GRIDLIANCE

July 3, 2018

VIA ELECTRONIC FILING

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street NE
Washington, DC 20426

Re: South Central MCN LLC, Docket No. ER18-___-____
Proposed Revisions to South Central's Transmission Formula Rate

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act (FPA),[1] and Part 35 of the Federal Energy Regulatory Commission's (FERC or Commission) regulations,[2] South Central MCN LLC (South Central) hereby submits for filing limited revisions to its transmission formula rate template (Transmission Formula). The limited revisions would eliminate use of the "two-step averaging methodology" and preserve only the "proration method" for calculating the Accumulated Deferred Income Tax (ADIT) component of South Central's annual Transmission Formula rate true-ups in order to comply with Internal Revenue Service (IRS) guidance on ADIT treatment, pursuant to Section 1.167(l)-1(h)(6)(ii) of the IRS Code[3]; IRS Private Letter Ruling (PLR) 201717008, issued on April 28, 2017 (April 2017 PLR)[4]; and the Commission's guidance in its Order in Docket No. ER18-224-000, issued on April 27, 2018.[5] South Central requests that the Commission accept these proposed revisions on a limited, single-issue basis.

South Central's Transmission Formula is currently effective under the Southwest Power Pool, Inc.'s (SPP) Open Access Transmission Tariff (SPP Tariff). Accordingly, after the Commission issues an order accepting South Central's proposed revisions to its Transmission Formula in this docket, as well as South Central's proposed revisions to its Transmission Formula in other pending dockets[6], South Central will request that SPP make a filing under Section 205 of the FPA to incorporate all Commission-approved

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[1] 16 U.S.C. § 824d.

[2] 18 C.F.R Part 35.

[3] Tres. Reg. § 1.167(l)-1(h)(6)(ii).

[4] I.R.S. Priv. Ltr. Rul. 201717008 (Apr. 28, 2017) (April 2017 PLR).

[5] *Midcontinent Independent System Operator, Inc.*, 163 FERC ¶ 61,061 (Apr. 27, 2018) (*MISO*).

[6] As discussed in this filing, the Commission recently approved limited revisions to South Central's Transmission Rate ADIT projection methodology in Docket No. ER18-572-000. Certain other proposed revisions to South Central's Transmission Rate are pending before the Commission in Docket Nos. ER15-2594-005, ER15-2594-006, and EL18-16-000.

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revisions to South Central's Transmission Formula into the SPP Tariff.

I. BACKGROUND

1. Commission Guidance on Calculating Projected ADIT

South Central is a transmission-only company (transco) and an indirect subsidiary of GridLiance Holdco, LP (GridLiance), which was formed to partner with municipal utilities, electric cooperatives, and joint action agencies in the Southwest Power Pool, Inc. (SPP) region. South Central currently provides transmission service to customers under the SPP Tariff pursuant to a Transmission Formula and implementation protocols (Transmission Rate) that the Commission accepted, subject to condition, on October 29, 2015 in Docket No. ER15-2594-000.[7] South Central's Transmission Rate became effective on April 1, 2018, when South Central acquired certain transmission assets from the City of Nixa, Missouri (Missouri Assets), pursuant to the Commission's authorization in Docket No. EC17-126-000[8], and transferred functional control of the Missouri Assets to SPP, pursuant to the Commission's Order in Docket No. ER18-99-000, in which the Commission accepted, subject to refund and the outcome of hearing and settlement judgement procedures, SPP's proposed revisions to the SPP Tariff to incorporate South Central's Transmission Rate for the Missouri Assets.[9]

On December 28, 2017, South Central requested that the Commission approve limited revisions to South Central's Transmission Rate to reflect changes to South Central's methodology for calculating the ADIT component of its projected net revenue requirement.[10] South Central explained that, prior to its December 28 filing, South Central had calculated its projected ADIT balances by averaging its projected beginning of year (BOY) and end of year (EOY) ADIT balances. However, based on certain IRS PLRs, issued in July of 2015, South Central believed it was required to calculate its projected ADIT balances using a two-step averaging methodology under which South Central would first prorate the monthly incremental increase to its ADIT accounts and then average the BOY and EOY ADIT amounts using the prorated EOY balances.[11] As a result, South Central's December 28 filing included proposed revisions to South Central's Transmission Rate, which adopted the two-step averaging methodology for calculating South Central's projected ADIT balances.

On February 26, 2018, the Commission issued a deficiency letter (February 26 Letter) in which it posed certain questions regarding South Central's proposed Transmission Rate revisions and requested that South Central reconcile its proposed ADIT revisions with the IRS's finding in the April 2017 PLR that it

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[7] *South Central MCN LLC*, 153 FERC ¶ 61,099 (Oct. 29, 2015).

[8] *South Central MCN LLC*, 162 FERC ¶ 61,214 (Mar. 15, 2018).

[9] *South Central MCN LLC*, 162 FERC ¶ 61,215 (Mar. 15, 2018).

[10] *South Central MCN LLC*, Docket No. ER18-572-000 (Dec. 28, 2017). South Central's filing also requested Commission approval of South Central's proposal to utilize its actual cost of long term debt rather than a hypothetical rate for the purposes of calculating South Central's net revenue requirement. The proposed revision to South Central's cost of long term debt is not relevant to the instant filing.

[11] *Id.*

is unnecessary to use the two-step averaging methodology to calculate projected ADIT balances because prorating and averaging effectively accomplishes the same objective.[12] The April 2017 PLR stated:

> We agree with Taxpayer that averaging conventions, when applied to entirely future test periods, should presumptively be treated as having the same purpose as the Proration Requirement, thereby negating the necessity to apply both conventions serially to changes in [ADIT] balances . . . If Taxpayer employers a future test period in its Transmission Projected Rates . . . and the Proration Requirement applies, in computing Taxpayer's Transmission Projected Rate . . . the Consistency Rule does not require that any averaging convention applied to the other elements of rate base also apply to Taxpayer's prorated [ADIT] balance.[13]

In response to the Commission's February 26 Letter, South Central submitted additional revisions to its Transmission Formula in March 2018, which eliminated the two-step averaging method and preserved only the proration methodology for calculating South Central's projected ADIT balances.[14] By letter order dated May 24, 2018, the Commission accepted South Central's proposed revisions to its ADIT projection methodology.[15]

2. Commission Guidance on Calculating ADIT True-Up

While revising its ADIT projection methodology, South Central became aware of a filing by the Midcontinent Independent System Operator, Inc. (MISO) in Docket No. ER18-224-000 in which MISO and Certain MISO Transmission Owners (Certain MISO TOs) proposed revisions to the formula rate templates of Certain MISO TOs included in Attachment O of the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff to modify their methodology for calculating the ADIT component of their annual formula rate true-ups.[16] Certain MISO TOs proposed to apply the two-step averaging methodology to the true-up of their ADIT balances, based on their interpretation of the April 2017 PLR.[17] On December 29, 2017, the Commission issued a deficiency letter, similar to the February 26 Letter South Central received in Docket No. ER18-572-000, in which the Commission requested that Certain MISO TOs reconcile their proposal to use the two-step averaging methodology in their ADIT true-up calculation with the April 2017 PLR's finding that it is unnecessary to apply both the averaging and proration

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[12] *South Central MCN LLC*, Deficiency Letter, Docket No. ER18-572-000 (Feb. 26, 2018).

[13] April 2017 PLR at 10, 14.

[14] *South Central MCN LLC*, Responses to the Commission's February 26, 2018 Letter and Updated Limited Revisions to South Central's Transmission Formula Rate, Docket No. ER18-572-000 (Mar. 26, 2018).

[15] *South Central MCN LLC*, Letter Order, Docket No. ER18-572-000 (May 24, 2018). The Commission also accepted South Central's proposed cost of long term debt formula rate revisions.

[16] *Midcontinent Independent System Operator, Inc. and the MISO Transmission Owners*, Revisions to Attachment O Formula Rates, Docket No. ER18-224-000 (Nov. 1, 2017).

[17] *Id*. at 4-8.

methodologies.[18] On February 28, 2018, MISO and Certain MISO TOs submitted a response to the December 29 deficiency letter in which they asserted that the April 2017 PLR had only relaxed the IRS's Consistency Rule for projected test year ADIT calculations and did not apply to the calculation of ADIT balances in a taxpayer's annual true-up.[19]

On April 27, 2018, the Commission issued an Order rejecting MISO and Certain MISO TOs' proposed formula rate revisions (MISO ADIT Order).[20] The Commission found that the IRS intended for the April 2017 PLR to apply to both the projection and the true-up of a taxpayer's ADIT balances and concluded that the two-step averaging methodology proposed by Certain MISO TOs was no longer required to comply with IRS regulations.[21] After making the above determination, the Commission further found that continued use of the two-step averaging methodology for calculating ADIT may result in unjust and unreasonable rates. Accordingly, the Commission concurrently instituted a proceeding under Section 206 of the FPA to examine the methodology utilized by Certain MISO TOs in calculating ADIT balances in their projected test year calculations for their Attachment O formula rate templates.[22] In response, on June 4, 2018, MISO and Certain MISO TOs submitted revisions to their Attachment O formula rate templates to eliminate their use of the two-step averaging methodology and to preserve only the proration method to calculating the ADIT component of their annual true-ups.[23] This filing is pending with the Commission for approval. Most recently, in light of the April 2017 PLR and the MISO ADIT Order, on June 21, 2018, the Commission instituted a proceeding under Section 206 of the FPA to examine the methodology utilized by certain public utilities for calculating the ADIT balances in their formula rate projections and annual true-ups (ADIT 206 Proceeding Order).[24]

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[18] *Midcontinent Independent System Operator, Inc*., Deficiency Letter, Revisions to Attachment O Formula Rates, Docket No ER18-224-000 (Dec. 29, 2017).

[19] MISO and Certain MISO TOs asserted that, because the Consistency Rule requires a taxpayer using normalization methods of accounting to use consistent estimates and projections, the MISO TOs were required to average all components of their projection and annual true-up calculations with the exception of their ADIT projection because the April 2017 PLR had specifically exempted that calculation from the Consistency Rule.

[20] *MISO*, 163 FERC ¶ 61,061.

[21] *Id.* at PP 27-30.

[22] *Id.* at PP 31-35.

[23] *Midcontinent Independent System Operator, Inc. and the MISO Transmission Owners*, Revisions to Attachment O Formula Rates, ER18-1739-000 (June 4, 2018).

[24] *Ameren Illinois Company et al.*, 163 FERC ¶ 61,200 (June 21, 2018).

II. DOCUMENTS INCLUDED IN THIS FILING

1. This Transmittal Letter

2. Clean Version of Transmission Formula (***Attachment A***)

3. Redline Version of Transmission Formula (***Attachment B***)

III. DESCRIPTION AND JUSTIFICATION OF PROPOSED TARIFF REVISIONS

The Commission should accept South Central's proposed revisions to its Transmission Formula, which would eliminate use of the two-step averaging methodology and preserve only the proration method for calculating the ADIT component of South Central's annual Transmission Formula rate true-ups. As discussed below, the proposed Tariff revisions are just and reasonable because they are consistent with the Commission's guidance in the MISO ADIT Order as well as applicable IRS regulations and recent IRS guidance. Additionally, South Central's proposed Tariff revisions fully address the Commission's concerns articulated in its ADIT 206 Proceeding Order about a public utility's continued use of the two-step averaging methodology to determine ADIT balances.

Currently, South Central's Transmission Formula calculates the true-up of South Central's ADIT balances based on an average of the BOY and EOY balances. South Central previously calculated its ADIT projection using the same averaging methodology; however, South Central revised its ADIT projection methodology in the March 2018 filing to apply only the proration methodology, as discussed above, and the Commission accepted South Central's revisions on May 24, 2018. As a result, South Central now proposes similar revisions to its Transmission Formula to preserve only the IRS's required proration methodology to its calculation of ADIT in South Central's Annual True-Up.

South Central proposes revisions to Notes B and R of Attachment H to specify that South Central's Annual True-Up of its ADIT amounts will be based on prorated balances, as required by IRS regulations, and to confirm that, beginning with the 2019 rate year, South Central's Annual True-Up for a given year will use the same methodology that was used to project that year's rates. South Central also proposes to revise Note D of Attachment 4 to reflect that South Central's ADIT projection and annual true-up will be computed using the prorated end of year balances, as required by IRS regulations. Additionally, South Central proposes to revise Attachment 4e to insert a new line 3 after line 2, revise the resulting new line 11, and revise the resulting new line 19 to reflect South Central's proposal to calculate the true-up of ADIT Accounts 282, 283, and 190 using only the proration methodology. South Central's proposed revisions to Attachment 4e also correct a line numbering error that existed in previous versions of that attachment. Finally, South Central proposes to add a new Tab 4f (ADIT True-up Proration) to its Transmission Formula, which is a worksheet South Central will utilize to calculate its Annual True-Up of the balances for ADIT Accounts 282, 283, and 190.

Single-issue rate treatment is appropriate for South Central's proposed ADIT revisions. The Commission held in Docket No. EL16-63-000 that revisions proposed to comply with the IRS ADIT guidance that are similar in nature to those previously approved by the Commission and that only affect the

timing of recovery could be considered on a single-issue basis.[25] As noted, South Central's proposed revisions satisfy each of these conditions.

IV. INFORMATION REQUIRED UNDER 18 C.F.R. § 35.13 AND REQUESTED WAIVERS

This filing is limited to revisions to comply with IRS guidance on the treatment of ADIT and conform to the Commission's ADIT methodology policy laid out in its MISO ADIT Order, as discussed above. As such, to the extent necessary, South Central seeks waiver of the cost support information required by 18 C.F.R. §§ 35.13(b) and 35.13(c). However, South Central provides the following general information addressed by the Commission's rules:

3. Description of Documents Submitted with this Filing

The documents submitted with this filing are described in Section II.

4. Effective Date

South Central requests that the proposed revisions become effective on the date indicated in the filing SPP will make to incorporate the proposed revisions into the SPP Tariff.

5. Service

South Central is serving a copy of this filing on all parties included in the SPP exploder list as well as representatives for the City of Nixa, Missouri, the municipality from which South Central acquired the Missouri Assets, South Central's only transmission assets currently under SPP's functional control.

6. Description of and Reasons for the Rate Change

For a description of the proposed changes, please refer to Sections I and III.

7. Requisite Agreement

No agreement is required to effectuate the proposed changes.

8. Expenses Alleged or Judged Illegal

No expenses or costs associated with this filing have been alleged or judged, in any judicial or administrative proceeding, to be illegal, duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practice.

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[25] *Indicated RTO Transmission Owners*, 161 FERC ¶ 61,018; *see also PJM Interconnection*, 154 FERC ¶ 61,126 at P 19 (2016); *Public Service Co. of Colorado*, 155 FERC ¶ 61,028 at P 33 (2016); *Midcontinent Independent System Operator,* 157 FERC ¶ 61,250 at P 25 (2016).

9. Specifically Assignable Facilities

No specifically assignable facilities have been or will be installed or modified as a result of the proposed change.

V. WAIVERS

South Central respectfully requests that the Commission grant any necessary waivers needed so that the Transmission Formula revisions can be accepted as filed. In particular, to the extent necessary, South Central requests a limited partial waiver of the Commission's eTariff filing requirements under Order No. 714 and Sections 35.7 and 35.9 of the Commission's regulations. Good cause exists for the Commission to grant the requested waiver. After the Commission issues an order accepting the revisions proposed in this filing, South Central will ask SPP to file conforming changes to incorporate the revisions into the SPP Tariff. It is in that subsequent docket, initiated by SPP, that an eTariff filing will be made that includes the proposed revisions to South Central's Transmission Formula.

VI. CORRESPONDENCE

All communications and correspondence with respect to this filing should be served upon the following individuals:

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VII. CONCLUSION

South Central respectfully requests that the Commission accept the limited revisions to South Central's Transmission Formula to be effective when incorporated into the SPP Tariff.

Respectfully submitted,

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