sup>

6. South Central requests a total ROE of 11.4 percent, which includes a 50 basis points RTO participation adder and a 100 basis points Transco adder under either section 205 or section 219. In addition, South Central requests under section 205 approval of a hypothetical capital structure of 60 percent equity and 40 percent debt until it has a total rate base of \$100 million, and approval to establish a regulatory asset account for prudently incurred pre-commercial expenses and to defer recovery until it has a total rate base of \$75 million. South Central also requests authorization to include CWIP in rate base for the Walkemeyer Project assuming South Central is the successful bidder.<sup>12</sup>

## **II. Notice of Filing and Responsive Pleadings**

7. Notice of South Central's filing was published in the *Federal Register*, 80 Fed. Reg. 54,560 (2015), with interventions and protests due on or before September 22, 2015. Timely motions to intervene were filed by the following entities: Golden Spread Electric Cooperative, Inc.; Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company; National Rural Electric Cooperative Association; Oklahoma Municipal Power Authority (Oklahoma Municipal); SPP; and Tri-County. City Utilities of Springfield, Missouri (Springfield) and Xcel Energy Services Inc. (Xcel) filed timely motions to intervene and protests and the Missouri Public Service Commission (Missouri Commission) filed a notice of intervention and protest. Missouri Joint Municipal Electric Utility Commission (Missouri Joint Municipal Commission), Occidental Permian Ltd. (Occidental), and Sunflower Electric Power Corporation and Mid-Kansas Electric Power Company, LLC (Sunflower and Mid-Kansas) filed timely motions to intervene and comments. ITC Great Plains, LLC (ITC Great Plains), New Mexico Cooperatives, and Western Farmers Electric Cooperative filed motions to intervene out-of-time. On October 6, 2015, South Central filed an answer to the comments and protests. On October 19, 2015, South Central filed a motion for Commission action prior to South Central's requested effective date. On October 21, 2015, Sunflower and Mid-Kansas, and Springfield filed answers. In its answer, Springfield opposes South Central's motion for action prior to South Central's requested effective date. On October 23, 2015, Oklahoma Municipal and Tri-County filed a joint answer stating that they support South Central's motion for action prior to the requested effective date.

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<sup>11</sup> *Id.* at 5, n.10. South Central filed an application for authorization to acquire the Tri-County assets on September 14, 2015, in Docket No. EC15-206-000.

<sup>12</sup> *Id.* at 3-4.

### **III. Discussion**

#### **A. Procedural Matters**

8. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2015), the timely motions to intervene and notice of intervention serve to make the entities that filed them parties to this proceeding. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d) (2015), the Commission will grant the late-filed motions to intervene given the entities' interest in the proceeding, the early stage of the proceeding, and the absence of undue prejudice or delay.

9. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2015), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We accept the answers of South Central, Sunflower and Mid-Kansas, Springfield, and Oklahoma Municipal and Tri-County because they have provided information that assisted us in our decision-making process.

#### **B. Requests for Incentives**

10. In the Energy Policy Act of 2005, Congress added section 219 to the FPA, directing the Commission to establish, by rule, incentive-based rate treatments to promote capital investment in electric transmission infrastructure.<sup>13</sup> The Commission subsequently issued Order No. 679, which sets forth processes by which a public utility may seek transmission rate incentives pursuant to section 219, including the incentives requested here by South Central.<sup>14</sup>

11. Pursuant to section 219, an applicant must show that "the facilities for which it seeks incentives either ensure reliability or reduce the cost of delivered power by reducing transmission congestion."<sup>15</sup> Also, as part of this demonstration, "section 219(d) provides that all rates approved under the Rule are subject to the requirements of sections 205 and 206 of the FPA, which require that all rates, charges, terms and conditions be just and reasonable and not unduly discriminatory or preferential."<sup>16</sup>

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<sup>13</sup> Pub. L. No. 109-58, §§ 1261, 1241, 119 Stat. 594 (2005).

<sup>14</sup> 16 U.S.C. § 824s (2012).

<sup>15</sup> Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 76.

<sup>16</sup> *Id.* P 8 (citing 16 U.S.C. §§ 824(d)-(e)).

12. In addition to satisfying the section 219 requirement of ensuring reliability and/or reducing the cost of delivered power by reducing congestion, Order No. 679 requires an applicant to demonstrate that there is a nexus between the incentive sought and the investment being made.<sup>17</sup> In Order No. 679-A, the Commission clarified that the nexus test is met when an applicant demonstrates that the total package of incentives requested is “tailored to address the demonstrable risks or challenges faced by the applicant.”<sup>18</sup> In November 2012, the Commission issued a transmission incentives policy statement providing additional guidance regarding its evaluation of applications for transmission rate incentives under section 219 and Order No. 679.<sup>19</sup>

13. South Central submitted its request for the hypothetical capital structure and regulatory asset incentives under section 205, and its request for the CWIP incentive under Order No. 679. Additionally, South Central submitted its request for the RTO and Transco adders under section 219, or in the alternative, under section 205. South Central states that the Commission has authority to grant policy-based incentives under section 205 where projects do not qualify under the standards set forth in Order No. 679.<sup>20</sup>

14. The Commission previously has held that the regulations under section 219 require a project-specific demonstration of the nexus between the requested incentives and the risks and challenges of the projects, a demonstration that cannot be met when the requesting entity has not identified any specific projects.<sup>21</sup> However, incentives available under Order No. 679 can also be granted under the Commission’s section 205 authority under certain circumstances, such as to promote important public policy goals.<sup>22</sup> The Commission has exercised its section 205 authority to grant certain incentives to

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<sup>17</sup> *Id.* P 48.

<sup>18</sup> Order No. 679-A, FERC Stats. & Regs. ¶ 31,236 at P 40.

<sup>19</sup> *See Promoting Transmission Investment Through Pricing Reform*, 141 FERC ¶ 61,129 (2012) (Transmission Incentives Policy Statement).

<sup>20</sup> *See* Transmittal at 3, n.5.

<sup>21</sup> *Transource Wisconsin, LLC*, 149 FERC ¶ 61,180, at P 15 (2014) (*Transource Wisconsin*).

<sup>22</sup> *See Pacific Gas and Elec. Co.*, 123 FERC ¶ 61,067 (2008); *So. Cal. Edison Co.*, 133 FERC ¶ 61,107 (2010).

nonincumbent transmission developers competing in the Order No. 1000 competitive solicitation process.<sup>23</sup>

**1. Request for Authorization to Establish a Regulatory Asset**

**a. Proposal**

15. South Central requests authorization under section 205 to recover its prudently-incurred, non-capitalized start-up costs, including pre-commercial and formation costs, through a regulatory asset and to defer recovery until it has \$75 million in rate base.<sup>24</sup> South Central explains that amortization would be deferred until South Central has \$75 million in rate base so that Nixa and other Public Power Partners who sell assets to South Central in advance of South Central winning an SPP-awarded transmission project will not bear a disproportionate amount of the costs included in the regulatory asset.<sup>25</sup> South Central states that it will seek Commission approval of the total estimated amount of such costs to be incurred in the regulatory asset in a subsequent section 205 filing. In addition, South Central explains that the regulatory asset is appropriate because South Central's unique business model will result in considerable start-up expenses that are not currently recoverable. South Central believes that the regulatory asset incentive is an appropriate policy incentive because it mitigates risks associated with the formation of a new transmission company, thereby benefiting consumers who are better served by new business models and developments.<sup>26</sup>

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<sup>23</sup> See *Xcel Energy Sw. Transmission Co., LLC*, 149 FERC ¶ 61,182 (2014) (*XEST*); *Xcel Energy Transmission Dev. Co., LLC*, 149 FERC ¶ 61,181 (2014) (*XETD*); *Transource Wisconsin*, 149 FERC ¶ 61,180; *Transource Kansas, LLC*, 151 FERC ¶ 61,010 (2015) (*Transource Kansas*); *ATX Southwest, LLC*, 152 FERC ¶ 61,193 (2015) (*ATX Southwest*); *Midwest Power Transmission Arkansas, LLC*, 152 FERC ¶ 61,210 (2015) (*Midwest Power*); *Kanstar Transmission, LLC*, 152 FERC ¶ 61,209 (2015) (*Kanstar*).

<sup>24</sup> Transmittal at 26.

<sup>25</sup> *Id.*; see also Rahill Testimony at 22 (“Unlike *XEST* and others, we are not proposing to hold all costs until a Competitive Upgrade is placed into service because we will . . . be acquiring assets, and ideally, constructing smaller local projects in advance of when we are selected for a Competitive Upgrade”).

<sup>26</sup> *Id.* at 26-27 (citing *XEST*, 149 FERC ¶ 61,182 at P 33-35; *Transource Missouri, LLC*, 141 FERC ¶ 61,075, at PP 56-59 (2012) (*Transource Missouri*); *Atlantic Grid Operations A LLC, et al.* 135 FERC ¶ 61,144, at PP 101-107 (2011); *PJM*

(continued ...)

16. South Central states that deferring amortization until South Central has \$75 million in rate base will protect South Central's initial customers from bearing a disproportionate burden by spreading costs to a subsequent "critical mass" of customers who are benefited by South Central's start-up expenses, consistent with the principles of cost causation.<sup>27</sup> South Central also states that the up-front work with drafting co-development agreements and negotiating with Oklahoma Municipal and Missouri Joint Municipal Commission will inform all future co-development agreements, and that it is not appropriate for those costs to be assigned totally to South Central's initial assets and applicable zonal customers.<sup>28</sup> South Central explains that it is negotiating asset purchase agreements for acquisition of existing assets, joint ownership agreements for use when new facilities are co-owned, and transfer capability leases to use when the Public Power Partner enters into a capital lease of the Public Power Partner's share of assets, which will all be used as *pro forma* agreements in future dealings. South Central asserts that these agreements with Public Power Partners are fundamental to its business model and have resulted in substantially greater start-up costs than a typical new-entrant Transco would have, and that the costs of these efforts should be spread to a larger rate base.<sup>29</sup>

17. South Central also explains that it will accrue carrying costs in the Start-Up Regulatory Asset account at its weighted costs of capital rate on the unamortized cost balances, including the balance of deferred carrying costs. South Central requests Commission approval to apply this carrying charge to any amounts tracked in the Start-Up Regulatory Asset account, and commits to restrict the compounding of carrying charges to no more frequently than two times a year. In addition, South Central explains

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*Interconnection, L.L.C., and Virginia Electric and Power Co.*, 109 FERC ¶ 61,012, at P 50 (2004)). South Central also notes that, because South Central and its sister Transco, MidContinent, which operates in the Midcontinent Independent System Operator, Inc. (MISO) region propose to use the same business model, these start-up costs are being divided between the two Transcos to reflect the value of establishing principles in one RTO that apply equally to the other.

<sup>27</sup> *Id.* at 28 (citing *Midwest ISO Transmission Owners v. FERC*, 373 F.3d 1361, 1368 (D.C. Cir. 2005); *Town of Concord, Mass. v. FERC*, 729 F.2d 824, 828 (D.C. Cir. 1984); *Delmarva Power & Light Co.*, 63 FERC ¶ 61,211, at 62,574 (1993)).

<sup>28</sup> *Id.*; see also Kincheloe Testimony at 4.

<sup>29</sup> Transmittal at 28.

that the regulatory assets will be amortized to Account 566, Miscellaneous Transmission Expenses.<sup>30</sup>

18. South Central requests that, if its requested regulatory asset is denied under section 205, the Commission confirm South Central is not barred in the future from requesting a regulatory asset incentive to recover all prudently-incurred, non-capitalized costs dating back to 2013.<sup>31</sup>

**b. Comments**

19. Springfield argues that South Central fails to acknowledge that its requested regulatory asset incentive is only available in connection with transmission projects awarded under SPP's Order No. 1000 competitive solicitation process, and does not apply to acquisitions of existing assets. Springfield requests that the Commission clarify that South Central's regulatory asset incentive is not available to South Central in connection with its proposed acquisition of any existing transmission assets.<sup>32</sup>

20. Sunflower and Mid-Kansas request that, if the Commission grants the regulatory asset incentive, the Commission clarify that South Central must make a section 205 filing to demonstrate that South Central's start-up costs recorded in the regulatory asset account are just and reasonable before the costs can be recovered through South Central's Formula Rate.<sup>33</sup>

**c. Answers**

21. South Central states that the Commission has approved a regulatory asset to defer start-up and development costs that was separate from a regulatory asset for pre-commercial costs for new transmission projects.<sup>34</sup> South Central states that the general start-up regulatory asset in *ITC Great Plains* was deemed necessary to ameliorate the rate impact of collecting the full start-up costs of a new entity from a small subset of the much larger universe of customers that will benefit. South Central reiterates that deferring

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<sup>30</sup> *Id.* at 29.

<sup>31</sup> *Id.*

<sup>32</sup> Springfield Protest at 12-13.

<sup>33</sup> Sunflower and Mid-Kansas Protest at 9.

<sup>34</sup> South Central Answer at 8 (citing *ITC Great Plains, LLC*, 126 FERC ¶ 61,223, at P 74 (2009) (*ITC Great Plains*)).

amortization until South Central has \$75 million in rate base will protect South Central's initial customers from bearing a disproportionate burden by spreading costs to a subsequent "critical mass" of customers who are benefited by South Central's start-up expenses.<sup>35</sup>

22. Sunflower and Mid-Kansas reiterate that if the Commission grants South Central's request to create a regulatory asset, it should clarify that South Central must make a section 205 filing to demonstrate that its start-up costs recorded in the regulatory asset are just and reasonable before the costs can be recovered through South Central's Formula Rate.<sup>36</sup>

23. Springfield reiterates that South Central is not entitled to a regulatory asset incentive in connection with purchased facilities. Springfield asserts that the Commission has limited its grant of a regulatory asset incentive to non-incumbent transmission developers competing in an Order No. 1000 competitive solicitation process. Springfield asserts that South Central fails to acknowledge this distinction.<sup>37</sup>

**d. Commission Determination**

24. We find it is appropriate to grant South Central's request for the regulatory asset incentive under section 205, and we will approve South Central's request to defer recovery until South Central has \$75 million in rate base. The Commission has held that this incentive can be granted under the Commission's section 205 authority if the incentive furthers a public policy goal.<sup>38</sup> We find that South Central's request for the regulatory asset incentive under section 205 furthers the Commission's policy goal of facilitating the participation of nonincumbent transmission developers in the Order No. 1000 competitive solicitation process, thereby encouraging competition.<sup>39</sup>

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<sup>35</sup> *Id.* at 8-9.

<sup>36</sup> Sunflower and Mid-Kansas Answer at 5.

<sup>37</sup> Springfield Answer at 3-4.

<sup>38</sup> See *Pacific Gas and Elec. Co.*, 123 FERC ¶ 61,067 at P 33; *So. Cal. Edison Co.*, 133 FERC ¶ 61,107 at P 62; *XEST*, 149 FERC ¶ 61,182 at P 33; *XETD*, 149 FERC ¶ 61,181 at P 18; *Transource Wisconsin*, 149 FERC ¶ 61,180 at P 16; *Transource Kansas*, 151 FERC ¶ 61,010 at P 19; *Kanstar*, 152 FERC ¶ 61,209 at P 22.

<sup>39</sup> See, e.g., Order No. 1000-A, 139 FERC ¶ 61,132 at P 87 ("[T]he Commission seeks to make it possible for nonincumbent transmission developers to compete in the proposal of more efficient or cost-effective transmission solutions.").

Nonincumbent transmission developers wishing to bid on regional transmission projects in SPP's competitive solicitation process must incur early pre-commercial and formation costs, but because they do not have plant in service or rates in effect, they do not have a mechanism to recover these costs as they are incurred, as do incumbent transmission owners whose transmission planning-related costs are expensed to transmission operations and maintenance accounts that are typically included in transmission formula rates. We also grant South Central's request to amortize the regulatory asset and to accrue monthly carrying charges, compounded semi-annually, effective November 2, 2015.

25. As discussed above, South Central will own assets in SPP and therefore could assess its start-up costs to its initial rate base; however, South Central proposes to assess its start-up costs to a larger rate base by setting a floor of \$75 million in rate base and deferring recovery until that floor is met. This proposal protects South Central's initial customers from bearing a disproportionate burden of its start-up costs and spreads the start-up costs to subsequent beneficiaries of South Central's unique business model. In addition, we find that granting South Central's request is consistent with *ITC Great Plains*, where the Commission granted ITC Great Plains' request for the regulatory asset incentive to recover its start-up costs until its total in-service gross property, plant, and equipment exceeded \$100 million.<sup>40</sup>

26. We disagree with Springfield's assertion that South Central's requested regulatory asset incentive is not just and reasonable when applied to acquisitions of existing assets. South Central's start-up costs include expenses to develop its unique business model, which involves identifying and acquiring assets from its Public Power Partners and negotiating the initial co-development agreements and *pro forma* joint ownership documents.<sup>41</sup> Given South Central's unique business model, coupled with its proposal to defer recovery of its start-up costs until it has \$75 million in rate base, we find South Central's requested regulatory asset incentive to be just and reasonable.

27. However, while we will allow South Central to record its prudently incurred costs as a regulatory asset, South Central must make a section 205 filing to demonstrate that the pre-commercial and formation costs are just and reasonable before it includes them in rates. In that filing, South Central must establish that the costs included in the regulatory asset are costs that would otherwise have been chargeable to expense in the period

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<sup>40</sup> See *ITC Great Plains*, 126 FERC ¶ 61,223 at PP 71-76.

<sup>41</sup> See *id.* (granting a regulatory asset incentive for ITC Great Plain's proposal to acquire existing assets and build transmission projects).

incurred but were deferred consistent with the authorization granted herein; entities will be able to challenge the reasonableness of those costs at that time.<sup>42</sup>

## 2. Request for Authorization to Use Hypothetical Capital Structure

### a. Proposal

28. South Central requests authorization under section 205 to use a hypothetical capital structure of 60 percent equity and 40 percent debt until it has \$100 million in rate base; once it reaches \$100 million, South Central proposes to use its actual capital structure subject to a 60 percent cap on equity.<sup>43</sup> South Central states that, at this initial stage, it has been funded entirely by equity from its ultimate parent company, Blackstone, and does not currently have arms-length, third-party debt.<sup>44</sup>

29. South Central explains that its capital structure will likely fluctuate based on the amount, timing, and frequency of capital infusion that is needed to fund the construction cycle of transmission projects. According to South Central, a hypothetical capital structure for South Central's initial investments will result in more predictable cash flows, thereby helping South Central raise capital at reasonable costs, remain competitive in bidding to develop new transmission projects in SPP, and lower rates for customers taking service under the SPP Tariff.<sup>45</sup> South Central states that the improved predictability of costs will assist South Central in making informed bids in SPP's Order No. 1000 process and place South Central on a level playing field with incumbent transmission owners.<sup>46</sup>

30. South Central also states that a hypothetical capital structure is just and reasonable until South Central "secures permanent financing," at which time South Central will cap the equity portion of the cost of capital calculation at 60 percent.<sup>47</sup> South Central

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<sup>42</sup> See, e.g., *Midwest Power*, 152 FERC ¶ 61,210 at P 18; *Kanstar*, 152 FERC ¶ 61,209 at P 23.

<sup>43</sup> South Central Answer at 10-11.

<sup>44</sup> Transmittal at 11, 13.

<sup>45</sup> Rahill Testimony at 8; Heinz Testimony at 19.

<sup>46</sup> Rahill Testimony at 8.

<sup>47</sup> Transmittal at 11-12.

explains that once it has \$100 million in rate base, South Central will use its actual capital structure for all transmission facilities, including competitive projects, subject to a 60 percent cap on equity.<sup>48</sup> South Central anticipates that a significant portion of its capital will be equity in its initial years of operation and the voluntary cap limits the equity costs passed through in rates, even if a larger percentage of the actual funds used by South Central, come from equity contributions of Blackstone.<sup>49</sup>

**b. Comments**

31. Sunflower and Mid-Kansas argue that South Central's request for a hypothetical capital structure "until [South Central] secures permanent financing" is too vague, and that a more clear condition would ensure that the hypothetical capital structure is in place only as long as necessary to facilitate South Central's participation in SPP's competitive solicitation process.<sup>50</sup> Sunflower and Mid-Kansas also argue that South Central's hypothetical capital structure should remain in place only until the first SPP Competitive Upgrade awarded to South Central is placed in service, or until South Central closes on acquisition of its first facility. In addition, they argue that the Commission should consider whether South Central's requested hypothetical capital structure should be limited to the Order No. 1000 competitive solicitation processes.<sup>51</sup>

32. Similarly, Springfield argues that South Central fails to acknowledge that its requested hypothetical capital structure incentive is only available in connection with transmission projects that are awarded under SPP's Order No. 1000 competitive solicitation process, and does not apply to acquisitions of existing assets. Springfield requests that the Commission clarify that South Central's hypothetical capital structure is not available to South Central in connection with its proposed acquisition of any existing transmission assets.<sup>52</sup>

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<sup>48</sup> Rahill Testimony at 8.

<sup>49</sup> *Id.*

<sup>50</sup> Sunflower and Mid-Kansas Protest at 6.

<sup>51</sup> *Id.* at 7.

<sup>52</sup> Springfield Protest at 12-13.

c. Answers

33. South Central states that, while the Commission has in some recent cases limited the hypothetical capital structure incentive to projects that are developed through the Order No. 1000 process, the Commission also approved a hypothetical capital structure for a Transco without limiting its application to new transmission projects.<sup>53</sup> South Central states that allowing South Central to use a hypothetical capital structure will benefit rate payers. South Central explains that its initial sources of capital will be primarily equity, and that limiting the equity to 60 percent of the capital structure for rate purposes will result in a lower overall cost of capital and lower rates.<sup>54</sup>

34. South Central also provides a more clear condition, as requested by Sunflower and Mid-Kansas, that it is requesting to use the hypothetical capital structure only until it reaches \$100 million in assets, as specified in Note Q to the formula rate template included as Attachment B to its filing. South Central also acknowledges that the Heintz testimony erroneously cites \$75 million, and that the \$100 million threshold is intended to and should govern.<sup>55</sup>

35. Sunflower and Mid-Kansas state that, as the Commission found in *XEST*,<sup>56</sup> which is relied upon in South Central's filing, the hypothetical capital structure should be limited to South Central's projects that are the result of an Order No. 1000 competitive solicitation process.<sup>57</sup>

36. Springfield reiterates that South Central is not entitled to a hypothetical capital structure in connection with purchased facilities. According to Springfield, the Commission has limited its grant of a hypothetical capital structure to non-incumbent transmission developers competing in an Order No. 1000 competitive solicitation process. Springfield argues that South Central fails to acknowledge this distinction. Springfield also asserts that South Central's clarification that it is requesting to use the

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<sup>53</sup> South Central Answer at 9 (citing *Michigan Electric Transmission Co., LLC*, 105 FERC ¶ 61,214 (2003)).

<sup>54</sup> *Id.*

<sup>55</sup> *Id.* at 10-11 (citing Heinz Testimony at 19).

<sup>56</sup> *See XEST*, 149 FERC ¶ 61,182 at P 22.

<sup>57</sup> Sunflower and Mid-Kansas Answer at 3-4.

hypothetical capital structure only until it reaches \$100 million in assets does not justify a hypothetical capital structure for all of its transmission assets.<sup>58</sup>

**d. Commission Determination**

37. We will grant South Central's request to use a hypothetical capital structure of 60 percent equity and 40 percent debt, subject to South Central making a compliance filing committing to adopt its actual capital structure, capped at 60 percent equity as South Central voluntarily proposes, once it has any assets in service, whether as a result of its plan to acquire existing facilities, or as a result of placing into service projects it is awarded the right to construct and own. As the Commission held in *XEST* and *XETD*, nonincumbent transmission developers have a particular need for the hypothetical capital structure incentive because it establishes certain financial principles that incumbent transmission owners currently have in place but that remain undetermined for nonincumbent transmission developers.<sup>59</sup> We will grant this request under section 205 because we find that granting the requested hypothetical capital structure furthers the policy goal of facilitating the participation of nonincumbent transmission developers in the Order No. 1000 competitive solicitation process, thereby encouraging competition.<sup>60</sup> In this instance, allowing the nonincumbent transmission developer to utilize the requested hypothetical capital structure will facilitate the nonincumbent transmission developer's participation in the Order No. 1000 competitive solicitation process.

38. Further, we find that granting South Central's requested hypothetical capital structure, as conditioned, is consistent with the Commission's determination in *ATX Southwest*, where ATX Southwest requested a hypothetical capital structure until it places \$250 million of plant in service, but the Commission granted the hypothetical capital structure subject to ATX Southwest adopting its actual capital structure once any project awarded to ATX Southwest goes into service.<sup>61</sup> The Commission explained that allowing ATX Southwest to maintain a hypothetical capital structure until it acquires \$250 million in rate base would grant ATX Southwest an undue competitive advantage if the first project ATX Southwest pursues is under the requested cap, which could result in ATX Southwest having one or more projects fully in service while still using a hypothetical capital structure. The Commission also found that ATX Southwest had not

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<sup>58</sup> Springfield Answer at 3-4.

<sup>59</sup> *XEST*, 149 FERC ¶ 61,182 at P 22; *XETD*, 149 FERC ¶ 61,181 at P 13.

<sup>60</sup> See, e.g., Order No. 1000-A, 139 FERC ¶ 61,132 at P 87.

<sup>61</sup> *ATX Southwest*, 152 FERC ¶ 61,193 at PP 26, 29.

sufficiently demonstrated that it will not have a stabilized capital structure for ratemaking purposes once any project goes into service, and therefore directed ATX Southwest to make a compliance filing committing to using its actual capital structure once any project awarded by SPP goes into service.<sup>62</sup> Here, we find that requiring South Central to adopt its actual capital structure, subject to South Central's voluntary cap of 60 percent equity, once its first asset goes into service, whether as a result of its plan to acquire existing facilities, or as a result of placing into service projects it is awarded the right to construct and own, addresses the Commission's concern and the concerns expressed by protestors that having a project in service while still using a hypothetical capital structure affords South Central an undue competitive advantage.

39. Additionally, with respect to protestors' concerns that the hypothetical capital structure should be limited to the Order No. 1000 competitive solicitation process, we find that the requirement that South Central adopt its actual capital structure, subject to its voluntary cap of 60 percent equity, once it places any assets in service, addresses these concerns.

### **3. Base ROE and Zone of Reasonableness**

#### **a. Proposal**

40. South Central requests a total ROE of 11.4 percent, which includes two incentive adder requests under either section 219 or section 205—a 50 basis points RTO participation adder and a 100 basis points Transco adder.<sup>63</sup> In support of its requested ROE, South Central states that its proposed base ROE of 10.08 percent is reasonable. South Central states that based on the results of the two-stage Discounted Cash Flow (DCF) model, South Central establishes a range of reasonableness of 6.11 percent and 11.4 percent. South Central explains that, considering the need to meet established regulatory standards, continued anomalies in the capital markets, and results of alternative methods of calculating the cost of capital, it recommends a base ROE of 10.08 percent, which falls halfway between the median and the top end of the zone of reasonableness established by the two-step DCF method.<sup>64</sup>

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<sup>62</sup> *Id.* P 31.

<sup>63</sup> The 100 basis points Transco adder is discussed further in section III.B.4 of this order.

<sup>64</sup> Transmittal at 13-14.

41. South Central explains that adding 150 basis points to the proposed base ROE results in an ROE of 11.58 percent, which is above the range of reasonableness of 11.4 percent established by its expert witness. Accordingly, in order to ensure that South Central's overall ROE is just and reasonable, South Central proposes that its total ROE will not exceed the top of the range of reasonableness of 11.4 percent.<sup>65</sup>

**b. Comments**

42. The Missouri Commission, Springfield, and Xcel argue that the Commission should set the ROE for hearing and settlement judge procedures.<sup>66</sup> The Missouri Commission asserts that South Central has not demonstrated that its proposed base ROE will lead to just and reasonable rates.<sup>67</sup> Specifically, the Missouri Commission argues that South Central has not performed a DCF analysis consistent with the Commission's two-phase DCF methodology. Springfield argues that South Central's proposed ROE is excessive, and therefore unjust and unreasonable.<sup>68</sup> Xcel argues that South Central has not sufficiently justified its proposal to use a ROE that is at the maximum of South Central's proposed zone of reasonableness.<sup>69</sup> Both the Missouri Commission and Springfield argue that TECO Energy was improperly included in the proxy group.

**c. Answers**

43. South Central states that TECO Energy was appropriately included in the proxy group in late August when the testimony supporting South Central's filing was completed. South Central asserts that selectively removing one or more companies from the proxy group without redoing the entire analysis is inconsistent with the Commission's methodology. Additionally, although South Central contends that its filing adequately supports a finding that the requested 11.4 percent ROE is just and reasonable, South Central acknowledges that the Commission has routinely set for hearing the appropriate ROE in recent formula rate filings. South Central requests that, if the Commission is not

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<sup>65</sup> *Id.* at 26.

<sup>66</sup> Xcel asserts that a five-month suspension is warranted because South Central's proposed formula and protocols are substantially deficient and result in overstated rates. Xcel Protest at 18.

<sup>67</sup> Missouri Commission Protest at 6-8.

<sup>68</sup> *Id.* at 6.

<sup>69</sup> Xcel Protest at 18.

prepared to approve the requested ROE, the Commission approve other aspects of the formula and allow it to go into effect subject to refund while the ROE issue is resolved at settlement or hearing.<sup>70</sup>

44. Springfield argues that South Central's inclusion of TECO ignores Commission precedent that states that any company engaged in restructuring activity sufficiently significant to distort the DCF inputs must be eliminated from a DCF proxy group.<sup>71</sup> Springfield explains that TECO announced its intention to "explore strategic alternatives" and engaged a financial advisor for that purpose on July 16, 2015, which was during South Central's DCF study period. Springfield argues that following TECO's announcement, TECO's share price increased by 16 percent in one day. According to Springfield, this jump in share price is cause to exclude TECO from the DCF proxy group.<sup>72</sup>

**d. Commission Determination**

45. Our preliminary analysis indicates that South Central's proposed base ROE has not been shown to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful. Therefore, we will accept South Central's proposed ROE for filing, suspend it for a nominal period, to be effective November 2, 2015, subject to refund, and set it for hearing and settlement judge procedures.

46. While we are setting these matters for a trial-type evidentiary hearing, we encourage the parties to make every effort to settle their disputes before hearing procedures are commenced. To aid the parties in their settlement efforts, we will hold the hearing in abeyance and direct that a settlement judge be appointed, pursuant to Rule 603 of the Commission's Rules of Practice and Procedure.<sup>73</sup> If the parties desire, they may, by mutual agreement, request a specific judge as the Settlement Judge in the proceeding; otherwise, the Chief Judge will select a judge for this purpose. The settlement judge shall report to the Chief Judge and the Commission within 30 days of the date of the

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<sup>70</sup> South Central Answer at 10.

<sup>71</sup> Springfield Answer at 5 (citing *Kern River Transmission Co.*, Opinion No. 486-B, 126 FERC ¶ 61,034, at P 79 (2009); *Enbridge Pipelines, (KPC)* 100 FERC ¶ 61,260, at P 237 (2002)).

<sup>72</sup> *Id.* at 4-5.

<sup>73</sup> 18 C.F.R. § 385.603 (2015).

appointment of the settlement judge, concerning the status of settlement discussions. Based on this report, the Chief Judge shall provide the parties with additional time to continue their settlement discussions or provide for commencement of a hearing by assigning the case to a presiding judge.

**4. RTO Adder**

**a. Proposal**

47. South Central requests a 50 basis points adder for RTO participation. In support of this request, South Central states that it is a member of SPP under the SPP Tariff and intends to transfer functional control of any transmission assets it acquires or constructs to SPP.<sup>74</sup>

**b. Comments**

48. Springfield also argues that the Commission should find that none of the Order No. 679 transmission incentives applies in the context of South Central's acquisition of existing transmission assets, and therefore that they are not available to South Central under section 219 or section 205.<sup>75</sup> Springfield asserts that South Central's requested incentives may only be applied to projects developed through the Order No. 1000 competitive solicitation process.<sup>76</sup>

**c. Commission Determination**

49. Consistent with previous Commission orders, we will grant South Central's request for a 50 basis point incentive ROE adder for its participation in SPP, subject to the resulting ROE being within the zone of reasonableness established pursuant to the hearing and settlement judge procedures established herein.<sup>77</sup>

50. To the extent that Springfield argues that the RTO adder incentive is inappropriate in the context of South Central's acquisition of existing transmission assets, we disagree.

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<sup>74</sup> Transmittal at 14.

<sup>75</sup> Springfield Protest at 2.

<sup>76</sup> *Id.* at 17-18.

<sup>77</sup> See, e.g., *MidAm. Cent. Cal. Transco, LLC*, 147 FERC ¶ 61,179, at P 45 (2014); *Transource Missouri*, 141 FERC ¶ 61,075 at P 75; *XEST*, 149 FERC ¶ 61,182 at P 64; *Transource Kansas*, 151 FERC ¶ 61,010 at P 46; *Kanstar*, 152 FERC ¶ 61,209 at P 51.

We find that granting South Central an incentive for participation in an RTO is consistent with section 219 and Commission precedent.<sup>78</sup> A utility is presumed eligible for an RTO incentive “if it can demonstrate that it has joined an RTO, ISO, or other Commission-approved Transmission Organization, and that its membership is ongoing,” and need not provide additional justification as to the necessity or benefits of the incentive.<sup>79</sup> South Central states that it is a member of SPP under the SPP Tariff and intends to transfer functional control of any transmission asset it acquires or constructs to SPP.<sup>80</sup> Therefore, granting the RTO adder is appropriate here.

## 5. Transco Adder

### a. Proposal

51. In support of its request for a 100 basis points Transco adder, South Central states that it meets the definition of a Transco. South Central asserts that granting its request for the Transco adder is in the public interest because, through its joint development arrangements with Public Power Partners, and its sole focus on transmission expansion coupled with robust economic backing, it has the attributes contemplated by the Commission in Order No. 679 as qualifying for the additional adder incentive. First, South Central asserts that its characteristics demonstrate “an ability and propensity to increase transmission investment”<sup>81</sup> and that co-ownership of transmission assets with market participants “does not affect the integrity of [South Central’s] investment planning, capital formation, and investment process.”<sup>82</sup> Second, South Central asserts that its public participation business model furthers the Commission policy objectives of attaining public power and cooperative participation in RTOs and bringing important and underrepresented Public Power Partners into the RTO planning and transmission ownership process.<sup>83</sup> Third, South Central argues that its public power participation

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<sup>78</sup> See Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 326.

<sup>79</sup> See *Midcontinent Indep. Sys. Operator, Inc.*, 150 FERC ¶ 61,004, at P 41 (2015).

<sup>80</sup> Transmittal at 4, 14.

<sup>81</sup> *Id.* at 18 (citing *Green Power Express LP*, 127 FERC ¶ 61,031, at P 87, n.83 (2009)).

<sup>82</sup> *Id.* at 18-21 (citing Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 240).

<sup>83</sup> *Id.* at 21-24 (citing Order No. 679, FERC Stats. & Regs. ¶ 31,222 at PP 354-357).

business model presents additional risks not borne by other Transco models that separately justifies the Transco adder.<sup>84</sup>

52. South Central explains that its proposal is different from *ITC Midwest*, where the Commission granted a Transco adder to ITC Midwest, but reduced the requested adder of 100 basis points to 50 basis points.<sup>85</sup> South Central explains that, unlike the situation of ITC Midwest, South Central is seeking the Transco adder to facilitate its efforts to tackle a complicated, but important, public policy issue of ensuring the efforts to expand the nation's transmission grid to appropriately include all stakeholders in both the planning and ownership of new facilities.<sup>86</sup> According to South Central, its business model offers unique benefits and helps to attain the policy objectives of the Commission that are not attained by other transmission companies.

53. South Central argues that the Commission has made clear that complete independence is not a prerequisite for incentives if the Transco can show, for example, why active ownership by an affiliate does not affect the integrity of its investment planning, capital formation, and investment process or how its business structure provides support for transmission investments in a way similar to the structure of non-affiliated Transcos or Transcos with only passive ownership by market participants.<sup>87</sup> South Central explains that, while no Public Power Partner owns equity in South Central, one or more of the Public Power Partners will co-own assets and persons nominated by the Public Power Partners will hold one-third of South Central's board seats. South Central also states that it is not seeking an "independence" adder given the constraints the Commission has placed on "independent" Transcos seeking to preserve their "independence" qualification.<sup>88</sup>

54. South Central explains that its funding structure, governance structure, and business model ensure that South Central's transmission investments will be similar to those of an independent Transco. For example, South Central states that it has access to ample, long-term capital to invest via Blackstone, and that the Blackstone investment in

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<sup>84</sup> *Id.* at 24-26.

<sup>85</sup> *Id.* at 17 (citing *Midcontinent Indep. System Operator, Inc.*, 150 FERC ¶ 61,252, at P 45 (2015) (*ITC Midwest*)).

<sup>86</sup> *Id.*

<sup>87</sup> *Id.* at 15 (citing Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 240).

<sup>88</sup> *Id.*

South Central will be managed independently.<sup>89</sup> In addition, South Central argues that its sole business is the development and ownership of RTO-controlled transmission, and that “[t]here is no distraction from internal or affiliated generation business nor do the limited roles the Public Power Partners have in [South Central’s] planning process and governance create the potential for such a distraction.”<sup>90</sup> Further, South Central explains that its planning activities are directed by management, with input from, but no veto rights for, its Public Power Partners; in other words, Public Power Partners may add to what South Central plans, but they cannot veto projects that might compete with their own generation.<sup>91</sup> South Central also argues that its business structure ensures robust transmission development in a way similar to the structure of non-affiliated Transcos or Transcos with only passive ownership by market participants. In this regard, South Central asserts that the combination of Blackstone capital with South Central’s management and local presence and knowledge of its Public Power Partners will create a unique vehicle for driving the type of targeted investment in needed transmission.<sup>92</sup>

55. South Central also argues that in Order No. 679 the Commission stated its intent to use incentives to encourage public power participation in the expansion of the transmission system.<sup>93</sup> South Central contends that its unique business model furthers the Commission’s policy goals of attaining public power and cooperative participation in RTOs and therefore warrants the maximum Transco adder of 100 basis points. According to South Central, its approach positions small public power entities to address and meet neglected local needs and to win regional competitive projects that would otherwise be beyond their reach. In this regard, South Central asserts that its public power partnership can help address the neglected needs of small public power entities in SPP by, for example (1) addressing a lack of comparability between the loads of transmission dependent municipal utility and those of a vertically-integrated utility in planning and reliability upgrades; and (2) seeking to lower the current minimum voltage thresholds in place for competitive transmission projects in order to benefit Public Power Partners.<sup>94</sup> South Central also states that its co-development approach creates a practical

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<sup>89</sup> *Id.* at 18.

<sup>90</sup> *Id.*

<sup>91</sup> *Id.* at 19.

<sup>92</sup> *Id.* at 20.

<sup>93</sup> *Id.* at 21 (citing Order No. 679, FERC Stats. & Regs. ¶ 31,222 at PP 354-357).

<sup>94</sup> *Id.* at 23-24.

means for the Commission to grant incentives to South Central's Public Power Partners. South Central explains that its Public Power Partners will each file its own formula rate to recover an annual transmission revenue requirement for jointly-owned projects and these formula rates are expected to mirror South Central's ROE and utilize a hypothetical capital structure. Thus, South Central concludes that the Public Power Partners will directly benefit from the incentives approved for South Central by ensuring that South Central's Public Power Partners have the opportunity to earn margins from the region or zone as a whole on a basis comparable to how they have been paying margins to other transmission owners.<sup>95</sup>

56. Further, South Central also states that its unique public participation model supports the Transco adder because South Central takes on additional infrastructure risk and financing costs. For example, South Central explains that it bears additional financing risk because state constitutions limit the ability of Public Power Partners to directly own equity in South Central or its parent company, Heartland. Thus, project-by-project co-ownership is the only feasible business model for Public Power Partners, and this needed flexibility increases South Central's overall risk. As such, South Central explains that it must submit bids in the competitive solicitation process reflecting expected Public Power Partner ownership percentages that are based on non-binding notices of intent to purchase.<sup>96</sup> South Central also explains that it bears additional risk because it will be responsible for North American Electric Reliability Corporation(NERC) reliability compliance responsibilities for existing assets acquired from its Public Power Partners and that any NERC penalties will be South Central's alone, and will not be passed *pro rata* back to co-owners.<sup>97</sup> South Central argues that, by bringing assets under South Central's compliance umbrella, South Central can provide a more robust and more cost-effective compliance program than would be possible for many small utilities who would otherwise own the assets, and that this business model furthers the Commission's goals regarding grid reliability and compliance.<sup>98</sup>

#### **b. Comments**

57. Missouri Joint Municipal Commission supports South Central's proposal, arguing that South Central will provide a unique opportunity for public power participants such as

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<sup>95</sup> *Id.* at 24.

<sup>96</sup> *Id.* at 25.

<sup>97</sup> *Id.*

<sup>98</sup> *Id.* at 24-26.

Missouri Joint Municipal Commission to become actively involved in the SPP transmission planning process and to compete for opportunities to invest in transmission upgrades through that process. According to Missouri Joint Municipal Commission, it and its members, as transmission dependent utilities, have not had a seat at the table in the SPP transmission planning and have seen their transmission rates increase significantly over time as new transmission has been built, primarily by incumbent transmission owners.<sup>99</sup> Missouri Joint Municipal Commission argues that the business model adopted by South Central provides the opportunity to compete for transmission investment opportunities to public power organizations. In addition, Missouri Joint Municipal Commission states that, if South Central is awarded investment opportunities through the competitive solicitation process, Missouri Joint Municipal Commission can elect, on a case-by-case basis, to participate in the development, financing, construction, ownership and operation of those projects.<sup>100</sup>

58. Sunflower and Mid-Kansas assert that the 100 basis points Transco adder may not be warranted to the extent South Central's investments involve acquisition of existing transmission facilities as opposed to the expansion of the transmission system.<sup>101</sup> The Missouri Commission, Springfield, and Xcel oppose the 100 basis points Transco adder. According to the Missouri Commission, South Central's proposed 100 basis points Transco adder is not appropriate under current market conditions.<sup>102</sup> The Missouri Commission requests that the Commission consider the recent increase in SPP transmission project bid competition and the potential reduction in transmission project costs that appear to be occurring in the market most recently since January 2015 when the ITC Midwest application was filed, leading to the Commission's approval of the 50 basis points Transco adder.<sup>103</sup> The Missouri Commission asserts that the Transco adder incentive may no longer be relevant or necessary in a post-Order No. 1000 transmission project world. Further, the Missouri Commission argues that, if the Commission approves South Central's request for a Transco adder, it should not pre-approve the Transco adder for future partners in future transmission projects at this time because a

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<sup>99</sup> Missouri Joint Municipal Commission Comments at 3.

<sup>100</sup> *Id.* at 4.

<sup>101</sup> Sunflower and Mid-Kansas Protest at 4.

<sup>102</sup> Missouri Commission Protest at 3-4 (citing *ITC Midwest*, 150 FERC ¶ 61,252 at P 45).

<sup>103</sup> *Id.* at 5 (citing *ITC Midwest*, 150 FERC ¶ 61,252 at P 45).

Transco adder may not be appropriate for South Central's partners, which will be public power entities who will have reduced risk.<sup>104</sup>

59. Springfield argues that the Commission has determined that a 100 basis points Transco adder is excessive, given current market conditions,<sup>105</sup> and asserts that South Central has failed to make a showing that would entitle it to any Transco adder. Springfield argues that South Central is an affiliate of market participants, both in terms of its own holding company affiliates within the Blackstone utility holding company and subsidiary companies and in terms of the up to 30 percent participation interests that South Central states that it intends to make available to its Public Power Partners.<sup>106</sup> Xcel asserts that, to the extent that South Central argues that public power involvement will increase by virtue of South Central's agency relationship with its Public Power Partners, South Central's business model calls into question the extent to which South Central is an independent Transco.<sup>107</sup> Similarly, Springfield argues that the control of a Transco by market participants, which according to Springfield is the case here, is fatal to any claim for a Transco adder.<sup>108</sup> Springfield argues that there is no rationale for imposing a Transco adder simply to increase the costs associated with purchased facilities that the new owner can impose on third parties, as opposed to those constructed under competitive solicitation conducted pursuant to Order No. 1000, and no justification for imposing any Transco adder in connection with South Central's acquisition of that facility.

**c. Answers**

60. South Central reiterates that its situation is meaningfully different from that of ITC Midwest and that the full 100 basis points adder is warranted here.<sup>109</sup> According to South Central, the Commission's decision in *ITC Midwest* was based on specific facts and circumstances in the ITC Midwest zone and record evidence of negative rate impacts on ratepayers as the result of investment already undertaken without the adder. South

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<sup>104</sup> *Id.* at 5-6.

<sup>105</sup> Springfield Protest at 14 (citing *ITC Midwest*, 150 FERC ¶ 61,252 at P 45).

<sup>106</sup> *Id.* at 14-15.

<sup>107</sup> Xcel Protest at 17.

<sup>108</sup> Springfield Protest at 15.

<sup>109</sup> South Central Answer at 4.

Central argues that its public power-focused business model is different from that of ITC Midwest and other Transcos because South Central's business model will ensure robust transmission development, further the Commission's policy goal of greater participation in regional transmission development by non-jurisdictional public power entities, and result in South Central taking on additional infrastructure risk and financing costs.<sup>110</sup>

61. South Central argues that the Commission should reject protestors' arguments that the Transco adder incentive may no longer be relevant or necessary in a post-Order No. 1000 world because the Commission stated in *ITC Midwest* that, "in Order No. 679, the Commission concluded that ROE incentives are appropriate to encourage Transco formation and new transmission infrastructure investment," and that the Commission "continue[s] to find that the Transco business model provides the benefits that the Commission recognized in Order No. 679."<sup>111</sup>

62. In response to Xcel's assertion that public power involvement will actually decrease as South Central acquires the public power-owner resources in SPP,<sup>112</sup> South Central explains that it has a standing offer to acquire existing assets, in particular where a public power utility determines it is more cost-effective to cede operational control and reliability compliance obligations to South Central. South Central also contends that, through co-development agreements with its Public Power Partners, South Central will be a vehicle that increases opportunities for its Public Power Partners to invest in new transmission facilities, including large regional transmission projects, under the functional control of SPP. South Central argues that its Public Power Partners will co-own on average 30 percent of each new project constructed and, thus, as projects are developed, its Public Power Partner ownership share of the SPP grid will increase.<sup>113</sup>

63. With respect to protestors' arguments that it is not an independent Transco due to its agency relationship with its Public Power Partners, South Central reiterates that is not seeking the Transco adder based on "independence."<sup>114</sup> South Central asserts that the Commission provides for a Transco adder even if the Transco is affiliated with an

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<sup>110</sup> *Id.* at 4 (citing Transmittal at 17-26).

<sup>111</sup> *Id.* at 5 (quoting *ITC Midwest*, 150 FERC ¶ 61,252 at PP 44-45).

<sup>112</sup> *Id.* at 5.

<sup>113</sup> *Id.* at 5-6 (noting Missouri Joint Municipal Commission's comments in support of South Central's business model).

<sup>114</sup> *Id.* at 6-7.

incumbent transmission owner or otherwise has active ownership by market participants. South Central asserts that it must demonstrate the value of its particular affiliated Transco proposal and its filing provides a demonstration of the value of South Central's business model and why that model warrants the Transco adder.<sup>115</sup>

64. South Central also asserts that the Commission does not limit the Transco adder to transmission expansion or Order No. 1000 competitive projects. South Central argues that utilities are eligible for the Transco adder if they can demonstrate their status as a Transco and meet important policy objectives. South Central asserts that in *ITC Great Plains*, the Transco adder was not limited to only new or other specific types of assets and that the Commission has awarded a Transco adder to a Transco that was both purchasing existing substations and planning to develop new transmission projects.<sup>116</sup>

65. Sunflower and Mid-Kansas reiterate their question as to whether the requested 100 basis points Transco adder is warranted as applied to acquired assets rather than new assets. Sunflower and Mid-Kansas argue that the "important policy objective" upon which South Central sought the Transco adder was the quoted language from Order No. 679, which discusses new transmission projects. In this regard, Sunflower and Mid-Kansas take exception to South Central's assertion that concerns over granting incentives for acquired assets are "based on nothing more than the understandable desire of existing market participants to maintain the status quo, which in many respects benefits them at the expense of [p]ublic [p]ower." Sunflower and Mid-Kansas state that as a cooperative utility, they are concerned that South Central's request for incentives and proposed Formula Rate may result in rates that are unjust, unreasonable or unduly discriminatory or preferential.<sup>117</sup>

66. Springfield reiterates that South Central's failure to address the Commission's requirement that in order to qualify to receive a Transco adder, a Transco with active ownership by a market participant must either explain why the market participant does not affect the integrity of the Transco's investment planning, capital formation, and investment processes, or demonstrate how its business structure provides support for transmission investments in a way similar to the structure of non-affiliated Transcos or Transcos with only passive ownership by market participants. Springfield asserts that

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<sup>115</sup> *Id.* at 7 (citing Transmittal at 17-26).

<sup>116</sup> *Id.* at 8 (citing *ITC Great Plains*, 126 FERC ¶ 61,223 at P 96).

<sup>117</sup> Sunflower and Mid-Kansas Answer at 4.

South Central's failure to address this requirement is fatal to South Central's request for a Transco adder.<sup>118</sup>

**d. Commission Determination**

67. We will deny South Central's request for a 100 basis points Transco adder. In this case, we find that South Central has not demonstrated that its proposed ownership structure, particularly with respect to the role of South Central's Public Power Partners, possesses the characteristics necessary to qualify as a Transco under Commission precedent. In Order No. 679, the Commission stated that independence is an important component of the positive contribution of Transcos on the investment in needed transmission infrastructure, and that a Transco with active ownership by a market participant is eligible for the incentive to the extent it can show, for example, why active ownership by an affiliate does not affect the integrity of its investment planning, capital formation, and investment processes or how its business structure provides support for transmission investments in a way similar to the structure of non-affiliated Transcos or Transcos with only passive ownership by market participants.<sup>119</sup> South Central has not shown how its business model is comparable to non-affiliated Transcos or Transcos with only passive ownership by market participants. South Central's Public Power Partners, which South Central acknowledges as market participants, will make up one-third of South Central's board and will co-own up to 30 percent of each transmission project awarded by SPP to South Central. South Central explains that, while "market participants" may add to what South Central plans, they cannot veto projects that might "compete" with their own generation.<sup>120</sup> However, South Central does not explain the process for selecting projects or include any relevant governance documents in its application, including co-development agreements and *pro forma* joint ownership documents, to demonstrate that active ownership by Public Power Partners does not affect the integrity of its investment planning, capital formation, and investment processes.

68. With respect to South Central's argument that the Commission should grant its requested Transco adder because its business model promotes public power participation in the expansion of the transmission system, consistent with Order No. 679,<sup>121</sup> we find

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<sup>118</sup> Springfield Answer at 2-3.

<sup>119</sup> Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 240.

<sup>120</sup> See Transmittal at 19.

<sup>121</sup> See *id.* at 21-24 (citing Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 354-357).

that South Central does not qualify for a Transco adder because it has not demonstrated how its business model is comparable to non-affiliated Transcos or Transcos with only passive ownership by market participants, as discussed above.

69. We also note that in Order No. 679, the Commission stated that it wanted to “encourage public power participation in new transmission projects” and “will entertain appropriate requests for incentive ratemaking for investment in new transmission projects when public power participates with jurisdictional entities as part of a proposal for incentives for a particular joint project.”<sup>122</sup> The Commission stated that it “will not specify which incentives might be most appropriate for encouraging participation by public power entities but instead will allow the applicants to make proposals that best suit their circumstances.”<sup>123</sup> We recognize that an increased role of public power in the development of transmission projects is integral to South Central’s proposed ownership structure. We find that South Central could propose an incentive under Order No. 679 tailored to encouraging public power participation in new transmission projects.

**6. Inclusion of 100 Percent CWIP in Rate Base for Walkemeyer Project**

**a. Proposal**

70. South Central requests authorization under section 219 to include 100 percent CWIP with respect to the Walkemeyer Project in rate base, if South Central is the successful bidder.<sup>124</sup> South Central states that it intends to submit a bid, in November 2015, for the Walkemeyer Project, which was identified by SPP as needed for regional reliability. South Central explains that, if it is selected, it will spend significant money during the pre-construction and construction phases without other sources of income. According to South Central, this poses financial challenges because South Central does not have a business history, credit rating, debt repayment history, or other sources of cash flow.<sup>125</sup> South Central states that the cost and time needed to complete the Walkemeyer Project will strain its cash flow and put upward pressure on its ability to finance

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<sup>122</sup> Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 354.

<sup>123</sup> *Id.* P 355. Moreover, the Commission has noted that the list of incentives identified in Order No. 679 is not intended to be exhaustive, and applicants may seek other types of incentives if appropriate.

<sup>124</sup> Transmittal at 29.

<sup>125</sup> *Id.* at 30; *see also* Rahill Testimony at 25.

construction. South Central explains that recovering costs through the CWIP incentive will help ease this pressure and reduce project costs by providing upfront certainty, improved cash flow, and reducing borrowing costs.<sup>126</sup> Additionally, South Central explains that the Commission has recognized that the CWIP incentive can result in higher credit ratings and lower capital costs. Finally, South Central states that it anticipates that each applicant to construct the Walkemeyer Project will request authorization to include CWIP in rate base, and that, absent such authorization, South Central's bid will be non-competitive.<sup>127</sup> Additionally, South Central states that it has in place the appropriate accounting controls and procedures to ensure that CWIP is collected and accounted for in accordance with Commission precedent.<sup>128</sup>

**b. Comments**

71. Sunflower and Mid-Kansas do not take issue with South Central's request for the CWIP incentive, but note that the Commission should not grant the incentive based South Central's arguments that other bidders on the Walkemeyer Project will also seek the CWIP incentive and that, absent Commission approval, South Central's bid will be non-competitive.<sup>129</sup>

**c. Commission Determination**

72. We will grant South Central's request to include 100 percent CWIP with respect to the Walkemeyer Project in rate base, if South Central is the successful bidder. In Order No. 679, the Commission established a policy that allows utilities to include, where appropriate, 100 percent of prudently-incurred, transmission-related CWIP in rate base.<sup>130</sup> As affirmed in the Transmission Incentives Policy Statement, the CWIP incentive serves as a useful tool to ease the financial pressures associated with transmission development by providing up-front regulatory certainty, rate stability, and

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<sup>126</sup> Rahill Testimony at 25.

<sup>127</sup> Transmittal at 30-31.

<sup>128</sup> *Id.* at 31; *see also* Rahill Testimony at 31-32 (requesting the use of footnote disclosures to provide comparability of financial information).

<sup>129</sup> Sunflower and Mid-Kansas Protest at 8.

<sup>130</sup> Order No. 679, FERC Stats. & Regs. ¶ 31,222 at PP 29, 117.

improved cash flow, which in turn can result in higher credit ratings and lower capital costs.<sup>131</sup>

73. We agree that the potential cost and time needed to complete the Walkemeyer Project may strain South Central's cash flow and put upward pressure on South Central's ability to finance construction. Moreover, given South Central's unique business model and its lack of business history, credit rating, debt repayment history, or other sources of cash flow, the CWIP incentive will help ease financial pressures and reduce project costs. Inclusion of CWIP in rate base "balance[s] the need for companies to recover carrying costs in a timely manner with the Commission's cost responsibility principle, while reducing the rate impacts of new transmission projects on customers."<sup>132</sup>

74. Further, we find that South Central has demonstrated that it has appropriate accounting procedures and internal controls in place to prevent recovery of an allowance for funds used during construction (AFUDC) on CWIP costs that are also included in the rate base. Attachment 4 of South Central's formula rate template states that the annual report filed with the Commission will include for each project under construction a demonstration that AFUDC is only applied to the CWIP balance that is not included in rate base and that the annual report will reconcile the project-specific CWIP balances to the total FERC Account 107 CWIP balance reported on the FERC Form 1. We will accept South Central's proposed accounting procedures and use of footnote disclosures to provide comparability of financial information.<sup>133</sup> We note that Commission policy requires South Central to also have sufficient accounting controls and procedures to ensure that unpaid accruals properly recorded in the work orders are excluded from transmission rate base.<sup>134</sup>

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<sup>131</sup> Transmission Incentives Policy Statement, 141 FERC ¶ 61,129 at P 12.

<sup>132</sup> See, e.g., *Boston Edison Co.*, 109 FERC ¶ 61,300, at P 31 (2004).

<sup>133</sup> See *TransCanyon DCR LLC*, 152 FERC ¶ 61,017, at P 36 (2015); *Transource Missouri*, 141 FERC ¶ 61,075 at P 52; *American Transmission Co. and Midwest Indep. Trans. Sys. Operator, Inc.*, 107 FERC ¶ 61,117, at PP 16-17 (2004).

<sup>134</sup> *TransCanyon DCR*, 152 FERC ¶ 61,017 at P 36; *PJM Interconnection, L.L.C. and Commonwealth Edison Co.*, 147 FERC ¶ 61,157 (2014); *PJM Interconnection, L.L.C. and Pub. Serv. Elec. and Gas Co.*, 147 FERC ¶ 61,142 (2014).

## 7. Accounting Treatment

### a. Proposal

75. South Central states that it uses the accrual method of accounting as required by the Commission and Generally Accepted Accounting Principles to record revenues and expenses. South Central states that these revenues and expenses are and will be recorded in accounts prescribed by the Commission's Uniform System of Accounts. South Central explains that it will record the receipt of equity contributions from Heartland as equity on its balance sheet, and that Heartland will record contributions made to subsidiaries such as South Central as investments in subsidiaries on its balance sheet. South Central also states that its own transactions will be recorded on the books of South Central, and consequently, its financial books and records will reflect the assets, liabilities, equity, and results of operations for South Central.<sup>135</sup>

76. South Central states that it will be a pass-through entity for income tax purposes and will not directly pay income taxes on its earnings. According to South Central, it will maintain its books of account based on the Commission's Uniform System of Accounts as if it were a taxable corporation, including the income tax accounting requirements. Therefore, South Central will record income taxes in its separate books of account even though these taxes will be paid by the appropriate taxpaying entity.<sup>136</sup>

77. South Central also explains that, as part of the GridLiance holding company system, South Central is able to secure various services, including accounting, financial reporting, information technology, legal, regulatory, and engineering services, from its affiliates. South Central states that services and transactions between South Central and GridLiance will be priced at cost, as will services and transactions between South Central and any of the GridLiance affiliates.<sup>137</sup>

### b. Comments

78. Springfield states that South Central's application contains no holding company cost allocation manuals or a similar auditable framework to ensure that the allocation of

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<sup>135</sup> Transmittal at 31.

<sup>136</sup> *Id.*; *see also* Rahill Testimony at 26-27.

<sup>137</sup> Transmittal at 31; *see also* Rahill Testimony at 27 (stating “[a]ll costs that can be directly charged to a specific subsidiary will be directly charged, and allocation factors will be used for those costs that cannot be directly charged”).

costs at the holding company level will be just and reasonable.<sup>138</sup> Springfield argues that a pass-through entity must provide specific information on how an allocation methodology will be selected or provide detailed formulas for calculating the allocation methodologies.<sup>139</sup> Springfield argues that the cost allocation manuals must describe the allocation factors relied upon and how they are calculated, which includes explaining how inter-affiliate costs are allocated.<sup>140</sup>

79. Springfield states that, to the extent that South Central proposes to base its cost-of-debt for ratemaking purposes on funds borrowed from affiliates, South Central “will need to develop procedures sufficient to assure the Commission against affiliate abuse.”<sup>141</sup> Springfield argues that the protections should include the cost of debt, but that South Central offers only a *pro forma* estimate of cost with no assurance that debt will actually be incurred at market rates.<sup>142</sup>

80. Springfield states that, as a pass-through entity, South Central must establish means to ascertain “whether those entities on whose behalf [South Central] collects income tax gross-up actually incur liability for the relevant income taxes on return.”<sup>143</sup> Springfield explains that the Commission requires a pass-through entity to (1) provide the projected distributive share of corporate income from the transmission investment attributed to each equity owner; (2) show that each equity owner has a projected taxable income level from all income sources subject to the 35 percent marginal corporate income tax bracket; and (3) disclose whether an equity owner is, for federal tax purposes, either automatically classified as a corporation or has elected to be taxed as a corporation

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<sup>138</sup> Springfield Protest at 16, 18-19.

<sup>139</sup> *Id.* at 18-19 (citing *Kanstar*, 152 FERC ¶ 61,209 at P 55).

<sup>140</sup> *Id.* at 19 (citing *Transource Kansas*, 151 FERC ¶ 60,010 at P 49).

<sup>141</sup> *Id.* at 16-17, 20.

<sup>142</sup> *Id.* at 20 (citing *Allegheny Energy Supply Co., LLC*, 108 FERC ¶ 61,082, at PP 22-35 (2004); *Boston Edison Co. Re: Edgar Electric Energy Co.*, 55 FERC ¶ 61,382, at 62,167-62,169 (1991)).

<sup>143</sup> *Id.* at 17, 20-21 (citing *Mobil Oil Co. v. SFPP, L.P.*, 111 FERC ¶ 61,334, at P 26 (2005), *aff'd sub nom. ExxonMobil Oil Corp. v. FERC*, 487 F.3d 945, 954 (D.C. Cir. 2007)).

and will file a corporate income tax return.<sup>144</sup> For these reasons, Springfield asserts that South Central's proposed formula rate template and protocols are unjust and unreasonable.

**c. Answers**

81. South Central states that the tax liability for upstream owners of South Central issue as raised by Springfield is fully addressed by Note G to the formula rate template. According to South Central, Note G specifically includes provisions to limit the collection of revenue required to satisfy tax obligations to those entities that are taxable. With respect to Springfield's argument regarding the allocation of costs among affiliates, South Central contends that the general principles and commitments included in its filing address the key criteria for ensuring just and reasonable rates and preventing affiliate abuse, but states that it is developing more detailed cost allocation procedures that it will include in a future compliance filing.<sup>145</sup>

82. Springfield reiterates that South Central failed to establish whether its owners are liable for the income tax allowance it proposes to recover in rates. Springfield argues that South Central's claim that Note G to its formula rate template satisfies the requirement that it demonstrate that its holding company affiliate incurs "actual or potential" income tax liability on their respective shares of the return earned by the pass-through entity is incorrect. Springfield argues that, for this reason, the Commission should reject South Central's Formula Rate.<sup>146</sup>

83. Springfield acknowledges that South Central proposes to submit "more detailed cost allocation procedures" in future compliance filings, and states that the Commission can require the filing of cost allocation procedures where it is necessary to protect ratepayers. Springfield argues that South Central failed to provide any reasonable level of detail concerning its cost allocation principles, criteria, or processes for the costs it intends to incur from holding company affiliates, and therefore, the Commission should find South Central's filing to be deficient.<sup>147</sup>

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<sup>144</sup> *Id.* at 21 (citing *Trans-Elect NTD Path 15, LLC*, 115 FERC ¶ 61,047, at P 6 (2006) (*Trans-Elect NTD*)).

<sup>145</sup> South Central Answer at 15.

<sup>146</sup> Springfield Answer at 7-8.

<sup>147</sup> *Id.* at 8.

**d. Commission Determination**

84. We find that South Central has not adequately described the details of the allocation factors and how they are calculated, nor does it provide a cost allocation manual or the service agreements upon which the costs will be based. To the extent that costs are allocated or directly billed from South Central's parent company or any of its affiliates, we will direct South Central to further explain and provide the methodology for the allocation of those costs in a compliance filing to be made within 30 days of the date of this order, consistent with South Central's commitment to do so.<sup>148</sup> In addition, to the extent that there are sales of non-power goods and services among South Central and its affiliates, we remind South Central of its obligations under section 35.44(b)(1) of the Commission's regulations.<sup>149</sup>

85. We also find that South Central has not established whether its owners are liable for income tax allowances that it proposes to recover in rates, and will direct South Central to address this issue in its compliance filing.<sup>150</sup> We agree with Springfield that Note G does not establish that South Central's owners on whose behalf it collects the income tax gross-up are actually liable for the income tax allowances charged in South Central's rate. In order to demonstrate that an affiliate incurs "actual or potential income tax liability," we will direct South Central to (1) develop, and revise its Formula Rate to include, a weighted income tax allowance, for both federal and state income taxes, using the marginal income tax rates<sup>151</sup> of each category of partners;<sup>152</sup> and (2) provide the projected distributive share of corporate income from the transmission investment attributed to each category of partners.

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<sup>148</sup> See *Repeal of the Public Utility Holding Company Act of 1935 and Enactment of the Public Utility Holding Company Act of 2005*, Order No. 667, FERC Stats. & Regs. ¶ 31,197, at P 151 (2005), *order on reh'g*, Order No. 667-A, FERC Stats. & Regs. ¶ 31,213, at PP 39-42, *order on reh'g*, Order No. 667-B, FERC Stats. & Regs. ¶ 31,224 (2006), *order on reh'g*, Order No. 667-C, 118 FERC ¶ 61,133 (2007) (describing Commission's authority to require the filing of cost-allocation agreements).

<sup>149</sup> 18 C.F.R. § 35.44(b)(1) (2015).

<sup>150</sup> *Policy Statement on Income Tax Allowances*, 111 FERC ¶ 61,139, at PP 32-33 (2005).

<sup>151</sup> *SFPP, L.P.*, 113 FERC ¶ 61,277, at PP 29-32 (2005).

<sup>152</sup> *Id.* P 45.

## 8. Depreciation Rates

### a. Proposal

86. South Central states that its proposed depreciation rates, which are incorporated into its Attachment 10 of its formula rate template, are based on the rates approved by the Commission in *XEST*.<sup>153</sup> South Central explains that use of the depreciation rates approved for *XEST* is based on facilities that are a good proxy for the transmission facilities that South Central is likely to own in the future within the SPP region. South Central also explains that, like *XEST*, it has no direct historical data to perform a depreciation study because South Central has no specific proposed projects at this time. South Central commits to completing a depreciation study of its facilities based on its experience in SPP within five years and filing the results of the study with the Commission. Moreover, South Central states that it will propose any necessary revisions to the depreciation rates in a limited section 205 filing.<sup>154</sup>

### b. Commission Determination

87. We will accept South Central's proposed depreciation rates, and its commitment to complete a depreciation study within five years and to file the results with the Commission. We find that, because South Central's transmission facilities have yet to be identified, there is no historical data to support a depreciation study. We also find that the depreciation rates approved in *XEST* are an appropriate proxy for South Central because *XEST* and South Central are both newly-formed entities in SPP that intend to own similar transmission facilities in the future. Additionally, we will direct South Central to add language to Attachment 10 of its Formula Rate stating that its depreciation and amortization rates may not be changed absent a section 205 or 206 filing.

## 9. Formula Rate

### a. Proposal

88. South Central requests approval of its Formula Rate, which includes its formula rate template in Attachment A and formula rate protocols in Attachment B, to establish an annual transmission revenue requirement (ATTRR) for transmission service over facilities South Central will own in SPP.<sup>155</sup> South Central states that, as it acquires

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<sup>153</sup> Transmittal at 31; *see XEST*, 149 FERC ¶ 61,132 at PP 65-66.

<sup>154</sup> Transmittal at 31-32.

<sup>155</sup> *Id.* at 6-11.

transmission assets and as it is awarded projects in SPP, the template will recover additional costs on a project-by-project basis.

89. South Central states that the ATRR for all assets owned by South Central will be collected by SPP and paid to South Central under the SPP Tariff. South Central explains that the formula rate template provides a forward-looking calculation under which costs are projected and then trued-up to actual costs once the costs are known. According to South Central, its formula rate template is substantially similar to the formula rate templates approved by the Commission for other transmission-owning companies in SPP and MISO, including in *XEST*, *XETD*, and *Transource Wisconsin*.<sup>156</sup> South Central explains that the formula rate template includes an additional provision to calculate the ATRR for assets covered by SPP's Wholesale Distribution Service Tariff due to the nature of some of the assets serving South Central's Public Power Partners, but which may be acquired by South Central. South Central further explains that those costs, which are directly assigned to the relevant customer under the SPP Tariff, will otherwise be calculated similarly to costs for all other transmission service under the Formula Rate.<sup>157</sup>

90. According to South Central, its formula rate protocols are consistent with recent Commission precedent for transmission owners with forward-looking formula rates.<sup>158</sup> South Central states that its formula rate protocols are consistent with MISO's compliance filing in Docket No. ER13-2379, *et al.*, which was filed in response to the Commission's order requiring modifications to the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff Attachment O protocols.<sup>159</sup> According to South Central, its formula rate protocols establish a transparent process governing an annual informational filing between South Central and interested parties, establish procedures for informal and formal challenges to South Central's implementation of its formula rate template, and make clear that the project-specific revenue requirements determined under the formula rate template are "up to" rates (i.e., ceiling rates that permit South Central to discount its revenue requirement to the extent necessary to reflect the

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<sup>156</sup> *Id.* at 7; Heintz Testimony at 9 (*see XEST*, 149 FERC ¶ 61,182 at P 92; *XETD*, 149 FERC ¶ 61,181 at P 33; *Transource Wisconsin*, 149 FERC ¶ 61,180 at P 41).

<sup>157</sup> Transmittal at 7.

<sup>158</sup> *Id.*; Heintz Testimony at 21 (citing *XEST*, 149 FERC ¶ 61,182 at P 10; *Midwest Indep. Transmission Sys. Operator, Inc., et al.*, 143 FERC ¶ 61,149 (2013), *reh'g denied*, 146 FERC ¶ 61,209 (2014); *Midcontinent Indep. Sys. Operator, Inc., et al.*, 146 FERC ¶ 61,212 (2014); *Midcontinent Indep. Sys. Operator, Inc.*, 150 FERC ¶ 61,025 (2015)).

<sup>159</sup> Transmittal at 10.

result of any cost commitments incurred in connection with competitive bidding on projects).<sup>160</sup>

91. Further, South Central states that, due to its unique business model, the formula rate protocols include a special provision that allows for the formula rate template to incorporate during the course of a rate year facilities acquired by South Central that increase its rate base by five percent or more, upon Commission approval and consummation of the acquisition. South Central states that this mechanism applies to acquired, but not newly constructed assets, during the rate year and remains effective only for the first three years of South Central's operation.<sup>161</sup> South Central explains that such a provision benefits consumers by preventing the need to forecast acquisitions in its annual estimates, including the timing of transaction closures. South Central further explains that timing uncertainty could result in significant over- or under-recovery in a given year if forecasted acquisitions do not close as planned or if unexpected acquisitions do close, thus causing a significant true-up in the following year.<sup>162</sup>

#### **b. Comments**

92. Xcel raises several issues with South Central's Formula Rate. First, Xcel states that it protests South Central's application to the extent that South Central seeks to include facilities acquired from Tri-County as transmission facilities in South Central's proposed Formula Rate. Xcel requests that the Commission clarify that South Central must demonstrate that any facilities South Central seeks to roll into zonal or regional transmission rates qualify as transmission facilities under the SPP Tariff. Xcel asserts that, with regard to the assets proposed to be acquired from Tri-County, South Central's business plan is to build additional transmission facilities to convert the Tri-County radial facilities into looped transmission facilities for the purpose of shifting the costs of those facilities from Tri-County loads either to customers in the Southwestern Public Service Company (SPS) pricing zone (Zone 11), or to SPP loads regionally through the SPP highway/bi-way cost allocation methodology.<sup>163</sup> Xcel contends that the Tri-County

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<sup>160</sup> *Id.* at 7-8.

<sup>161</sup> *Id.*; Heintz Testimony at 7-8.

<sup>162</sup> Transmittal at 7; *see also* Heintz Testimony at 8 ("The updated projections in the case of asset acquisitions is reasonable since it would provide a start-up utility greater accuracy of the projections and still provides an opportunity for interested parties to review the updated projects).

<sup>163</sup> Xcel Protest at 8-10. In this regard, Xcel asserts that shifting the costs of Tri-County facilities from Tri-County loads to customers in the SPS zone appears to be the

(continued ...)

assets that South Central proposes to acquire and then loop are assets the Commission has concluded are radial and properly directly assigned to Tri-County under Attachment AI of the SPP Tariff.<sup>164</sup> Xcel requests that the Commission clarify that any facilities that have already been determined by Commission order to not qualify as transmission facilities under the SPP Tariff retain their non-transmission characterizations.<sup>165</sup>

93. Occidental does not object to South Central's proposal to recover the costs of certain Tri-County facilities from Tri-County pursuant to Schedule 10 of the SPP Tariff, but is concerned that South Central may later seek to shift the costs of those Tri-County facilities to SPP Zone 11 ratepayers. Occidental argues that the Commission should confirm that, if South Central seeks to change the cost allocation regarding Tri-County's facilities, South Central must obtain authorization by submitting a separate section 205 filing in which it demonstrates that such a change in rate treatment for the Tri-County facilities is just and reasonable.<sup>166</sup>

94. Second, given South Central's business plan contemplates the acquisition of assets that are not properly classified as transmission assets under SPP's Tariff, Xcel requests that the Commission direct South Central to amend its formula rate protocols to provide that it will develop and make available to all SPP stakeholders on an annual basis a radial line study that establishes the lines South Central classifies as radial and non-radial, and justification for the classifications. Xcel argues that the study will enable stakeholders to actively monitor and verify the assets that South Central claims should be allocated among other customers within SPP, and points out that SPS does this on an annual basis.<sup>167</sup>

95. Third, Xcel states that South Central's formula rate protocols do not contain a separate challenge mechanism through which a transmission customer can contest the inclusion in ATRR of assets acquired by South Central during the calendar year.

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primary purpose of the asset transfer between Tri-County and South Central, "as evidenced by the option to put these facilities back to [Tri-County] in the event that the effort to shift the costs of these assets back to other customers in the SPS zone (or SPP more generally) is unsuccessful." *Id.* at 10.

<sup>164</sup> *Id.* (citing *Southwest Power Pool, Inc.*, 149 FERC ¶ 61,051 (2014)).

<sup>165</sup> *Id.* at 11.

<sup>166</sup> Occidental Comments at 3.

<sup>167</sup> *Id.* at 13-14.

According to Xcel, South Central's formula rate protocols provide that a challenge to the annual true-up or projected net revenue requirement may be lodged at any point after South Central publishes its annual-true up, which is due on or before June 1.<sup>168</sup> Additionally, Xcel states that the formula rate protocols require transmission customers to disprove the adequacy of any inclusion of facilities into the ATRR. Thus, Xcel argues that the formula rate protocols improperly shift the burden of proof and restrict a transmission customer's recourse to timely challenge the inclusion of acquired facilities in ATRR.<sup>169</sup>

96. Fourth, Xcel states that South Central's formula rate protocols provide that the actual net book value of any acquired facilities will be included in the projected ATRR calculation as of the first day of the month following the acquisition of the "Eligible Facility." Xcel states that the formula rate protocols do not define "Eligible Facility."<sup>170</sup> Xcel notes that any transmission customer seeking to challenge the inclusion of acquired assets in the ATRR must wait until after June 1, the date on which the annual-true up is required to be published, to file a challenge.<sup>171</sup> Xcel argues that South Central's application of routine challenge procedures to a unique asset acquisition provision is unreasonable and warrants rejection. Xcel requests that the Commission require South Central to propose a reasonable mechanism for challenging the inclusion of acquired assets that allows potential challengers to do so on an expedited basis, subject to Commission review.<sup>172</sup>

97. With regard to South Central's proposal to incorporate during the course of the rate year facilities acquired upon Commission approval and consummation of the acquisition, if the acquisition is at least five percent of South Central's rate base, Sunflower and Mid-Kansas explain that, it is possible customers could begin paying for the facilities outside of the normal process where revenue requirements are published prior to customers being charged. Sunflower and Mid-Kansas request that the Commission condition approval of South Central's Formula Rate on South Central revising it to clarify that any asset acquisitions will not be included in the updated projected revenue requirement absent Commission approval. Sunflower and Mid-Kansas

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<sup>168</sup> *Id.* at 15 (citing Protocols at Section IV.A).

<sup>169</sup> *Id.*

<sup>170</sup> *Id.* at 3.

<sup>171</sup> *Id.* at 15.

<sup>172</sup> *Id.* at 16.

also request that South Central revise its Formula Rate to provide that, for the first three years of operation where acquisition costs can be included in the revenue requirement during the year, the annual true-up and annual projected net revenue requirement will include a list of acquired assets with the name, location, voltage, seller, purchase price, book value, and docket number of any regulatory proceedings regarding the acquisition transition.<sup>173</sup>

98. Sunflower and Mid-Kansas also state that South Central's Formula Rate limits the ability of customers and interested parties to pursue challenges on their own initiative, and potentially limits the issues for which South Central bears the burden of proof under section 205. Sunflower and Mid-Kansas request that the Commission direct South Central to revise its Formula Rate so that South Central bears the burden of proof in any challenge to at least the projected costs, annual true-ups, and material accounting changes.<sup>174</sup>

99. Missouri Commission asserts that South Central's formula rate protocols appear to have typographical errors. Missouri Commission states that section VII.2 of the formula rate protocols provides that the interest on any over recovery of the net revenue requirement is determined in Attachment 11, which should read Attachment 9. Missouri Commission also states that section VII.2 of the formula rate protocols provides that the interest payable shall be calculated using an average interest rate for the 24 months during which the over or under recovery in the revenue requirement or volume changes exists, but that the next sentence provides that the average rate will be for the 21 months preceding October of the current year. Missouri Commission asserts that it appears "21" should be changed to "24."<sup>175</sup>

**c. Answers**

100. South Central states that the formula rate protocols provision allowing for the formula rate template to incorporate during the course of a rate year facilities acquired by South Central adjusts the time at which the costs relevant to a particular facility will be reviewed in order to avoid a lag in recovery.<sup>176</sup> South Central states that the provision will not, as some protesters suggest, insulate from review by the Commission or

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<sup>173</sup> Sunflower and Mid-Kansas Protest at 9-12.

<sup>174</sup> *Id.* at 12-14 (citing Protocols at Section IV).

<sup>175</sup> Missouri Commission Protest at 3-4.

<sup>176</sup> *Id.* at 2-3; *see* Protocols at Section II.C.

interested stakeholders any acquisition by South Central; rather, in the absence of such a provision, customers would likely see greater variation in rates in the first year following an acquisition to make up for the lag in cost recovery following consummation of the transaction.<sup>177</sup>

101. South Central argues that its proposed Formula Rate, with minor corrections that South Central commits to making, is just and reasonable.<sup>178</sup> South Central states that requiring a condition that asset acquisitions will not be included in the updated projected revenue requirement absent Commission approval is unnecessary. South Central explains that, as a public utility, it is required to obtain Commission authorization under section 203 of the FPA<sup>179</sup> to acquire transmission facilities regardless of the jurisdictional status of the current owner.<sup>180</sup> As a result, any asset acquisitions will be publicly noticed, subject to intervention by interested parties, and approved by the Commission before the costs are included in the ATRR. South Central notes that section 203 applications for acquisitions must include the proposed accounting entries related to the net book value of the assets to be acquired. Thus, South Central concludes that customers will have adequate advance notice of the facilities and that their costs that will be included in the ATRR, and will have adequate opportunity to challenge inclusion of the costs.<sup>181</sup>

102. In response to Xcel's comment that the formula rate protocols do not define "Eligible Facility," South Central commits to including the following definition in the protocols: "A transmission facility acquired by [South Central] during the course of the Rate Year pursuant to Commission approval under section 203 of the [FPA] where the net book value of the acquired asset will result in a five percent (5%) or greater increase in rate base."<sup>182</sup>

103. South Central argues that the concerns raised by protestors that South Central will include facilities in the ATRR that do not meet SPP's criteria for transmission facilities, or that South Central will be able to inappropriately change the way facility costs are

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<sup>177</sup> South Central Answer at 3.

<sup>178</sup> *Id.* at 11.

<sup>179</sup> 16 U.S.C. § 824b (2012).

<sup>180</sup> *Id.* at 12.

<sup>181</sup> *Id.*

<sup>182</sup> *Id.* at 12-13.

allocated between rate zones, should be rejected by the Commission as outside the scope of this proceeding.<sup>183</sup> South Central contends that future acquisitions of facilities or construction of new facilities will, at a minimum, require Commission authorization of the acquisition by South Central of the facility pursuant to a section 203 or section 205 filing by either or both SPP and South Central. South Central argues that its transaction with Tri-County is not relevant to the issues presented in the current section 205 formula rate filing, which does not propose to include any specific facilities in its ATRR.<sup>184</sup>

104. South Central also argues that the condition proposed by Xcel, that any facilities that have already been determined by the Commission to not qualify as transmission facilities under SPP's Tariff retain their non-transmission characterization, is inappropriate and unnecessary. South Central states that such a condition is inconsistent with SPP's Tariff and would "freeze the classification of certain facilities for all time."<sup>185</sup> South Central argues that, if an upgrade made by South Central changes the classification of particular facilities and South Central reflects that change in its ATRR, there will be adequate notice of the change and opportunity for challenge on terms comparable to those applicable to every other SPP transmission owner. South Central asserts that it will include such a change when it projects costs for the future rate year, and, if such a change results in a new allocation of cost responsibility between rate zones, SPP will make a section 205 filing with the Commission to reflect the change, which will provide interested entities an opportunity to protest.<sup>186</sup>

105. Sunflower and Mid-Kansas reiterate their request that the Commission should clarify that South Central bears the burden of proof in any challenge to the projected costs, annual true-up, and material accounting change under its Formula Rate, and that South Central revise its Formula Rate consistent with this clarification.<sup>187</sup>

106. Sunflower and Mid-Kansas assert that the section 203 process is not a substitute for the information exchange and review or challenge process under the formula rate protocols. Sunflower and Mid-Kansas argue that, given that South Central's proposed intra-year acquisitions provision represents an exception to the proposed forward-looking

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<sup>183</sup> *Id.* at 13.

<sup>184</sup> *Id.* at 13-14.

<sup>185</sup> *Id.* at 14.

<sup>186</sup> *Id.*

<sup>187</sup> Sunflower and Mid-Kansas Answer at 6.

formula rate template and could have a significant impact on rates, Sunflower and Mid-Kansas request that the Commission condition acceptance of the formula rate protocols on South Central providing specific information as part of the annual true-up and annual projected net revenue requirement postings.<sup>188</sup>

107. Springfield asserts that South Central's argument that a section 203 proceeding will provide its customers with public notice of any asset acquisition by South Central prior to the inclusion of the costs of those facilities in South Central's ATRR is flawed. First, Springfield argues that the acquisitions of facilities for which the book value does not trigger section 203(a)(1) jurisdiction would escape scrutiny. Second, Springfield asserts that South Central's argument does not justify placing the burden on transmission customers to police South Central's compliance with the requirements of section 205 that transmission rates be just and reasonable.<sup>189</sup>

108. Springfield asserts that South Central failed to justify including in its ATRR costs of facilities previously determined to be ineligible for cost recovery under the SPP Tariff. Springfield argues that any facilities determined by the Commission to not qualify as transmission facilities under the SPP Tariff should retain their status as being ineligible for cost recovery unless South Central can prove that the facilities at issue have been modified to meet the cost recovery eligibility criteria under SPP's Tariff.<sup>190</sup>

**d. Commission Determination**

109. We will conditionally accept South Central's proposed Formula Rate, subject to a compliance filing to be made within 30 days of the date of this order that addresses the matters discussed below. While the formula rate template generally conforms to other Commission-accepted formula rate templates, there are variances that South Central has not explained, as well as errors that South Central must correct. Regarding South Central's formula rate protocols, one provision does not meet the standards of the MISO formula rate protocols proceeding and there are other errors that South Central must correct. We, therefore, will direct South Central to modify its formula rate template and protocols and to provide further explanation, as described below.

110. We find the concerns raised by Xcel and Springfield regarding facilities eligible for inclusion in South Central's Formula Rate to be premature. Xcel protests South

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<sup>188</sup> *Id.* at 8.

<sup>189</sup> Springfield Answer at 5-6.

<sup>190</sup> *Id.* at 6-7.

Central's application to the extent South Central seeks to include facilities acquired from Tri-County as transmission facilities in South Central's proposed Formula Rate. However, as South Central explains in its answer, South Central has not proposed to include any specific facilities in its ATRR in the instant filing. Additionally, South Central commits to including any change in the classification of a particular facility when it projects costs for the future rate year, and notes that if such a change results in a new allocation of cost responsibility between rate zones, SPP will make a section 205 filing with the Commission to reflect the change in Attachment H of SPP's Tariff.<sup>191</sup>

111. We agree with the concerns of Xcel and Sunflower and Mid-Kansas related to South Central's provision allowing the forecasted revenue requirement to be adjusted mid-year to account for acquisitions of facilities. We find that, although South Central's formula rate protocols generally conform to the protocols established in the MISO formula rate protocols proceeding in Docket No. ER13-2379, *et al.*, its proposed provision for intra-year adjustments does not meet the standards set forth in these proceedings.<sup>192</sup> When evaluating whether certain protocols are just and reasonable, the Commission has previously directed transmission owners using a formula rate to conform their formula rate template and formula rate protocols to the standards of the MISO formula rate protocols proceeding, or show cause why they should not be required to do so.<sup>193</sup> South Central's provision allowing for intra-year adjustments creates the possibility that customers could begin paying for costs that have not been subject to the required informational exchange and challenge procedures. Therefore, we will direct South Central to remove its intra-year adjustment provision as found in section II.C of its formula rate protocols, and conform its Formula Rate to the standards set forth in the MISO formula rate protocols proceeding.

112. We disagree with Sunflower and Mid-Kansas' assertion that South Central's Formula Rate limits the ability of customers and interested parties to pursue challenges on their own initiative. South Central's challenge procedures in its formula rate protocols are consistent with the challenge procedures protocols established in the MISO formula rate protocols proceeding in Docket No. ER13-2379, *et al.* Additionally we disagree with the request that South Central should revise its Formula Rate to clarify that South Central

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<sup>191</sup> See South Central Answer at 14.

<sup>192</sup> *Midwest Indep. Transmission Sys. Operator, Inc., et al.*, 139 FERC ¶ 61,127 (2012), *order on investigation*, 143 FERC ¶ 61,149 (2013), *order on reh'g*, 146 FERC ¶ 61,209 (2014), *order on compliance*, 146 FERC ¶ 61,212 (2014), *order on compliance*, 150 FERC ¶ 61,025 (2015).

<sup>193</sup> *Kanstar*, 152 FERC ¶ 61,209 at P 67.

bears the burden of proof in any challenge to the projected costs, annual true-up, and material accounting change. South Central's formula rate protocols state that South Central "shall bear the burden, consistent with [s]ection 205" and that "[n]othing herein is intended to alter the burdens applied by [the Commission] with respect to prudence challenges." This language also conforms to the protocols established in the MISO formula rate protocols proceeding in Docket No. ER13-2379, *et al.*

### **Formula Rate Corrections**

113. South Central inconsistently labels or references the portion of its formula rate template that calculates the overall Net Revenue Requirement as either Attachment A or Attachment H. Because this portion of the formula rate template is the primary component of the charge passed through to customers via SPP's Attachment H, we will direct South Central to label this portion of its formula rate template Attachment H and consistently reference it as such throughout. We additionally find that such nomenclature will provide consistency across transmission owners in SPP.<sup>194</sup>

114. Attachment H, Page 1, Line 4, Column 2 should refer to Attachment 5, Line 36, Column E, not Line 39. We will direct South Central to make this change.

115. Attachment H, Page 3, Line 29, Column 2 should refer to FERC Form No. 1 similarly to Attachment H, Page 3, Lines 26 through 28. We will direct South Central to make this change.

116. The FERC Form No. 1 reference for Attachment H, Page 4, Lines 14 and 15, Column 2 should be 201.3.d and 201.3.e. We will direct South Central to make this change.

117. Attachment H, Page 4, Line 22, Column 4 states that South Central's ROE is 11.40 percent. Consistent with the Commission's determination *infra*, we will direct South Central to remove 100 basis points that the Transco Adder would have provided. We also will direct South Central to revise any other descriptions of its ROE in its formula rate template to reflect the Commission's determination.

118. Attachment H, Page 4, Lines 27, 29, 31, and 32, Column 2 should reference Attachment 5, Line 36, not Line 39. We will direct South Central to make this change.

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<sup>194</sup> Because we are directing South Central to re-name Attachment A of its formula rate template to Attachment H, all further revisions directed in this order will refer to Attachment H.

119. Attachment H, Note Q states that, “[o]nce there is \$100 million in rate base, [South Central] will use its actual cost of long term debt determined in Attachment 5. The capital structure will be 60 [percent] equity and 40 [percent] debt during the construction period, after there is \$100 million in rate base, it will be based on the actual capital structure.” Consistent with the Commission’s determination *infra*, we will direct South Central to revise Note Q to state that South Central will use its hypothetical capital structure of 60 percent equity and 40 percent debt until South Central places any asset in service. We also will direct South Central to revise any other descriptions of its capital structure in its formula rate template to reflect the Commission’s determination herein.

120. Attachment H, Note E provides that all non-safety related advertising expenses are included in Account 930.1, but does not provide a FERC Form No. 1 reference for Account 930.1. We will direct South Central to provide this reference.

121. The FERC Form No. 1 reference for Attachment 4, Page 1, Column E should be 214.x.d. We will direct South Central to make this change.

122. Attachment 3 determines the true-up expenses for projects awarded in SPP’s Order No. 1000 competitive solicitation process; however, it is not clear how Attachment 3 accomplishes this determination. For example, if Column H compares the revenue received during the prior rate year to the adjusted net revenue requirement for current rate year, as indicated by Notes 1 through 3, it is not clear why comparing actual revenues received from the prior rate year to the projected value for the current rate year would result in under or over-recovery for a particular rate year. Additionally, it is not clear why Column G should be considered an “Adjusted Net Revenue Requirement” and Column C a “Net Revenue Requirement” when both columns draw data from Attachment 1, Line 15, Column 14, but from different rate years. Accordingly, we will direct South Central to clarify the intention of Attachment 3 and provide any revisions to column titles and notes that might improve the Commission’s and interested parties’ understanding. As a result of this directive, we also will direct South Central to make any necessary clarifying edits to Attachment 1, Note F that might also clarify the rate year used in Attachment 1, Column 15.

123. Attachment 3, Page 1 states that Attachment 3 has three pages; however, Pages 2-3 are not provided. We will direct South Central to either provide Pages 2-3 or, if Attachment 3 is composed only of one page, to remove any reference to Pages 2-3.

124. Attachment 4, Notes E and G are incomplete. We will direct South Central to revise Attachment 4 with complete Notes E and G.

125. In Attachment 5, Page 1, Columns C through H refer to the FERC Form No. 1, 262.i; however, the table in Page 262 of FERC Form No. 1 does not have a Column i. Accordingly, we will direct South Central to correct this page reference.

126. Attachment 5, Page 2 contains several incorrect line references. Line 44 should state that Common Stock is the sum of Lines 41-43. Line 48 should state that the Total is the sum of Lines 45-47. Note A should state that the cost is calculated by dividing Line 39 by the Long Term Debt balance in Line 45. Note C should state that the Common Stock balance is shown on Lines 41-44 above. Additionally, Long Term Debt in Note A is not capitalized correctly in one instance, and spelled incorrectly in another instance. Finally, Notes A through C should state that the 1st and 13th month values are found in FERC Form No. 1 112.x.c and d not just 112.x.c. We will direct South Central to make these changes.

127. Attachment 8 contains the methodology to determine the cost of debt and contains a 175 basis point spread over the LIBOR rate. South Central states that this spread correlates with the estimates it received as a result of inquiries as to financing. To the extent that South Central continues to utilize Attachment 8, we will direct South Central, in its annual informational filing, to provide supporting documentation for the credit spread in Attachment 8. Furthermore, Attachment 8, Note 4 should reference Lines 11-21. We also will direct South Central to make this change.

128. Attachment 8, Note 13 states that that, “[p]rior to obtaining long term debt, the cost of debt, will be 2.24 [percent];” however, this is inconsistent with South Central’s prior statements that the long term cost rate prior to South Central’s issuance of debt is set at 1.99 percent.<sup>195</sup> Accordingly, we will direct South Central to revise Note 13 to state that the cost of debt will be 1.99 percent or explain this discrepancy.

129. Attachment 9 is a hypothetical example of the final true-up of interest rates and interest calculations for the construction loan. South Central does not include explanations for the calculations used in “Calculation of Applicable Interest Expense for each ATRR period” either in the columns or in explanatory notes. Consequently, it is not clear how either the interest for each annual transmission revenue requirement period or Column H, “Total Amount of Construction Loan Related True-Up with Interest (Refund)/Owed,” is calculated. We will direct South Central to clarify how these calculations are performed and revise Attachment 9 to reflect this clarification.

130. Attachment 9, Summary Table, Column B incorrectly references Attachment O, Line 27. We will direct South Central to revise Column B to reference the appropriate Attachment H page and line number.

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<sup>195</sup> See, e.g., Rahill Testimony at 18.

131. Attachment 11, Page 3 contains Notes F, G, H, J, and K; however, no line items in Attachment 11 refer to those notes. We will direct South Central to insert references to these notes where appropriate or remove them if the references are not necessary.<sup>196</sup>

132. Attachment 11, Pages 4 through 6 contains references to Attachment H explanatory notes; however, it is not clear that these explanatory notes reference Attachment H. We will direct South Central to clarify this reference.

133. The portion of Attachment 11, Pages 4 through 6 which calculate the revenue requirement for South Central's distribution facilities generally draw inputs from Attachment H. Many of those inputs are calculated using 13-month average balances, or beginning and end of year balances where appropriate, on separate worksheets provided in Attachments 4 and 5 of the formula rate template. Where the source of some of the inputs to the distribution facilities revenue requirement must be obtained separate from Attachment H, South Central references its FERC Form No. 1 and company records; however, unlike Attachment H, South Central does not provide worksheets that show the data used from company records and the accompanying calculation. Accordingly, we will direct South Central to submit with its compliance filing the worksheets that will be used to calculate the inputs to distribution revenue requirement not derived from Attachment H.

134. Attachment 11, Page 4, the table that calculates the Total Annual Revenue Requirement does not describe how Columns 4 and 5 are calculated. We will direct South Central to provide these calculations in the Formula Rate Template. Additionally, it is not clear what Column 10, "Use %," of this table references. We will direct South Central to make a clarifying edit to Column 10.

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<sup>196</sup> Generally, we note that it is not clear if South Central has provided all the necessary components to calculate the revenue requirements associated with wholesale distribution service. For example, Note F on Page 3 states "True-Up Adjustment is calculated on the Project True-Up Schedule;" however, Attachment 11 contains no true-up component. Thus, it is unclear if South Central intends to calculate its wholesale distribution service revenue requirement using forward-looking or historical data, and South Central's formula rate protocols do not provide any additional clarification. Accordingly, we will direct South Central to revise Attachment 11 to reflect all components of the whole distribution service revenue requirements calculation and/or provide any necessary explanation in the formula rate protocols distinguishing Attachment 11 from the rest of the formula rate template (e.g., if the wholesale distribution service revenue requirements are calculated on a historical basis).

135. Attachment 11, Page 5, Line 1, Column 2 should refer to FERC Form No. 1, 322.156.b, not 322.157.9.c. We will direct South Central to make this change.

136. Attachment 11, Page 6, Line 4, Column 3 states that the Wages and Salary Allocator for Distribution is “###.” We will direct South Central to revise this item to reflect the actual allocator.

137. South Central calculates Annual Allocation Factors for Expense and Return on Attachment 11, Page 6, Lines 18 and 19; however, it is not clear what function Gross and Net Plant Distribution have in this calculation. Additionally, South Central does not provide calculations to describe how the allocation factors are derived. We will direct South Central to make these clarifications.

138. As the Missouri Commission identifies, and South Central commits to correct, section VII.2 of the formula rate protocols provides that the interest on any over recovery of the revenue requirement is determined on Attachment 11, which should read Attachment 9. We will direct South Central to make this change.

139. As the Missouri Commission identifies, and South Central commits to correct, section VII.2 of the formula rate protocols provides that interest payable shall be calculated using an average interest rate for 24 months, which differs from the following sentence of using 21 months. We will direct South Central to resolve this discrepancy.

140. As Xcel identifies, and South Central commits to correct, the definition of “Eligible Facility” is not included in the South Central’s formula rate protocols. We will direct South Central to define the term.

## **10. Cost of Service Schedules and Requested Waivers**

141. South Central requests that the Commission find that the Formula Rate satisfies the requirement to file detailed cost-of-service schedules under 18 C.F.R. § 35.13, or waive the requirement because South Central’s rates are formulary and will be based on actual costs incurred during the relevant time period as reflected in FERC Form No. 1 filings.<sup>197</sup> We will grant South Central’s request for waiver of section 35.13 requirements, consistent with our prior approval of formula rates.<sup>198</sup>

142. South Central also requests a limited partial waiver, to the extent necessary, of the Commission’s regulations regarding the filing of rate schedules in eTariff. South Central

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<sup>197</sup> Transmittal at 32.

<sup>198</sup> See *XEST*, 149 FERC ¶ 61,182 at P 119.

states that it will ask SPP to incorporate South Central's Formula Rate into the SPP Tariff, at which time an eTariff filing will be made. Given that the Formula Rate cannot be used to charge customers before it is incorporated into SPP's Tariff, we will waive the eTariff requirement at this time.

The Commission orders:

(A) South Central's request for authorization to defer as a regulatory asset all of its prudently incurred non-capitalized start-up costs including pre-commercial and formation costs, is hereby granted, as discussed in the body of this order.

(B) South Central's request for a hypothetical capital structure is hereby granted, subject to a compliance filing to be made within 30 days of the date of this order, as discussed in the body of this order.

(C) South Central's request for inclusion of 100 percent CWIP for the Walkemeyer Project is hereby granted, as discussed in the body of this order.

(D) South Central's proposed formula rate template and protocols are hereby conditionally accepted for filing, subject to a compliance filing to be made within 30 days of the date of this order, as discussed in the body of this order. South Central's proposed formula rate template and protocols will take effect once filed with the Commission to become part of SPP's Tariff, consistent with the effective date established in that future proceeding.

(E) South Central's proposed ROE is hereby accepted for filing and suspended for a nominal period, to be effective November 2, 2015, subject to refund and subject to the hearing procedures ordered below. South Central's proposed ROE adder for RTO participation is approved, as discussed in the body of this order. South Central's proposed Transco adder is denied, as discussed in the body of this order.

(F) Pursuant to the authority contained in and subject to the jurisdiction conferred upon the Federal Energy Regulatory Commission by section 402(a) of the Department of Energy Organization Act and by the FPA, particularly sections 205 and 206 thereof, and pursuant to the Commission's Rules of Practice and Procedure and the regulations under the FPA (18 C.F.R., Chapter I), a public hearing shall be held concerning South Central's proposed base ROE. However, the hearing shall be held in abeyance to provide time for settlement judge procedures, as discussed in Ordering Paragraphs (G) and (H) below.

(G) Pursuant to Rule 603 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.603 (2015), the Chief Administrative Law Judge is hereby directed to appoint a settlement judge in this proceeding within fifteen (15) days of the date of this order. Such settlement judge shall have all powers and duties enumerated in Rule 603

and shall convene a settlement conference as soon as practicable after the Chief Judge designates the settlement judge. If the parties decide to request a specific judge, they must make their request to the Chief Judge within five (5) days of the date of this order.

(H) Within thirty (30) days of the appointment of the settlement judge, the settlement judge shall file a report with the Commission and the Chief Judge on the status of the settlement discussions. Based on this report, the Chief Judge shall provide the parties with additional time to continue their settlement discussions, if appropriate, or assign this case to a presiding judge for a trial-type evidentiary hearing, if appropriate. If settlement discussions continue, the settlement judge shall file a report at least every sixty (60) days thereafter, informing the Commission and the Chief Judge of the parties' progress toward settlement.

(J) If settlement judge procedures fail and a trial-type evidentiary hearing is to be held, a presiding judge, to be designated by the Chief Judge, shall, within fifteen (15) days of the date of the presiding judge's designation, convene a prehearing conference in these proceedings in a hearing room of the Commission, 888 First Street, NE, Washington, DC 20426. Such a conference shall be held for the purpose of establishing a procedural schedule. The presiding judge is authorized to establish procedural dates, and to rule on all motions (except motions to dismiss) as provided in the Rules of Practice and Procedure.

By the Commission.

( S E A L )

Kimberly D. Bose,  
Secretary.