

154 FERC ¶ 61,011  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

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

Transource Kansas, LLC

Docket Nos. ER15-958-001  
ER15-958-002

ORDER ON REHEARING AND COMPLIANCE

(Issued January 8, 2016)

1. On May 4, 2015, Transource Kansas, LLC (Transource Kansas) submitted a compliance filing in response to the Commission's April 3, 2015 order accepting Transource Kansas' proposed formula rate template and formula rate implementation protocols (collectively, Formula Rate), subject to condition.<sup>1</sup> Additionally, on May 4, 2015, Transource Kansas filed a request for rehearing and clarification of certain aspects of the April 3 Order related to Transource Kansas' request for transmission incentive rate treatment. Also on May 4, 2015, the Kansas Corporation Commission (Kansas Commission) filed a request for rehearing of one finding in the Commission's April 3 Order. In this order, we deny Transource Kansas' and the Kansas Commission's rehearing requests. We grant in part and deny in part Transource Kansas' requested clarifications. We also accept Transource Kansas' compliance filing, subject to condition and further compliance, as discussed below.

**I. Background**

2. On February 2, 2015, Transource Kansas, a wholly owned subsidiary of Transource Energy, which is a joint venture between American Electric Power Company (AEP) and Great Plains Energy, filed its Formula Rate pursuant to section 205 of the Federal Power Act (FPA)<sup>2</sup> and requested incentive rate treatment under section 219 of the

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<sup>1</sup> *Transource Kansas, LLC*, 151 FERC ¶ 61,010 (2014) (April 3 Order).

<sup>2</sup> 16 U.S.C. § 824d (2012).

FPA<sup>3</sup> and the Commission's Order No. 679<sup>4</sup> or, alternatively, under section 205.<sup>5</sup> Transource Kansas stated that its primary focus is to develop and own transmission facilities that emerge from the Order No. 1000<sup>6</sup> regional transmission planning and competitive solicitation process established by SPP. Transource Kansas submitted its Formula Rate to recover costs associated with transmission projects that it intends to own and develop as part of the SPP Order No. 1000 competitive solicitation process (Competitive Upgrades).

3. Transource Kansas also requested approval of the following incentive rate treatments: (1) establishment of a regulatory asset to include all prudently incurred pre-commercial costs that are not capitalized and included in construction work in progress (CWIP), that are incurred prior to the date charges are assessed to SPP customers, and authorization to amortize the regulatory asset over a five-year period; (2) use of a hypothetical capital structure of 40 percent debt and 60 percent equity until its first Competitive Upgrade is placed into service; (3) recovery of prudently incurred costs in the event any transmission projects that are selected by SPP for development are abandoned for reasons outside Transource Kansas' control (Abandoned Plant); and (4) inclusion of 100 percent of CWIP in rate base during the development and construction phase for Highway Projects (i.e., projects that will be operated at or above 300kV). Transource Kansas further requested inclusion of 50 percent of CWIP in rate base for all Competitive Upgrades pursuant to 18 C.F.R. § 35.25, which, with respect to Highway Projects, was being requested as an alternative to the requested 100 percent CWIP incentive. In addition, Transource Kansas requested prior authorization for other, yet-to-be-formed, state-specific Transource Kansas affiliates that develop SPP

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<sup>3</sup> 16 U.S.C. § 824s (2012).

<sup>4</sup> *Promoting Transmission Investment through Pricing Reform*, Order No. 679, FERC Stats. & Regs. ¶ 31,222, *order on reh'g*, Order No. 679-A, FERC Stats. & Regs. ¶ 31,236 (2006), *order on reh'g*, 119 FERC ¶ 61,062 (2007).

<sup>5</sup> AEP owns affiliates that are incumbent transmission owning members in both PJM Interconnection, LLC (PJM) and Southwest Power Pool, Inc. (SPP). Great Plains Energy owns Kansas City Power and Light Company, an incumbent transmission owning member of SPP.

<sup>6</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).

transmission facilities (Transource SPP Entities) to replicate and adopt the proposed Formula Rate, including the requested incentives.

4. On April 3, 2015, the Commission accepted the proposed Formula Rate to be effective once 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. The Commission also accepted Transource Kansas' proposed base return on equity (ROE) for filing, suspended it for a nominal period, subject to refund, and set it for hearing and settlement judge procedures. With respect to Transource Kansas' request for transmission rate incentives, the Commission granted the hypothetical capital and regulatory asset incentives, but denied the Abandoned Plant and 100 percent CWIP incentives as premature. In addition, the Commission denied Transource Kansas' request to include 50 percent of CWIP in rate base for all transmission projects that it is awarded through SPP's Order No. 1000 competitive solicitation process. Finally, the Commission accepted Transource Kansas' request that Transource SPP Entities be authorized to utilize the same formula transmission rate, including the ROE that resulted from the hearing and settlement judge procedures ordered for Transource Kansas, and the same requested incentives, subject to condition.

5. On May 4, 2015, Transource Kansas and the Kansas Commission each filed timely requests for rehearing of the April 3 Order. Transource Kansas requested rehearing of the Commission's decision not to award the CWIP incentive, the Abandoned Plant incentive, and the 50 percent CWIP authorization. Alternatively, Transource Kansas requests that the Commission commit to process future project-specific requests for incentive rate treatments on an expeditious basis. The Kansas Commission requested rehearing of the Commission's determination that the Transource SPP Entities would each be subject to the ROE that is determined through the hearing and settlement judge procedures that were ordered for Transource Kansas.

6. On May 4, 2015, Transource Kansas submitted revised tariff sheets in compliance with the Commission's directives in the April 3 Order. Specifically, Transource Kansas submitted revised protocols and made several revisions to the transmission formula rate template to correct issues identified by the Commission.<sup>7</sup>

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<sup>7</sup> Transource Kansas also provided additional supporting documents explaining the cost allocation and direct assignment to Transource Kansas from its parent companies or affiliates in Docket No. ER15-958-003. On September 24, 2015, Commission staff, pursuant to delegated authority, issued a deficiency letter requesting additional information relating to such cost allocation and direct assignment. Transource Kansas submitted a response on October 23, 2015. Issues relating to Transource Kansas' cost allocation and direct assignment will be addressed in a separate order.

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

7. Notice of Transource Kansas' compliance filing was published in the *Federal Register*, 80 Fed. Reg. 28,259 (2015), with interventions and protests due on or before May 26, 2015. None was filed.

## **III. Requests for Rehearing and Clarification**

### **A. CWIP and Abandoned Plant Incentives**

#### **1. Rehearing Petition**

8. Transource Kansas argues that the Commission should apply its Order No. 679 policy more flexibly to allow incentive rate treatments for large transmission development projects that emerge from a regional transmission organization-conducted competitive process in order to accommodate the timing requirements of that competitive process. Transource Kansas contends that more is known about the set of projects to which the Abandoned Plant and CWIP incentives would apply than the Commission suggested in the April 3 Order. Transource Kansas states that the Abandoned Plant incentive would only apply to Competitive Upgrades that have been designated in SPP's regional transmission plan for competitive bidding through SPP's Transmission Owner Selection Process. Transource Kansas argues that the CWIP incentive is requested only for Highway Projects that are competitively awarded through the Transmission Owner Selection Process, which, to date, have an average project cost exceeding \$127 million.<sup>8</sup>

9. Transource Kansas argues that the Commission's denial of the Abandoned Plant incentive is unwise policy because the risk of abandonment due to regulatory obstacles or other external factors outside the developer's control is never zero for the type and scale of projects that are being constructed as Competitive Upgrades at the direction of SPP.<sup>9</sup> With respect to the CWIP incentive, Transource Kansas argues that this incentive results in improved cash flow and reduces financial pressure for any new entrant transmission developer, irrespective of the details of the project or the precise capital outlay the transmission company expects to make for a project.

10. Transource Kansas contends that the Commission should consider other policy justifications under section 205 for granting the CWIP and Abandoned Plant incentives aside from the policy goal of creating a level playing field between incumbents and non-incumbents. For instance, Transource Kansas argues that the Commission should

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<sup>8</sup> Transource Kansas Rehearing Request at 11 (citing Exh. No. TKS-100 at 20).

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

consider the policy goal of aligning its incentive rate practices with the new SPP competitive developer selection processes to enable the development of well-informed bids without contingencies related to later incentive requests, thereby fostering competition and ultimately lowering costs for customers.<sup>10</sup>

## 2. Commission Determination

11. We decline to apply Order No. 679 “more flexibly” so as to allow incentive rate treatment for unspecified transmission projects that might emerge from the Order No. 1000 competitive solicitation process. Order No. 679 requires an applicant to demonstrate that there is a nexus between the incentive sought and the investment being made and that the total package of incentives requested is “tailored to address the demonstrable risks or challenges faced by the applicant.”<sup>11</sup> The flexibility sought by Transource Kansas would circumvent this requirement because it is impossible to demonstrate that the requested package of incentives is tailored to address the risks of an unspecified project. The nexus test requires more than a representation that the total package of incentives is appropriate for an entire category of non-defined transmission development projects. Therefore, in order to obtain incentives under Order No. 679, the Commission requires a more specific demonstration that the incentive is tailored to the investment, which is not possible for an unspecified project.

12. However, as the Commission held in the April 3 Order, incentives for unspecified projects may be granted under section 205 if the applicant can demonstrate that the incentive is needed to further a specific policy goal. In the April 3 Order, the Commission found that granting Transource Kansas the regulatory asset and hypothetical capital incentives under section 205 of the FPA would further the policy goal of placing nonincumbent transmission developers on a level playing field with incumbent transmission owners in the Order No. 1000 competitive solicitation process. However, the Commission found that the Abandoned Plant and CWIP incentives did not serve this public policy goal because both incumbent and non-incumbent transmission developers are similarly situated with respect to obtaining these incentives in the Order No. 1000 competitive solicitation processes. Transource Kansas argues that the Commission should have considered other policy objectives, such as “the Commission’s policy goals of aligning its incentive rate practices with the new SPP competitive developer selection processes to enable the development of well-informed bids in SPP’s competitive solicitation processes without contingencies related to later incentive requests, thereby fostering competition and ultimately lowering costs for customers.”<sup>12</sup> However,

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<sup>10</sup> *Id.* at 5, 14.

<sup>11</sup> Order No. 679-A, FERC Stats. & Regs. ¶ 31,236 at P 40.

<sup>12</sup> Transource Kansas Rehearing Request at 4.

Transource Kansas fails to consider that incumbents and nonincumbents alike face the same uncertainty regarding the availability of CWIP and Abandoned Plant incentives when formulating their bids, so that neither has a competitive advantage. Therefore, we disagree that granting the CWIP and Abandoned Plant incentives under section 205 is necessary to foster competition. Further, Transource Kansas has not identified a specific need for the Commission to expand its public policy goals beyond that which it has already enunciated in order to align the Commission's incentive rate practices with a regional transmission organization's competitive solicitation process. Accordingly, we deny Transource Kansas' request for rehearing.

**B. Inclusion of 50 Percent CWIP in Rate Base Pursuant to Section 35.25**

**1. Transource Kansas' Rehearing Petition**

13. Transource Kansas asserts that it submitted its request for 50 percent CWIP in rate base for all Competitive Upgrades in accordance with Commission regulations. In addition, Transource Kansas argues that Competitive Upgrades have been found by SPP to be consistent with a least-cost energy supply program because the SPP planning process identifies the least-cost projects needed to assure reliability and cost-effectively reduce congestion.<sup>13</sup> Transource Kansas also states that the Commission-approved Order No. 1000 competitive solicitation process provides further assurance that the most cost-effective developer is selected to develop the most cost-effective transmission solutions.

14. Transource Kansas maintains that its request for 50 percent CWIP in rate base is distinguishable from *Commonwealth Edison*, where the Commission denied an applicant's request for 50 percent CWIP for unspecified construction projects with an unspecified time line.<sup>14</sup> Transource Kansas argues that, unlike *Commonwealth Edison*, it has provided sufficient information about the category of projects to which its request would apply and that any Competitive Upgrade would necessarily be consistent with a least-cost energy supply program.<sup>15</sup>

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<sup>13</sup> Transource Kansas Rehearing Request at 17-18 (citing *Sw. Power Pool, Inc.*, 144 FERC ¶ 61,059, at P 56 (2013)).

<sup>14</sup> *Id.* at 18-19 (citing *Commonwealth Edison Co.*, 119 FERC ¶ 61,238 (2007)).

<sup>15</sup> *Id.* at 19.

## 2. Commission Determination

15. Section 35.25 of the Commission's regulations permits any public utility to include up to 50 percent of CWIP in rate base in certain circumstances, provided it can demonstrate that the construction work is "prudent and consistent with a least-cost energy supply program."<sup>16</sup> Transource Kansas suggests that this demonstration is satisfied for Competitive Upgrades simply because such projects will have been vetted through the SPP planning process and assigned to the most cost-effective developer. We disagree. As the Commission held in the April 3 Order, the fact that such projects will have been vetted by SPP does not change the fact that the projects are unknown at this time.<sup>17</sup> Transource Kansas' request involves projects that are unspecified with an unspecified time line. Based on this fact, Transource Kansas has not made, and cannot make, the requisite demonstration under the Commission's regulations at this time to be eligible for 50 percent CWIP in rate base.

### C. ROE For Transource SPP Entities

#### 1. The Kansas Commission's Rehearing Petition

16. The Kansas Commission requests rehearing of the Commission's determination that the Transource SPP Entities will each be subject to the ROE that is determined through the hearing and settlement judge procedures that were ordered for Transource Kansas. The Kansas Commission argues that the base ROE that ultimately results from the hearing and settlement judge procedures established in the April 3 Order will relate specifically to Transource Kansas and cannot serve as the basis for determining the appropriate ROE for a yet-to-be-formed entity at some unspecified time in the future. According to the Kansas Commission, the Transource Kansas ROE that would be applied to other Transource SPP Entities would not reflect current capital market conditions. The Kansas Commission also argues that the ROE should vary for each Transource SPP Entity, just as the other inputs to the formula rate template vary in accordance with each Transource SPP Entity's FERC Form No. 1 data. Finally, the Kansas Commission argues that allowing the Transource SPP Entities to adopt the Transource Kansas ROE would absolve those entities from the requirement under the FPA to demonstrate that their proposed rates would be just and reasonable.

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<sup>16</sup> 18 C.F.R. §§ 35.25(c)(3), 35.13(h)(38). *See also Construction Work in Progress for Public Utilities; Inclusion of Costs in Rate Base*, Order No. 298, FERC Stats. & Regs., ¶ 30,455, *order on reh'g*, Order No. 298-A, FERC Stats. & Regs., ¶ 30,500, *order on reh'g*, Order No. 298-B, FERC Stats. & Regs., ¶ 30,524 (1983).

<sup>17</sup> April 3 Order, 151 FERC ¶ 61,010 at P 53.

## 2. Commission Determination

17. We deny the Kansas Commission's request for rehearing. The Commission recently rejected arguments that a predetermined ROE reflecting current market conditions is not just and reasonable when applied to cost recovery for unspecified projects whose costs may not be incurred for many years into the future.<sup>18</sup> Neither Transource Kansas nor any of the other Transource SPP Entities (all of whom, like Transource Kansas, will be formed to develop Competitive Upgrades through the SPP competitive solicitation process, albeit in different states) currently has plant in service or proposed projects. We find that determining a base ROE for Transource Kansas using current market conditions, as we did in *XEST*, is no different than determining a base ROE for any other Transource SPP Entity at this time using current capital market conditions because, as noted by Transource Kansas, Transource Kansas may not even be the first Transource SPP Entity to be awarded a Competitive Upgrade.<sup>19</sup> Moreover, the Transource SPP Entities will be state-specific transmission companies with the same parent companies utilizing the same formula rate and participating in the same SPP competitive solicitation process. In other words, the Transource SPP Entities will be similarly situated with respect to risk and capital requirements. Further, as noted in the testimony of Adrien McKenzie,<sup>20</sup> the support for Transource Kansas' ROE is equally applicable to other Transource SPP Entities. Therefore, we find it appropriate to apply the ROE determined in the Transource Kansas hearing and settlement judge procedures to the other Transource SPP Entities.

18. We disagree with the Kansas Commission that the ROE should necessarily vary for each Transource SPP Entity, as do other inputs to the formula rate template. As discussed above, each Transource SPP Entity will be similarly situated and utilize the same formula rate. ROE is an input into the formula that is not dependent on company-specific FERC Form No. 1 cost data. Just as the Commission allowed the Transource SPP Entities to replicate other aspects of Transource Kansas' Formula Rate, we find that the Transource SPP Entities may also use the same ROE as Transource Kansas. Contrary to the Kansas Commission's arguments, our determination does not obviate the obligations in the FPA. During the hearing and settlement judge procedures, Transource Kansas must demonstrate that its proposed ROE is just and reasonable, and the Commission must ultimately review and approve that ROE. Just as we found there to be no reason to re-litigate the justness and reasonableness of an identical Formula Rate to

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<sup>18</sup> See *Xcel Energy Southwest Transmission Co., LLC*, 149 FERC ¶ 61,182, at PP 41, 62 (2014) (*XEST*).

<sup>19</sup> Transource Kansas Rehearing Request at 20.

<sup>20</sup> Exhibit No. TKS-300, Direct Testimony of Adrien M. McKenzie at 83-84.

the one being accepted for Transource Kansas, we see no reason at this time to litigate a separate ROE for each Transource SPP Entity, but the Commission retains jurisdiction to change an ROE through section 206 procedures if circumstances warrant.

**D. Request for Expedited Processing of Incentive Rate Applications.**

**1. Transource Kansas' Rehearing Petition**

19. If the Commission declines to grant rehearing in this case, Transource Kansas requests that the Commission commit to process project-specific incentive rate requests on an expedited and streamlined basis, so that Transource Kansas can file a request soon after a Competitive Upgrade is posted for bid and receive a Commission order on the request within 60 days. Specifically, Transource Kansas requests clarification that such expedited filings can be made through a request for declaratory order without an associated filing fee or, if processed under section 205, through a single-issue ratemaking process without the requirement to rejustify the entire formula rate.

**2. Commission Determination**

20. We deny Transource Kansas' request that the Commission adopt at this time a special policy to waive filing fees for declaratory orders addressing incentive rate requests or that the Commission process such declaratory orders within a prescribed period of time. Those requesting incentive rate treatments for specific projects may explain the need for an expedited determination as appropriate to the facts for that project. Accordingly, we see no need to adopt special procedures for incentive requests. Similarly, we will not at this time change our existing policies with respect to single-issue rate filings.<sup>21</sup>

**E. Transource Kansas' Requests for Clarification**

**1. Requested Clarifications**

21. In the April 3 Order, the Commission stated that if and when SPP awards a Competitive Upgrade to Transource Kansas through the competitive solicitation process, Transource Kansas and SPP would make a joint section 205 filing to incorporate into the SPP Tariff a *pro forma* Formula Rate that could be replicated by other Transource SPP Entities. Transource Kansas requests clarification that the initial filing of the *pro forma*

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<sup>21</sup> See Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 23 (stating that the Commission "typically require[s] a utility seeking a rate increase to expose all of its costs to review and therefore do[es] not generally permit 'single issue' rate filings").

Formula Rate can be made by whichever Transource SPP Entity is first awarded a Competitive Upgrade, whether it be Transource Kansas or one of its affiliates.

22. Transource Kansas also requests that the Commission clarify responsibility for joint meetings under the protocols. In the April 3 Order, the Commission directed Transource Kansas to include a requirement in its protocols that it endeavor to coordinate with other transmission owners that use formula rates and to hold joint meetings to share information regarding implementation of those formula rates. Transource Kansas states that it is not a good candidate for organizing joint meetings because it is unknown when Transource Kansas will be assigned a Competitive Upgrade for which it will begin collecting revenues under its Formula Rate.

## **2. Commission Determination**

23. We grant Transource Kansas' requested clarification that the initial filing of the *pro forma* Formula Rate can be made by whichever Transource SPP Entity is first awarded a Competitive Upgrade. The Commission's determination in the April 3 Order to require the submission of a *pro forma* Formula Rate was not intended to be restricted to Transource Kansas and may be used by any Transource SPP Entity seeking to replicate the Formula Rate proposed herein.

24. With respect to the Commission's directive to Transource Kansas to hold joint meetings with other transmission owners, Transource Kansas did not specify what clarification it wanted. Rather, it stated that it is not a good candidate for organizing joint meetings among transmission owners and that it will begin participating in these joint meetings only once it is assigned a Competitive Upgrade with region-wide cost allocation and begins using its Formula Rate to collect costs for such a project. The Commission required Transource Kansas to:

include a requirement in its protocols that it endeavor to coordinate with other transmission owners using formula rates to establish revenue requirements for recovery of the costs of transmission projects that utilize the same regional cost sharing mechanism and hold joint meetings to enable all interested persons to understand how those transmission owners are implementing their formula rates for recovering the costs of such projects.<sup>22</sup>

The Commission did not require that Transource Kansas would have sole responsibility for coordinating joint meetings. However, consistent with the Commission's directive, we expect that Transource Kansas will participate in joint

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<sup>22</sup> April 3 Order, 151 FERC ¶ 61,010 at P 75.

meetings with other transmission owners and will endeavor to coordinate with those transmission owners regarding the timing and substance of such meetings. Since the protocols will not become effective as part of the Formula Rate unless and until Transource Kansas is assigned a Competitive Upgrade, we find that this directive and expectation require no additional clarification.

#### **IV. Compliance Filing**

##### **A. Revisions to Formula Rate Template**

##### **1. April 3 Order and Transource Kansas' Submittal**

25. In the April 3 Order, the Commission directed Transource Kansas to propose numerous revisions to its formula rate template. Among its directives, the Commission required Transource Kansas to revise columns E and F in Attachment 3 and to clarify the purpose of those columns.<sup>23</sup> In response, Transource Kansas explains that Attachment 3 determines project-specific true-up adjustments from the prior rate year to include in the projected net revenue requirement for the succeeding rate year. Transource Kansas explains that this is done by comparing revenue received during the prior rate year on a project specific basis in column E to the actual net revenue requirement for the project computed using FERC Form No. 1 data for the rate year. Transource Kansas explains that the revenues received for a given project are determined by multiplying the percentage of total transmission revenue requirement attributable to a particular project by the total revenues received by Transource Kansas. Transource Kansas provides this explanation in note 3 and proposes a new heading for column E.<sup>24</sup>

26. With respect to Attachment 4, the Commission directed Transource Kansas to explain the purpose of column F and the quoted phrase in note G, and make revisions to ensure that the capital contributions from customers were appropriately deducted from rate base before they are used to fund liabilities.<sup>25</sup> In response, Transource Kansas includes a new note I in Attachment 4 which reflects the ratemaking concept that only capital “borrowed” from customers should be credited against rate base. Transource Kansas explains that if the reserve has been created instead by an offsetting

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<sup>23</sup> *Id.* P 63.

<sup>24</sup> Transource Kansas Compliance Filing at 5.

<sup>25</sup> April 3 Order, 151 FERC ¶ 61,010 at P 64.

balance sheet liability, the reserve does not represent customer-supplied capital and should not reduce rate base.<sup>26</sup>

27. The Commission directed Transource Kansas to provide additional support and clarification for items contained in Attachment 7, Post-Retirement Benefits other than Pensions (PBOP).<sup>27</sup> In response, Transource Kansas explains that it allocates PBOP expenses to retirees based on the number of retirees versus employees, and Transource Kansas updates its values in Attachment 7 accordingly. Transource Kansas explains that note B in its original version was incorrect with respect to AEP and proposes to revise it to indicate that the AEP labor dollar sum represents total labor dollars for all AEP affiliates included in the 2013 actuarial report used to determine 2013 PBOP expenses. Transource Kansas further proposes a new note C to clarify that line 7 is the total labor charged by an AEP or KCP&L affiliate to Transource Kansas in the year.<sup>28</sup>

28. The Commission directed Transource Kansas, in its annual informational filing, to provide supporting documentation for the credit spread in Attachment 8. In response, Transource Kansas states that it will provide supporting documentation in its annual informational filing to the extent it updates the credit spread in Attachment 8 based on the best available information.<sup>29</sup>

## **2. Commission Determination**

29. We accept Transource Kansas' formula rate template revisions subject to condition.<sup>30</sup> Except as discussed below, we find that Transource Kansas' explanations and proposed formula rate template revisions comply with the Commission's directives in the April 3 Order. We direct Transource Kansas to make a further compliance filing within 30 days of the date of this order to address the issues noted below.

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<sup>26</sup> Transource Kansas Compliance Filing at 6.

<sup>27</sup> April 3 Order, 151 FERC ¶ 61,010 at P 66.

<sup>28</sup> Transource Kansas Compliance Filing at 7-8.

<sup>29</sup> *Id.* at 8.

<sup>30</sup> The Commission can revise a proposal filed under section 205 of the FPA as long as the filing utility accepts the change. *See City of Winnfield v. FERC*, 744 F.2d 871, 875-77 (D.C. Cir. 1984). The filing utility is free to indicate that it is unwilling to accede to the Commission's conditions by withdrawing its filing.

30. We accept Transource Kansas' explanation and proposed revisions to Attachment 3. However, we find that it is still not clear how Attachment 3 determines the project-specific true-up. Specifically, it is not clear what the Adjusted Net Revenue Requirement in column G represents. Note 2 specifies that the inputs into column G are taken from Attachment 1, line 15, column 16. The footnotes should explain from which periods the inputs in Attachment 3 are being derived. Accordingly, we direct Transource Kansas to clarify Attachment 3 and provide any revisions that might improve the Commission's and interested parties' understanding. As a result of this directive, we also will direct Transource Kansas to make any necessary clarifying edits to Attachment 1, note F that might also clarify the rate year used in Attachment 1, column 16.

31. Regarding Transource Kansas' proposed revisions to Attachment 4, Transource Kansas explains that only capital "borrowed" from customers should be credited against rate base and states that column F of Attachment 4 ensures only the portion of the unfunded reserve contributed by the customer is a reduction to rate base. However, Transource Kansas only explains that many unfunded reserves are created by an offsetting liability in whole or in part, and states that the percentage shown in column F is equal to the percentage that customers have contributed to the unfunded reserve. We find this explanation insufficient and therefore direct Transource Kansas to more fully explain how it ensures capital contributions from customers are appropriately deducted from rate base before they are used to fund liabilities.

32. Transource Kansas states that it revised note B of Attachment 7 to indicate that the AEP labor dollar sum on line 5 represents total labor dollars for all AEP affiliates included in the 2013 actuarial report to determine 2013 PBOP expenses. However, note B only indicates that this amount is the total labor expense across all AEP affiliates and is taken from company records. If this amount was taken from the 2013 actuarial report, note B should be revised to specify this, as note A does for lines 2 and 3. If the amount was not taken from the 2013 actuarial report, Transource Kansas must provide further support for this amount. We therefore direct Transource Kansas to clarify note B and include a spreadsheet showing the calculation of this total from AEP and its affiliates, including cross-references to the 2013 actuarial report for values taken from there, and providing additional support for any included values not taken from the actuarial report.

33. Transource Kansas states that it will provide supporting documentation in its annual informational filing to the extent it updates the credit spread in Attachment 8. However, the April 3 Order did not limit this documentation requirement to the extent that the credit spread was updated. Therefore, we direct Transource Kansas to supply this documentation in its informational filing every year regardless of whether it updated its credit spread that year.

34. We also note that the formula rate template contains additional typos and reference errors that Transource Kansas should correct. First, Attachment H, page 4, lines 20-22 utilize inputs from Attachment 5, but do not reference them. Second, the FERC Form

No. 1 reference for Attachment 4, Page 1, column E should be 214.x.d instead of 214.x.c. Third, for consistency, Attachment 5, column J, Miscellaneous Transmission Expense should include in its heading the parenthetical “(less Amortization of Regulatory Asset).” Fourth, Line 6 of Attachment 2 states that it is the sum of lines 27-29. However, it should be the sum of lines 3-5. Fifth, Attachment 2, Line 1 references Attachment H, Line 37, column 5, but does not contain a page number. Finally, the FERC Form No. 1 references for Attachment H, Page 4, Lines 14 and 15 should be 201.3.d and 201.3.e, respectively.

**B. Revisions to Formula Rate Protocols**

**1. April 3 Order and Transource Kansas’ Submittal**

35. In the April 3 Order, the Commission directed Transource Kansas to make several revisions to or provide support for its proposed protocols. Among its directives, the Commission directed Transource Kansas to include a requirement in its protocols that it endeavor to coordinate with other transmission owners using formula rates to establish revenue requirements for recovery of the costs of transmission projects that utilize the same regional cost sharing mechanism and hold joint meetings to enable all interested persons to understand how those transmission owners are implementing their formula rates for recovering the costs of such projects.<sup>31</sup> In response, Transource Kansas proposes a new section providing that Transmission Owners will endeavor to conduct a joint informational meeting with respect to projects with regional cost allocation and that Transource Kansas will participate in such joint meetings once it begins development of a project for which costs are to be regionally allocated.

36. Further, the Commission found that Transource Kansas’ proposed protocols unduly limited the types of information requested in the information exchange and challenge processes. Thus, the Commission directed Transource Kansas to revise its protocols to provide that information and document requests, preliminary challenges, and formal challenges shall be limited to what is necessary to determine: (1) the extent, effect, or impact of an accounting change; (2) whether the Annual True-Up fails to include data properly recorded in accordance with the protocols; (3) the proper application of the formula rate and procedures in the protocols; (4) the accuracy of data and consistency with the formula rate of the changes shown in the annual update; (5) the prudence of the actual costs and expenditures; (6) the effect of any change to the underlying Uniform System of Accounts or applicable form; and (7) any other information that may reasonably have substantive effect on the calculation of the charge

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<sup>31</sup> April 3 Order, 151 FERC ¶ 61,010 at P 75.

pursuant to the formula.<sup>32</sup> In response, Transource Kansas proposes to include additional language specifying that information requests are limited to the subjects listed above.

## 2. Commission Determination

37. We accept Transource Kansas' revisions to its protocols subject to condition. Except as discussed below, we find that Transource Kansas' proposed revisions comply with the Commission's directives in the April 3 Order. Transource Kansas is directed to make a compliance filing within 30 days of the date of this order to address the concerns identified below.

38. We find that Transource Kansas' proposed language regarding joint meetings does not comply with the Commission's directives because it appears to limit coordination to only other transmission owners that are members of the same planning region, in this case SPP transmission owners. We find that this language does not require Transource Kansas to coordinate with transmission owners outside of the SPP planning region that own inter-regional projects whose costs are allocated using the same cost sharing mechanism to hold joint meetings to enable all interested parties to understand how those transmission owners are implementing their formula rates for recovery of the costs of such projects. Therefore, we direct Transource Kansas to revise section 8 in order to not limit the coordination in the joint meetings to only the transmission owners that are members of SPP.

39. In the April 3 Order, the Commission found that Transource Kansas' proposed protocols unduly limited the types of information requested in the information exchange and challenge processes. While Transource Kansas included language to define the limits of information requests in its protocols, it did not delete the following language: "Information requests shall not solicit information concerning costs or allocations where the costs or allocation methods have been determined to be appropriate by FERC in the context of prior Transource Kansas Annual Updates, except that such information requests shall be permitted if they (i) seek to determine if there has been a change in circumstances, (ii) are in connection with corrections pursuant to [s]ection 6, or (iii) relate to costs or allocations that have not previously been challenged and adjudicated by FERC." We find that the inclusion of this language does not comply with the April 3 Order, and therefore direct Transource Kansas to remove this language from its protocols.

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<sup>32</sup> *Id.* P 77.

The Commission orders:

(A) Transource Kansas' request for rehearing is hereby denied, as discussed in the body of this order.

(B) Transource Kansas' request for clarification is granted in part and denied in part, as discussed in the body of this order.

(C) The Kansas Commission's request for rehearing is hereby denied, as discussed in the body of this order.

(D) Transource Kansas' compliance filing is accepted subject to condition, as discussed in the body of this order.

(E) Transource Kansas is hereby directed to submit a further compliance filing within 30 days of the date of this order, as discussed in the body of this order.

By the Commission.

( S E A L )

Nathaniel J. Davis, Sr.,  
Deputy Secretary.