



## MEDIA ALERT SPP Region

### **FERC OKs Incentives for Two Transmission Projects**

December 3, 2008

Docket Nos. ER09-35-000, ER09-36-000

**The Federal Energy Regulatory Commission (FERC) has approved rate incentives for two transmission projects proposed by Tallgrass Transmission LLC and Prairie Wind Transmission LLC to be built in the Southwest Power Pool, Inc. (SPP) region, but set the companies' formula rates and rate protocols for hearing. These transmission projects will allow for a significant expansion in wind electricity generation in the south central United States.**

#### **Background**

The Energy Policy Act of 2005 directed FERC to create incentive-based rate treatments to promote capital investment in transmission infrastructure. FERC Order No. 679 sets forth the process by which a public utility may seek transmission rate incentives.

Tallgrass is owned equally by OGE Transmission LLC, a subsidiary of OGE Energy Corp., and Electric Transmission America, a joint venture of AEP Transmission Holding Company LLC and MEHC America Transco LLC. MEHC America is a subsidiary of MidAmerican Energy Holdings Company. Tallgrass proposes to build a two-segment, \$500 million 765 kilovolt (kV) transmission project in Oklahoma. The segments run separately from Woodward, Okla., to the Texas and Kansas borders.

Tallgrass' Kansas border project would interconnect with Prairie Wind's \$600 million, 230 mile 765 kV project centered near Medicine Lodge, Kan. Prairie Wind is a limited liability company owned equally by Westar Energy Inc. and Electric Transmission America.

The companies asked for identical formula rates with implementation protocols to recover their projected costs under the SPP tariff, subject to true-up, as well as a 13.3 percent return on equity that includes 2.5 percent in incentive adders for participation in a regional transmission organization, new technology and investing in substantial new transmission facilities that will provide for interconnection and delivery of renewable generation in SPP.

They also asked for inclusion of all construction work in progress (CWIP) in rate base during the development and construction project, recovery of prudently incurred investment costs in the event their projects are abandoned for reasons outside their control, and permission to establish a regulatory asset that includes all expenses not included in CWIP that have been incurred to date, and expenses going forward, until their formula rate becomes effective.

#### **The Order**

FERC determined the projects are eligible for incentive rate treatment because they are pursuing projects that have been recommended through independent assessments of the long-term needs of the entire SPP region. Regardless of the potential for competing projects, FERC said its policy is to review each request for incentives on its own merits.

The projects also demonstrate a nexus between their proposals and the requested

incentives based on their scope, effects and risks and challenges. The Commission noted that the 765 kV projects are exceptional as they will facilitate the interconnection and transport of at least 5,800 megawatts (MW) of the roughly 40,000 MW of new renewable power currently in SPP's queue, with the potential for the interconnection of additional renewable power that is now constrained by the limitations of the transmission system.

FERC approved the 1.5 percent adder for each of the projects, and up to .5 percent of incentive return on equity for participation in SPP when the two companies become members of SPP and their projects are placed under SPP's operational control.

FERC denied, without prejudice, the request for a separate .5 percent advanced technology adder. FERC said the companies failed to show how the deployment of the 765kV facilities and other technologies they plan to use are advanced.

The Commission approved the requests to recover prudently incurred abandonment costs, prudently incurred pre-commercial costs as a regulatory asset, and 100 percent of CWIP. FERC also approved the use of a proposed hypothetical capital structure to accommodate the companies' financing needs during construction.

Finally, the order sets both the Tallgrass and Prairie Wind formula rates and rate protocols for hearing. While the incentives themselves are not set for hearing, the formula calculations that reflect those incentives may be addressed in the hearing, FERC said.

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