Janet Virga

From: eFiling@ferc.gov
Sent: Monday, March 26, 2018 3:24 PM
To: Janet Virga; efilingacceptance@ferc.gov
Subject: FERC Receipt of Filing in ER18-572-000

Confirmation of Receipt

This is to confirm receipt by the FERC Office of the Secretary of the following electronic submission:

-Submission ID: 861464
-Docket(s) No.: ER18-572-000
-Filed By: South Central MCN LLC
-Signed By: N. Beth Emery
-Filing Desc: Response to the Commission's February 26, 2018 Letter and Updated Limited Revisions to South Central's Transmission Formula Rate under ER18-572-000.
-Submission Date/Time: 3/26/2018 4:22:47 PM -Projected Filed Date/Time: 3/26/2018 4:22:47 PM (Subject to Change based on OPM/FERC Closure)

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March 26, 2018

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

Re: South Central MCN LLC, Docket No. ER18-572-000
Responses to the Commission's February 26, 2018 Letter and Updated Limited Revisions to South Central's Transmission Formula Rate

Dear Secretary Bose:

South Central MCN LLC (South Central) hereby submits for review and acceptance by the Federal Energy Regulatory Commission (Commission) (i) South Central's responses to the Commission's letter, dated February 26, 2018, finding that South Central's proposed limited revisions to its transmission formula rate template (Transmission Formula), filed on December 28, 2017, are deficient and require additional information; and (ii) updated limited revisions to South Central's Transmission Formula. South Central respectfully requests that the Commission accept South Central's updated limited revisions to its Transmission Formula to be effective at the time South Central's Transmission Formula is a part of the Southwest Power Pool, Inc. (SPP) Open Access Transmission Tariff (SPP Tariff)[1], as previously ordered by the Commission in Docket No. ER15-2594-000.[2] After the Commission issues an order in this docket accepting the proposed revisions, South Central will request that SPP make a Section 205 eTariff filing to incorporate these changes into the SPP Tariff.

[1] On March 15, 2018 the Commission accepted, subject to refund and subject to the outcome of the ongoing proceedings in Docket Nos. ER15-2594-000, ER17-953-000, and EL18-16-000, SPP's filing to include South Central's Transmission Formula in the SPP Tariff, effective the first day of the month after the date on which South Central acquires certain transmission facilities from the City of Nixa, Missouri (Nixa Assets), as proposed in Docket No. EC17-126-000. As of the date of this filing, South Central has not yet consummated the acquisition of the Nixa Assets. Thus, although the Commission has accepted South Central's Transmission Formula, as described above, South Central's Transmission Formula is not yet effective.

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

I. BACKGROUND

On December 28, 2017, South Central requested that the Commission approve limited revisions to South Central's Transmission Formula (December 28th filing). As noted in the December 28th filing, South Central intended for the limited revisions to comply with Section 1.167(l)-1)h(6)(ii) of the Internal Revenue Service (IRS) code as well as certain IRS private letter rulings, issued in July of 2015, which indicated that a utility would not violate normalization rules if it calculated the Accumulated Deferred Income Tax (ADIT) component of its projected net revenue requirement in a future test year by (1) prorating the monthly incremental increase of its projected ADIT balances and (2) calculating the average of the beginning of year (BOY) and end of year (EOY) ADIT balances using the prorated EOY amount.[3] Prior to submitting its December 28th filing, South Central had calculated its ADIT projection by averaging its projected BOY and EOY ADIT amounts without first applying proration. As a result, South Central submitted for Commission approval an unpopulated formula rate template applying the so-called "two-step averaging methodology" for calculating projected ADIT in South Central's Transmission Formula. In addition to revising certain existing attachments, South Central also proposed to add Attachments 4a, 4b, 4c, 4d, and 4e to its Transmission Formula to reflect South Central's implementation of the two-step projection methodology.

By letter dated February 26, 2018, Penny Murrell, Director, Division of Electric Power Regulation – Central notified South Central that the December 28th Filing was deficient and the Commission required additional information to process it (February 26th letter). The February 26th Letter posed certain questions related to South Central's proposed ADIT revisions, the ADIT amounts South Central would input in its Transmission Formula, and South Central's proposal to calculate its future test year ADIT projection using

[3] South Central's December 28th 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. That request does not appear to be at issue in the Commission's February 26, 2018 letter.

the two-step methodology.[4] The February 26th Letter referenced an IRS private letter ruling, issued in April of 2017, in which the IRS found that it is unnecessary to average the projected BOY and EOY ADIT balances after prorating ADIT for a future test year because prorating and averaging projected ADIT balances in a future test year effectively accomplishes the same objective.

South Central has reviewed the IRS April 2017 private letter ruling and has determined not to utilize the two-step methodology to calculate South Central's projected ADIT balance. While the April 2017 IRS private letter ruling does not conclude that it is incorrect to prorate and average projected ADIT balances in a future test year, South Central is agreeable to prorating only. The April 2017 IRS private letter ruling further concluded that a utility would not violate the Consistency Rule by using only the proration methodology to calculate its projected ADIT balance in the context of a future test year.

Therefore, in addition to providing responses to the questions contained in the Commission's February 26th letter, South Central also submits for Commission approval ***Attachment A***, which reflects South Central's updated Transmission Formula and proposal to calculate its ADIT projection using only the proration method. South Central requests that the Commission approve the updated limited revisions contained in ***Attachment A*** to be effective at the time South Central's Transmission Formula is a part of the SPP Tariff.[5]

II. UPDATED ADIT REVISIONS

South Central's updated ADIT revisions further revise the Transmission Formula attached to South Central's December 28th filing as follows:

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[4] The February 26th letter did not pose any questions regarding South Central's proposal to utilize its actual cost of long term debt.

[5] South Central's updated revisions to its Transmission Formula do not modify South Central's request in its December 28th filing to use its actual cost of debt rather than a hypothetical rate, which also remains an active request in this docket.

- Revises Note R in Attachment H to remove the reference to averaging the beginning and ending ADIT balances in the description of South Central's methodology for computing ADIT;
- Revises Note D in Attachment 4 to remove the reference to averaging the beginning and ending ADIT balances in the description of South Central's methodology for computing ADIT;
- Revises Attachment 4a to add a line item for ADIT Account 282 EOY balances not subject to proration;
- Revises Attachment 4a to remove the line items related to the Average Total of ADIT Accounts 282, 283, and 190; and
- Revises Attachment 4d to designate a line item at line 26 for ADIT Account 282 Depreciation Items.

As noted in South Central's December 28th Filing, South Central continues to believe that single issue rate treatment is appropriate for South Central's updated ADIT revisions, as well as its proposed cost of debt revisions, based on the Commission's holdings in several recent dockets.[6]

III. DOCUMENTS INCLUDED IN THIS FILING

1) This Transmittal Letter
2) Revised Clean Version of Transmission Formula (Attachment A)
3) Redlined Version Showing Proposed Revisions to the Transmission Formula Attached to South Central's December 28th Filing (Attachment B)

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[6] *Indicated RTO Transmission Owners*, 161 FERC ¶ 61, 018 (2017); *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 Indep. System Operator, Inc.*, 154 FERC ¶ 61, 250 at P 25 (2016); *Union Electric Co.,* 151 FERC ¶ 61,168 at PP 7, 10 (2015) (granting request for a waiver of the full Section 205 filing requirements in connection with a single-issue formula rate filing to changes proposed depreciation rates); *Ameren Illinois Co*., 141 FERC ¶ 61,264 at P 38 (2012).

IV. SOUTH CENTRAL'S RESPONSES TO COMMISSION'S FEBRUARY 26TH LETTER

Question No. 1. In your filing, you have indicated that the Accumulated Deferred Income Taxes (ADIT) to be applied in the calculation of the[sic] South Central's Annual Transmission Revenue Requirement for the projected rate year will be calculated using both the proration methodology and a subsequent averaging (i.e., a two-step averaging methodology). Your filing states that, while South Central's proposed revisions are designed to apply the proration methodology for the projected rate year, "South Central is not proposing to revise its existing methodology for the calculation of [ADIT] in its true-up calculations." Your filing also indicates that the amounts in ADIT-190 related to NOL Carryforward and in ADIT-283 related to Depreciation are "subject to Proration." Your filing states that the amounts for NOL Carryforward and Depreciation are the only amounts in ADIT-190 and ADIT-283, respectively, that are subject to proration. Your filing further indicates that the calculation of beginning-of-year and end-of-year balances in the true-up calculation for ADIT-190 and ADIT-283 may consider amounts "subject to Proration."

Please verify whether the following are true Beginning-of-Year (BOY) and End- of-Year balances (EOY) (i.e., do not reflect the application of the proration methodology): (a) the amounts reported in Attachments 4c and 4d, (b) the amounts input in Attachment 4e, and (c) the amounts input in Attachment 4a, ADIT-282, line 1; ADIT-283, lines 8-9; and ADIT-190, lines 16-17.

Please also confirm whether the only amounts in Attachments 4a through 4e that reflect the application of the proration methodology are those derived on Attachment 4b and input in Attachment 4a, lines 2, 10, and 18. To the extent that the foregoing does not accurately describe the amounts reported or input on the relevant Attachment(s)/line number(s), please explain how the amounts reported or input on such Attachment(s)/line number(s) are calculated.

Response: **(a)** Yes. South Central intended for Attachment 4c to include South Central's projected BOY ADIT balances. Therefore, the amounts shown in Attachment 4c would not reflect any proration

adjustments to South Central's projected BOY ADIT projections. South Central intended for Attachment 4d to include South Central's projected End of Year (EOY) ADIT balances. Therefore, the amounts shown in Attachment 4d would not reflect any proration adjustments to South Central's EOY ADIT projections.

(b) Yes. South Central intended for Attachment 4e to include South Central's BOY and EOY ADIT balances to be used in calculating South Central's ADIT True-Up. Column (a) of Attachment 4e indicated that the BOY and EOY ADIT amounts included in Attachment 4e would be taken from Attachments 4c and 4d. As previously noted, South Central did not intend for the ADIT amounts included in Attachments 4c and 4d to reflect any proration adjustments. Accordingly, Attachment 4e would not reflect any proration adjustments to South Central's BOY and EOY ADIT balances.

(c) Yes. As indicated in Column (a), South Central intended for the amounts input in Attachment 4a, ADIT-282, line 1; ADIT-283, lines 8-9; and ADIT-190, lines 16-17 to be taken from Attachments 4c and 4d. As previously noted, South Central did not intend for the ADIT amounts included in Attachments 4c and 4d to reflect any proration adjustments. Accordingly, the amounts input in Attachment 4a, ADIT-282, line 1; ADIT-283, lines 8-9; and ADIT-190, lines 16-17 would not reflect any proration adjustments to South Central's projected BOY and EOY ADIT balances.

Additionally, South Central confirms that the only amounts in Attachments 4a through 4e that would reflect the application of the proration methodology are those derived on Attachment 4b and input in Attachment 4a, lines 2, 10, and 18.

Question No. 2. Attachment 4b indicates that there may be instances where Account 282 ADIT balances are not subject to the proration methodology. Specifically, your filing states that a "[s]ubstantial portion, if not all, of the ADIT-282 balance is subject to proration. Explanation must be provided for any portion of balance not subject to proration." Accordingly, please explain why Attachment 4a does not have a line item that would capture ADIT-282 EOY amounts not subject to proration, while there are line items

for ADIT EOY amounts not subject to proration for ADIT-283 (Attachment 4a line 9) and ADIT-190 (Attachment 4a line 17).

Response: South Central acknowledges that Attachment 4a should include a line item that captures the ADIT-282 EOY amounts not subject to proration. Accordingly, South Central's updated Transmission Formula, which is attached to this filing as ***Attachment A***, reflects South Central's proposal to add a line item to Attachment 4a that captures the ADIT-282 EOY amounts not subject to proration.

Question No. 3. Your filing cites to Internal Revenue Service (IRS) regulations set forth in section 1.167(1)-1(h)(6)(ii), which you state requires ADIT to be calculated using a proration formula if using a projected test period to determine depreciation. Your filing also cites to several Private Letter Rulings (PLR) issued by the IRS in April and July of 2015, and you state that the IRS concluded that there would be no normalization violation if taxpayers applied the proration formula in future filings.

Please note that the IRS issued a PLR in April of 2017, which provides: "We agree with Taxpayer that averaging conventions…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." The April 2017 PLR further states that: "In order to comply with the Consistency Rule, it is not necessary that Taxpayer use the same averaging convention it uses in computing the other elements of rate base (a 13- Month Average) in computing its [ADIT] balance for purposes of its Transmission Formula Rate."

Please explain: (a) why the two-step averaging methodology is necessary given the IRS' clarification in the April 2017 PLR as indicated in the quotations above, (b) the result on rates from using the two-step averaging methodology as proposed in the filing compared to rates using only the proration methodology, and (c) why any resulting rate impacts of using the two-step averaging methodology as proposed instead of using only the proration methodology are just and reasonable. In your response to question (c), please specifically address why the subsequent step of performing a simple average of (i) the

value resulting from application of the proration methodology to the daily ADIT balances over the entire year and (ii) the beginning-of-year ADIT balance, to determine the ADIT input to rate base in the formula, will not result in an ADIT input that is disproportionately weighted toward the beginning-of-year ADIT balance, to the extent that the application of the proration methodology to the daily ADIT balances over the entire year produces a result that already reflects an average of the ADIT balances on each day of the year.

Response: As noted above, South Central has determined not to utilize the two-step averaging methodology for calculating South Central's projected ADIT balance. As a result, South Central has not formed an opinion as to whether use of the two-step averaging methodology will result in rates or rate impacts that are just and reasonable and respectfully submits that those inquiries are no longer relevant in light of South Central's proposal to update its Transmission Formula to reflect its utilization of only the proration methodology in calculating its projected ADIT balance.

V. 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, as discussed above. South Central further incorporates by reference and requests Commission approval of its proposal in its December 28th filing to utilize South Central's actual cost of long term debt rather than a hypothetical rate in calculating South Central's revenue requirement. 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:

1. Description of Documents Submitted with this Filing

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

2. Effective Date

South Central requests that the revised provisions become effective when South Central's Transmission Formula is filed with the Commission to be included in the SPP Tariff, consistent with the effective date established in that proceeding.

3. Service

South Central does not yet have any transmission customers. Nonetheless, as the Commission recently accepted, subject to refund and subject to the outcome of the ongoing proceedings in Docket Nos. ER15-2594-000, ER17-953-000, and EL18-16-000, SPP's filing to include South Central's Transmission Formula in the SPP Tariff, effective the first day of the month after the date on which South Central acquires certain transmission facilities from the City of Nixa, Missouri, as proposed in Docket No. EC17-126-000[7], South Central is serving this filing on all parties included in the SPP exploder list.

4. Description of and Reasons for the Rate Change

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

5. Requisite Agreement

No agreement is required to effectuate the proposed changes.

6. 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.

7. Specifically Assignable Facilities

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

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[7] *Southwest Power Pool, Inc.,* 162 FERC ¶ 61,215 (Mar. 15, 2018).

VI. 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.[8] 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 OATT. 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.

VII. CORRESPONDENCE

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

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[8] *Electronic Tariff Filings*, Order No. 714, FERC Stats. & Regs. ¶ 31,276 (2008); 18 C.F.R. §§ 35.7, 35.9 (2014).

VIII. CONCLUSION

South Central respectfully requests that the Commission accept South Central's Responses to the February 26th Letter and accept South Central's updated revisions to its Transmission Formula to be effective when incorporated into the SPP Tariff.

Respectfully submitted,

South Central MCN LLC

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Its Attorneys

CERTIFICATE OF SERVICE

Pursuant to Rule 2010 of the Commission's Rules of Practice and Procedure, I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in these proceedings.

Dated at Irving, Texas, this 26th day of March, 2018.

/s/ Janet Virga
Janet Virga