

# ENGLEMAN FALLON, PLLC

1717 K Street, N.W., Suite 900, Washington, D.C. 20006  
www.efenergylaw.com

April 10, 2020

## By Electronic Filing

Honorable Kimberly B. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First St. NE  
Washington, DC 20426

**Re: *DesertLink, LLC***  
**Docket No. ER20-\_\_\_\_-000**  
**INFORMATIONAL FILING: 2020 Rate Year Projected Net Revenue Requirement**

Dear Secretary Bose:

Pursuant to Section 7 of the DesertLink, LLC (“DesertLink”) Formula Rate Implementation Protocols (“Protocols”) accepted for filing by the Federal Energy Regulatory Commission (“FERC” or “Commission”) under Docket No. ER17-135-000, DesertLink submits its Informational Filing for the 2020 rate year covering January 1, 2020 through December 31, 2020 (“Informational Filing”). The Informational Filing reflects DesertLink’s annual projected net revenue requirement (“Annual Projection”) calculated in accordance with DesertLink’s Commission approved formula rate template and Protocols (together “Formula Rate”) for transmission revenue requirement determinations to be collected under the California Independent System Operator Corporation’s (“CAISO”) Transmission Access Charge in accordance with the CAISO Transmission Tariff (“CAISO Tariff”).

This filing is for informational purposes only. Sections 4 and 5 of DesertLink’s Protocols provide a process for Interested Person(s) to file an informal challenge with DesertLink or formal challenge with the Commission of the calculation and/or application of DesertLink’s Formula Rate. In accordance with the Protocols, DesertLink publicly posted its Annual Projection by October 1<sup>st</sup> and distributed it to the Service List. On October 23, 2019, DesertLink held its 2020 Annual Projection Stakeholder Meeting. DesertLink did not receive any Information Requests or Informal Challenges.

**MICHAEL R. ENGLEMAN**

Direct: 202-464-1332

Cell: 202-253-6645

mengleman@efenergylaw.com

**ROBERT C. FALLON**

Direct: 202-464-1331

Cell: 703-402-9122

rfallon@efenergylaw.com

## I. BACKGROUND

DesertLink is a transmission-only company whose initial business purpose is to develop, own, and operate transmission facilities, including the Harry Allen to Eldorado 500 kV Transmission Project (“the Project”). DesertLink was selected as the Approved Project Sponsor for the Project through CAISO’s Order No. 1000-compliant Transmission Planning Process.<sup>1</sup> DesertLink’s annual transmission revenue requirement is determined in accordance with the Formula Rate included in Appendix III of DesertLink’s Transmission Owner Tariff (“DesertLink TO Tariff”). DesertLink is in the process of constructing the Project, which will be the first transmission asset owned by DesertLink. The Project is expected to be in service in the second quarter of 2020.

This Informational Filing represents the informational submission for DesertLink’s initial rate year as the Project is its first in the CAISO region. Therefore, a True-up Adjustment<sup>2</sup> is not applicable to this initial Informational Filing but will be filed in DesertLink’s next Informational Filing due April 15, 2021, consistent with the requirements under Sections 2 and 7 of DesertLink’s Protocols.

## II. INFORMATIONAL FILING

Consistent with Section 7(b) of its Protocols, this Informational Filing provides sufficiently supported information necessary to determine: (i) that input data under the Formula Rate are properly recorded in any underlying workpapers; (ii) that DesertLink has properly applied the Formula Rate and these procedures; (iii) the accuracy of data and the consistency with the Formula Rate of the Net Revenue Requirement and rates under review; (iv) the extent of Accounting Changes that affect Formula Rate inputs; and (v) the reasonableness of projected costs. In addition, DesertLink is required to include affiliate cost allocation methodologies used to allocate costs during the applicable rate year, the magnitude of such costs, and service agreements executed between DesertLink and any of its affiliates for the applicable rate year.

DesertLink’s 2020 rate year projection is based on forward-looking information, data, and reasonable assumptions related to its operations and therefore, does not reflect costs in which affiliate cost allocation methodologies were applied. Consistent with its Protocols, DesertLink provides its cost allocation manual that details the affiliate cost allocation methodologies used to allocate or directly assign costs to, from, and amongst DesertLink and its affiliates. DesertLink considered these methodologies in the development of its 2020 rate year projection, in which the magnitude of actual costs allocated or directly assigned between DesertLink and each affiliate by service category or function for the 2020 rate year will be provided in DesertLink’s Annual

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<sup>1</sup> See Harry Allen-Eldorado 500 kV Transmission Line Project: Project Sponsor Selection Report (Jan. 11, 2016), *available at* <http://www.caiso.com/Documents/HarryAllentoEldoradoTransmissionLine-ProjectSponsorSelectionReport.pdf>.

<sup>2</sup> Defined consistent with the definition used in the DesertLink Protocols.

Update.<sup>3</sup> As of the date of this filing, there are no service agreements between DesertLink and any of its affiliates that went into effect during the rate year.

DesertLink's 2020 rate year Informational Filing was prepared consistent with the Protocols. As part of this Informational Filing, DesertLink is submitting the following documents:

Attachment A: Projected net revenue requirement for rate year 2020 effective January 1, 2020 through December 31, 2020, in excel format.

Attachment B: Attachment A to the DesertLink, LLC Protocols

Attachment C: Cost Allocation Manual

### III. NOTICE TO CUSTOMERS

As stated in DesertLink's Protocols, DesertLink will provide notification of the FERC Docket number for this Informational Filing directly to CAISO and to other parties through the Service List maintained by DesertLink.

Please contact the undersigned if you have any questions regarding this submission.

Respectfully submitted,

By: /s/ Michael R. Engleman

Michael R. Engleman  
Christina Switzer  
Engleman Fallon, PLLC  
1717 K Street, NW  
Suite 900  
Washington, DC 20006  
Tel. (202) 464-1332  
E-mail: [mengleman@efenergylaw.com](mailto:mengleman@efenergylaw.com)  
[cswitzer@efenergylaw.com](mailto:cswitzer@efenergylaw.com)

*Counsel for DesertLink, LLC*

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<sup>3</sup> The Annual Update for the 2020 rate year will be filed with the CAISO by July 1, 2021.

## Attachment

Attachment A to the DesertLink, LLC Protocols

## Attachment A to the DesertLink, LLC Protocols

### DesertLink Commitment Work Paper

This work paper will be used by DesertLink, LLC (“DesertLink”) to demonstrate compliance with the rate commitments made for the Harry Allen to Eldorado 500 kV Transmission Project (the “Project”) in the First Amended and Restated Approved Project Sponsor Agreement between DesertLink and the California Independent System Operator, Inc. dated January 11, 2017 (“APSA”).

#### 1. Categorization of Form No. 1 Gross Plant and Unamortized Regulatory Asset

*DesertLink will report its regulatory asset and transmission gross plant in service in FERC Form No. 1 page 232 line 44 column f and FERC Form No. 1 page 207 line 58 column g respectively which may include initial Project costs, Excluded Costs (as defined in the APSA), and other costs related to projects other than the Project.*

Line No.		Notes	Amount
1	Unamortized Regulatory Asset – Project costs other than Excluded Costs	A, B	--
2	Unamortized Regulatory Asset – Excluded Costs	A	--
3	Unamortized Regulatory Asset – Other costs	C	--
4	Total Unamortized Regulatory Asset (Line 1 + Line 2 + Line 3)	D	--
5	Gross Plant In Service – Project costs other than Excluded Costs	A, B	\$140,949,624
6	Gross Plant In Service – Excluded Costs	A	\$49,026,312
7	Gross Plant In Service – Other costs	C	--
8	Total Gross Plant in Service (Line 5 + Line 6 + Line 7)	E	\$189,975,936
Notes:			
A	Project costs and Excluded Costs as defined in the APSA		
B	Values have been adjusted, if required, for compliance with Binding Cost Cap per Section 2 of this Attachment A (Lines 5a and 5b)		
C	Other costs are costs related to projects other than the Harry Allen to Eldorado 500 kV Transmission Project		
D	Total reported in FERC Form 1, 232.44.f		
E	Total reported in FERC Form 1, 207.58.g		

## 2. Binding Cost Cap

Article 10.1.1 and Appendix E to the APSA reflect DesertLink's commitment that it will not seek recovery or a return on any cost for the Project, as defined in the APSA, above the Binding Cost Cap of \$145.5 million (subject to adjustments, deviations and exclusions pursuant to the terms of the APSA regarding Excluded Costs). If the actual Project costs net of Excluded Costs exceed the Binding Cost Cap, DesertLink will adjust the amounts shown in Appendix III, Page 2 and Attachment 4 as demonstrated below:

Line No.		Notes	Amount
1	Actual Project costs other than Excluded Costs (Line 1a + Line 1b)		\$140,949,624
1a	Unamortized Regulatory Asset – Project costs other than Excluded Costs	A	--
1b	Gross Plant In Service – Project costs other than Excluded Costs	A	\$140,949,624
2	Binding Cost Cap	B	\$145,500,000
3	Project costs in excess of Binding Cost Cap, if any (Line 1 - Line 2)	C	--
4	Adjustment to Project costs to meet Binding Cost Cap if necessary (Line 4a + Line 4b)	D	--
4a	Adjustment to Project costs in Unamortized Regulatory Asset to comply with Binding Cost Cap, if necessary	E	--
4b	Adjustment to Project costs in Transmission Gross Plant in Service to comply with Binding Cost Cap, if necessary	F	--
5	Project costs included in rates after adjustment (Line 5a + Line 5b)	G	\$140,949,624
5a	Unamortized Regulatory Asset – Adjusted Project costs other than Excluded Costs (Line 1a + Line 4a)	H	--
5b	Gross Plant In Service – Adjusted Project costs other than Excluded Costs (Line 1b + Line 4b)	I	\$140,949,624

### Notes:

A	Actual costs.
B	As defined in the APSA.
C	If Line 2 is greater than Line 1, enter zero.
D	The sum of Line 3 and Line 4 must be zero.
E	If Line 3 is zero, enter zero. Otherwise, if Line 1a is greater than or equal to Line 3, enter the negative of Line 3. If Line 1a is less than Line 3, enter the negative of Line 1a.
F	Complete Line 4a first. If Line 3 is greater than Line 4a, enter the negative of the difference between Line 3 and Line 4a. Otherwise, enter zero.
G	This amount shall not exceed the Binding Cost Cap

H	Input this result into Line 1 in Section 1 of this Attachment A
I	Input this result into Line 5 in Section 1 of this Attachment A

### 3. Return on Equity

*Appendix E to the APSA memorializes DesertLink's commitment to not seek or reflect in its rates a return on equity ("ROE") in excess of 9.80% (inclusive of all ROE adders/incentives). Adherence to the ROE commitments are demonstrated at:*

Appendix III, page 4, Line 17, Column (4) and Note T, and Attachment 5, Line 10.

### 4. Equity Percentage Cap

*Appendix E to the APSA confirms DesertLink's commitment to limit equity as a percentage of overall capital structure to be no more than fifty percent (50%) for the Project as a whole. If DesertLink's actual equity percentage is above 50% then a capital structure consisting of 50% equity and 50% debt will be used for the purpose of rates.*

Line No.		Debt	Equity (Common Stock)
1	Actual % of total capital	52%	48%
2	% of total capital to be input into Appendix III, Attachment 5, Rows 21 and 23	50%	50%

Attachment  
Cost Allocation Manual



## Affiliate Cost Allocation Manual

March 2020

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<b>Revision History</b>			
<b>DATE</b>	<b>VERSION</b>	<b>INDIVIDUAL MAKING CHANGES</b>	<b>REASON/COMMENTS</b>
March 2020	0	Multiple	Formalized existing accounting practices into formal Cost Allocation Manual

## I. Introduction

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The purpose of this Affiliate Cost Allocation Manual (“CAM”) is to document the services provided by, and the cost allocation and assignment methodologies of, LS Power Development, LLC (“LS Power”) and its regulated and non-regulated Affiliates. This document serves to support compliance with Federal Energy Regulatory Commission (“FERC”) policies and accounting guidance, the National Association of Regulatory Utility Commissioners (“NARUC”) Guidelines for Cost Allocations and Affiliate Transactions<sup>1</sup>, and the Public Utility Holding Company Act of 2005 (“PUHCA”)<sup>2</sup>. This document also serves to support compliance with various state regulatory bodies and requirements, including the State of Texas Public Utility Regulatory Act (“PURA”) and the Public Utility Commission of Texas (“PUCT”) rules and requirements applicable to Affiliate transactions. The processes and procedures contained in this CAM provide the basis for proper identification, recording, and allocation of products and services exchanged to, from, and among LS Power and its Affiliates. Except as otherwise expressly provided herein, capitalized terms used in this CAM shall have the meanings given in Article VIII.

The following are the guiding principles for allocating costs under this CAM: (i) directly charge costs for products and services whenever practicable; (ii) charge Indirect costs based on an analysis of the Cost Driver(s), whenever practicable, or Cost Causation; (iii) ensure allocated costs are supported by sufficient detail to enable the Company(ies) to ensure proper classification in FERC’s Uniform System of Accounts; and (iv) prevent subsidization of a non-regulated or regulated Affiliate by a regulated Affiliate.

## II. Responsibility for Implementing this CAM

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LS Power’s Chief Accounting Officer has overall responsibility for LS Power’s cost allocation policies and procedures. LS Power’s Accounting Department has day-to-day responsibility for implementing this CAM and ensuring that accounting records reflect the policies and procedures described in this CAM.

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<sup>1</sup> “Guidelines for Cost Allocations and Affiliate Transactions,” NARUC, <https://pubs.naruc.org/pub.cfm?id=539BF2CD-2354-D714-51C4-0D70A5A95C65>

<sup>2</sup> See 70 FR 75630.

### III. Applicability

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This CAM shall be utilized for allocation and assignment of costs to, from, and among Companies, LS Power, and those Affiliates not providing transmission service at cost-based rates subject to the jurisdiction of FERC or PUCT .

### IV. Services Provided to Affiliates

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LS Power provides services to regulated transmission Affiliates, non-regulated transmission Affiliates, wholesale generation Affiliates, and other Affiliates. Affiliates may also provide services to each other, which allows Affiliates to benefit from a highly-skilled workforce and take advantage of economies of scale across all Affiliates.

Services are provided to Companies through the Affiliates (i) LSP Electric Services, LLC (“LSP Electric Services”) and (ii) LSP Western Transmission Holdings, LLC (“LSP Western Transmission Holdings”). LSP Electric Services and LSP Western Transmission Holdings have been formed to provide services, such as treasury and finance (“TF”), accounting and financial reporting (“AFR”), tax accounting (“TA”), legal (“Legal”), human resources (“HR”), information technology (“IT”), engineering and project oversight (“E&PO”), executive management (“EM”), operations and maintenance (“O&M”), and regulatory compliance (“RC”) to the Companies and certain other Affiliates. The ability to access services through its Affiliates, as opposed to hiring its own employees, reduces the overall cost of services for the Companies, as well as avoiding duplication of services. Service Agreements may be used to document the terms and conditions by which Affiliates provide such services.

Figure 1 shows each type of service provided to the Companies and the method of charging for the services.

**Figure 1: Services Provided to the Companies**

FUNCTIONAL AREAS	DESCRIPTION SERVICES	CHARGE METHOD
Treasury and Finance (“TF”)	<p>The TF function administers overall financial strategy, develops financial models, oversees financial corporate planning, and monitors and manages financial risks. This function supports corporate governance by limiting exposure to unnecessary risk and provides long-term corporate financial direction. TF also develops and maintains banking and rating agency relationships (to the extent they are applicable), negotiates terms and conditions, executes financing and refinancing transactions, and provides compliance and regulatory support related to financing operations. TF invests cash on a daily basis and makes cash available on a regular basis for payments. TF provides project and operating company valuations and cash flow analysis and evaluates pricing and large capital decisions.</p>	Direct
Accounting and Financial Reporting (“AFR”)	<p>The AFR function performs detailed procedures and provides oversight and back-up administrative support for financial reporting, consolidations, plant accounting, and general accounting functions. AFR facilitates expense reimbursement processing, accounts payable and wire transfers. AFR reviews internal and external financial statements and disclosures and provides financial reporting to upper management. The AFR function meets regulatory mandates and legal compliance by ensuring statutory and regulatory requirements are met for reports and forms. AFR also aids in providing decision support data for management control and supports daily ongoing operations.</p>	Direct
Tax Accounting (“TA”)	<p>The TA function accounts for income taxes, maintains tax records, and provides regulatory and management reporting. TA also administers various tax services, providing federal, state and local tax analysis, and compliance services in the federal, state and local tax areas (including ad valorem taxes and sales tax). This activity ensures compliance with federal, state and local tax rules and regulations.</p>	Direct

FUNCTIONAL AREAS	DESCRIPTION SERVICES	CHARGE METHOD
Legal	The Legal function manages legal affairs including, but not limited to, drafting, reviewing, and negotiating contracts and providing litigation support, when appropriate. Legal ensures that actions are in line with applicable regulations. Legal includes regulatory services such as participation in state, federal, and other rulemaking and administrative proceedings.	Direct
Human Resources and Administrative (“HR”)	The HR function provides direction and oversight of human resource services and administrative support. HR implements, communicates, and administers compensation and benefits programs to employees and provides the related regulatory compliance and reporting. HR also provides general administrative support for office locations.	Indirect via Direct Labor Ratio
Information Technology (“IT”)	The IT function determines information technology strategy and provides information and communications technologies. IT also provides cross-business information technology strategy supporting corporate governance and strategic planning.	Indirect via Direct Labor Ratio
Engineering and Project Oversight (“E&PO”)	The E&PO function performs several services. During the planning, permitting, engineering, and construction phases of projects, E&PO provides management services and is responsible for the project budget and schedule. E&PO administers and manages third-party construction, material procurement, and project development contracts, develops period management reports on the status of the project and monitors regulatory filings with Legal. E&PO oversees community and government relations and other stakeholder engagement and is responsible for oversight of coordination with landowners and real estate services. E&PO reports to upper management.	Direct
Executive Management (“EM”)	The EM function administers overall strategy, planning and risk monitoring/mitigation. This function provides corporate governance by limiting exposure to unnecessary risk and provides long-term corporate direction. This includes EM employees supporting specific Companies (“Direct EM”) and others generally supporting LS Power (“Indirect EM”).	Direct for an EM employee supporting a specific Company or Indirect via Direct Labor Ratio for an employee generally supporting LS Power

FUNCTIONAL AREAS	DESCRIPTION SERVICES	CHARGE METHOD
Operations and Maintenance (“O&M”)	The O&M function provides services required to ensure safe and reliable operations of facilities including compliance with FERC, NERC, ISO/RTO standards and requirements. This includes operational technology support and services, asset management, procurement, and materials management. This also includes O&M employees supporting a specific Company (“Direct O&M”) and O&M employees performing work which cannot be directly allocated to a single Company (“Indirect O&M”).	Direct for an employee supporting a specific Company or Indirect via Transmission Operations Ratio if Direct is not practicable
Regulatory Compliance (“RC”)	The RC function oversees and administers regulatory compliance and policy and procedure development for compliance programs related to FERC, NERC, ISO/RTO, and state-regulated activities. The RC function participates in the establishment of effective internal control procedures and safeguards to ensure compliance with applicable laws, rules, and regulations.	Direct

## V. Overview of Cost Allocation Framework

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LS Power and its Affiliates operate under the principle that costs are directly charged whenever practicable. Costs which cannot be directly charged will be allocated based on an analysis of the Cost Driver(s), whenever practicable, or Cost Causation. The LS Power cost allocation framework (as shown in [Figure 2](#) below) results in a reasonable and fair assignment or allocation of costs to each Company and can be divided into two types of costs: (i) Direct or (ii) Indirect.

**Figure 2: Cost Allocation Framework**

	<b>Cost Type</b>		<b>Assignment Method</b>
<b>Direct</b>	<ul style="list-style-type: none"> <li>Affiliate employees dedicated to the Company(ies)</li> </ul>	→	<ul style="list-style-type: none"> <li>Direct at Individual Loaded Labor Rate</li> </ul>
	<ul style="list-style-type: none"> <li>Third party vendors that directly perform services for or provide products to the Company(ies)</li> </ul>	→	<ul style="list-style-type: none"> <li>Direct at cost</li> </ul>
	<ul style="list-style-type: none"> <li>Affiliate functional support employees – excluding HR/IT/Indirect EM/Indirect O&amp;M</li> </ul>	→	<ul style="list-style-type: none"> <li>Hours spent for Company * Individual Loaded Labor Rate</li> </ul>
<b>Indirect</b>	<ul style="list-style-type: none"> <li>Affiliate HR/IT/Indirect EM employees</li> </ul>	→	<ul style="list-style-type: none"> <li>Direct Labor Ratio* Functional Loaded Labor Cost</li> </ul>
	<ul style="list-style-type: none"> <li>Affiliate non-labor costs (e.g., facilities, etc.)</li> </ul>	→	<ul style="list-style-type: none"> <li>Based on analysis of Cost Drivers (if practicable) or Cost Causation (Non-Labor Allocator or Transmission Operations Ratio)</li> </ul>
	<ul style="list-style-type: none"> <li>Affiliate O&amp;M labor and non-labor costs</li> </ul>	→	<ul style="list-style-type: none"> <li>Transmission Operations Ratio applied for all Companies that utilize the Indirect O&amp;M functions</li> </ul>

**1) Direct Costs**

Direct costs are those costs which can be specifically identified with a particular product or service and are incurred directly for the benefit of one of the Companies.

For the purpose of this CAM, Direct costs do not include native costs which consist of invoices from third parties pursuant to contracts entered into directly by one of the Companies. Native costs are directly paid and recorded on the books of the Company receiving the invoice, do not flow through Affiliate billing procedures, and are not allocated.

**2) Indirect Costs**

Indirect costs are those costs that cannot practically be directly charged to a Company. Indirect costs paid for by an Affiliate are allocated to individual Companies based on an analysis of the Cost Driver(s) or Cost Causation. This ensures the fair allocation of costs to the appropriate benefiting or cost-incurring Companies.

The allocation process for Indirect costs relies on the use of allocators based on Cost Causation or an analysis of the Cost Drivers. The most commonly used allocator is the Direct Labor Ratio because Affiliate services are primarily labor related. Allocating labor related costs based on the time spent on Company matters is consistent with Cost Causation. If a time-based allocation approach is inconsistent with or not the best representation of Cost Causation, a non-time-based allocator will be applied, such as the Transmission Operations Ratio or the Property, Plant, and Equipment Ratio.

## VI. Cost Assignment and Allocation Procedures

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Based on the framework noted above, LS Power uses the following procedures to ensure costs are properly assigned or allocated to, from, and among Affiliates:

### 1) **Direct Costs**

#### a) **Assignment of Direct Costs for Labor**

LS Power employees providing services to the Companies (with the exception of HR, IT, Indirect EM, and certain O&M functions) charge their time to the Companies based on the actual time spent working on matters for each of the Companies. On a monthly basis, costs are charged to each Company based on the number of hours each employee worked for that specific Company multiplied by the Individual Loaded Labor Rate.

#### b) **Assignment of Non-Labor Direct Costs**

Assignment of non-labor Direct costs to a Company is based on the Company(ies) receiving the benefit of the purchased good or service. These costs are directly assigned through Transaction Codes recorded on the invoice, purchase order, or other method of payment approval. Transaction coding is the responsibility of the departments that budget for, initiate, and approve the transactions with subsequent reviews of the coding by AFR.

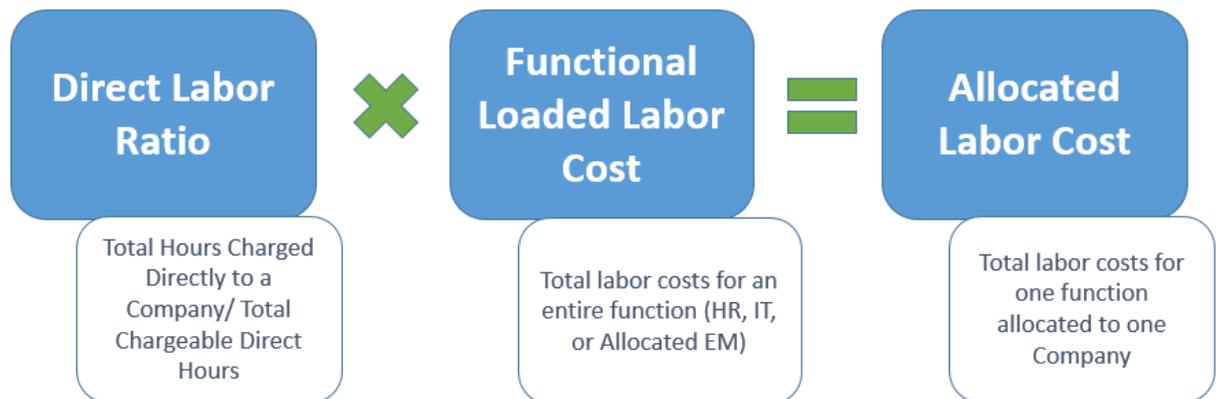
## 2) Indirect Costs

### a) **Allocation of Indirect Costs for Labor**

In some cases, labor costs cannot be billed directly to the Companies, as described below, and as a result need to be allocated. For example, day-to-day work performed by HR is not directly linked to individual Companies, but is for the benefit of all Affiliates.

- i. Business Support Labor - HR, IT, and Indirect EM costs support all Affiliates rather than individual Companies. As such, LS Power uses the Direct Labor Ratio to allocate Business Support Labor. Figure 3 below illustrates the calculation to allocate Business Support Labor for a function.

**Figure 3: Allocation of Business Support Labor**



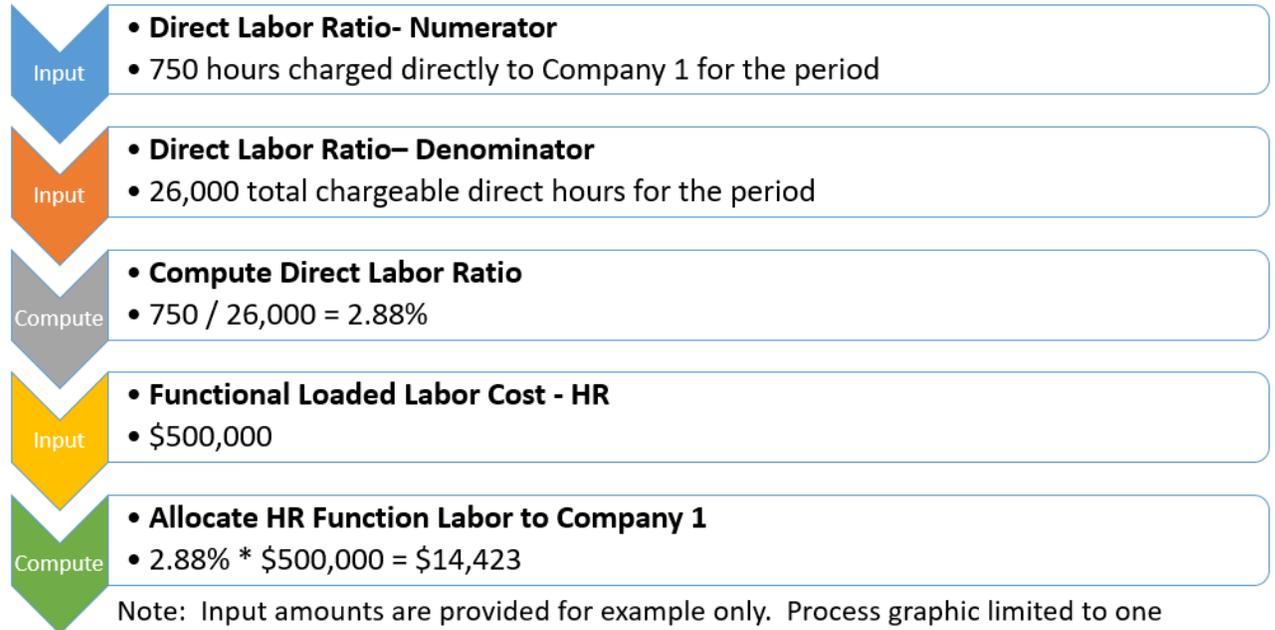
Note: Allocation process performed for each Company from each function (HR/IT/Allocated EM) for each period

Figure 4 below provides an example allocation of HR function labor to one of the Companies. This process is performed for each Company for each Business Support function (HR/IT/Indirect EM) for each period, using the employee time reporting database application.

### Figure 4: Business Support Allocation Example

#### Figure 4 Assumed Values:

- Hours Directly Charged to a Company for the Period = 750
- Total Chargeable Direct Hours for the Period = 26,000
- HR Functional Loaded Labor Cost for the Period = \$500,000



- ii. O&M Support Labor - Certain labor costs to support O&M functional areas, such as system monitoring and control and operations activities (these activities are performed simultaneously for multiple Companies), may not be directly traceable to a single Company. To address the diversity of transmission operations services<sup>3</sup>, LS Power uses the Transmission Operations Ratio, which is a composite allocation factor based on three transmission operations functional cost drivers: Transmission Breaker Ratio, Coordinated Party Ratio, and Transmission Circuit Ratio. Costs for system operations are primarily a function of the number of breakers operated and the number of third parties that operations must be coordinated with, so the Transmission Breaker Ratio and the Coordinated Party

<sup>3</sup> For example, a Company may own transmission line segments without ownership of the terminating substations and other Companies may own substations or terminate equipment without ownership of transmission lines.

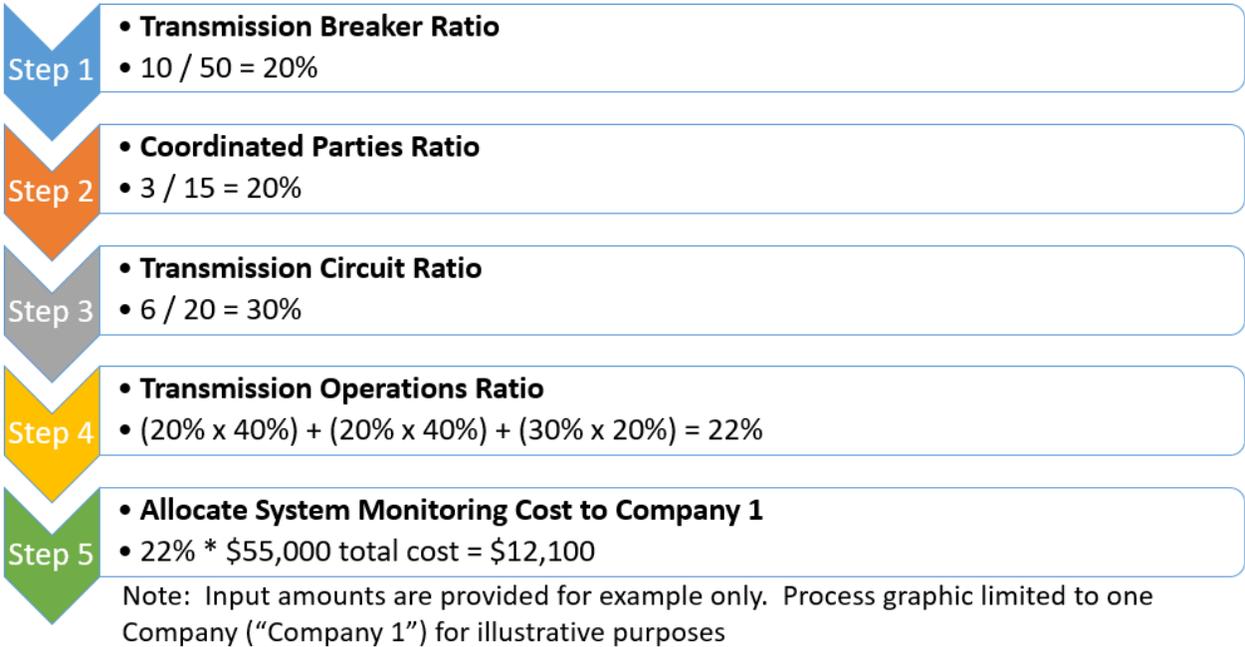
Ratio receive a weighting of 40% each; to a lesser extent, operations costs are also driven by the number of transmission line circuits monitored, so the Transmission Circuit Ratio receives a weighting of 20%. AFR accumulates the transmission data points used to support such allocations in the Companies’ books and records based on information provided by O&M.

An example of the allocation of O&M support labor using the Transmission Operations ratio is provided in [Figure 5](#) below.

**Figure 5: O&M Support Labor Allocation Example**

**Figure 5 Assumed Values:**

- Total system monitoring labor cost for the period = \$55,000
- Company 1: Transmission Breakers = 10, Coordinated Parties = 3, Transmission Circuits = 6
- Total Companies using the service: Transmission Breakers = 50, Coordinated Parties = 15, Transmission Circuits = 20



- iii. Other Support Labor – Some labor costs support business activities that only benefit one or a group of Companies. Labor costs associated with these activities will primarily be directly billed to the Companies receiving the benefit, if possible, but may be allocated using a representative basis that reflects Cost

Causation, where identifiable, or some other reasonable basis that reflects the benefits of the services received.

**b) Allocation of Non-Labor Indirect Costs**

Non-labor costs that cannot practically be directly billed to one of the Companies are allocated using the following methods:

- i. Analysis - Costs incurred for the benefit of more than one of the Companies (e.g., specific transmission modeling software used for multiple Companies) are allocated based on an analysis of the Cost Driver(s). If an analysis of the Cost Drivers is not practicable, then the cost will be allocated based on an analysis of the Companies benefiting from the goods/services received. These costs are allocated through Transaction Codes recorded on the invoice, purchase order, or other method of payment approval.
- ii. Indirect Cost Causation - Costs that cannot practically be directly identified with the provision of a particular product or service described in Section VI.2.b.i above are primarily an extension of labor (examples included in Figure 6 below). These office and overhead costs are based on office locations that enable employees to perform the services necessary for the Companies. These costs are accumulated by location and allocated based on Cost Causation using the Direct Labor Ratio methodology or the Transmission Operations Ratio as applicable.

**Figure 6: Examples of Non-Labor Indirect Costs**

Office-Related Costs	Other Costs
Office and rent expenses	General travel & entertainment expense
Office supplies	General training expense
Office and computer equipment	General computer software/hardware maintenance
Office communications	Professional development expense
Office property insurance	Research, publications, subscriptions

Most non-labor Indirect costs are allocated using the Direct Labor Ratio methodology. For non-labor Indirect costs associated with system operations O&M functions, the Transmission Operations Ratio is used.

As previously described, most non-labor costs are allocated to each Company using the Direct Labor Ratio methodology for each location using the process described in Figure 7 below. Non-labor costs from each location are allocated to each Company based on a ratio of the combined total Direct and Indirect (HR/IT/Indirect EM) hours charged at a given location as a percentage of all labor hours from that same location (Non-Labor Allocator).

**Figure 7: Non-Labor Allocation Process**

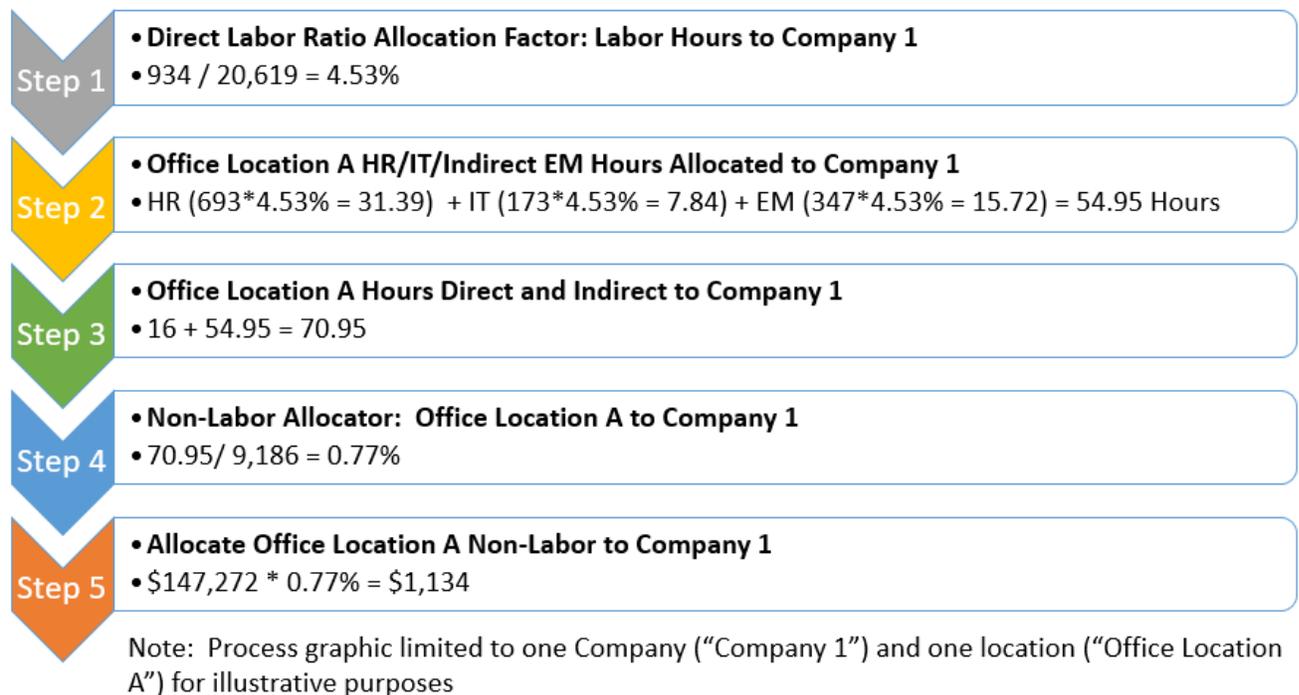


Figure 8 below provides an example of the non-labor allocation process being applied to one example location. The non-labor allocations for each location are grouped by the Company receiving non-labor allocation and added together to determine the total non-labor allocated to each Company.

## Figure 8: Non-Labor Allocation Example

### Figure 8 Assumed Values:

- Hours Direct charged to Company 1 (Total of all Office locations) = 934
- Total Direct chargeable hours= 20,619
- Total HR/IT/Indirect EM hours at Office location A for the period: HR=693, IT= 173, Indirect EM= 347
- Office Location A hours Direct charged to Company 1 for the period= 16
- Office Location A total chargeable hours (Direct and Indirect) for the period = 9,186
- Total non-labor allocable costs attributable to Office Location A = \$147,272



## VII. Controls

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The following controls are employed to ensure appropriate billing of services for each Company:

**Allocation Review** – LS Power will monitor the allocations of costs to, from, and among its Affiliates on an ongoing basis. Modifications to the cost allocation methodologies will be implemented as necessary to ensure the fair allocations of costs. If required, any changes to cost allocation methodologies to the Company(ies) from the prior year will be reported in Annual Update for the Rate Year informational filings submitted to FERC including the reasons and justifications for the changes.

**Monthly Invoicing and Review** – The Companies receive monthly invoices summarizing the Affiliate charges for that month with adequate detail to enable recording by FERC account. The monthly invoices include supporting documentation for all charges inclusive of Direct and Indirect costs for both labor and non-labor. Once the Company(ies) are issued the invoice, LS Power employees designated to manage the costs for each Company will review and approve or challenge charges included in the invoice. LS Power employees managing the costs will work with AFR to receive a revised invoice and/or future invoice adjustment for any charges that are not approved.

**Time Entries** – LS Power employees are required to track their time in a reporting system. HR, IT, Indirect EM, and certain O&M employees are only required to report total time worked per month. Each employee must understand the Transaction Codes available and how the Transaction Codes relate to the work being performed. If employees find existing Transaction Codes do not properly reflect the work being performed, they should inform their supervisor. The supervisor will coordinate with AFR to develop or revise the Transaction Codes. The integrity of the cost allocation process depends on employees charging their time accurately. AFR maintains an employee time reporting and costing database application containing employee hours and labor and non-labor cost information to support such allocations.

**Internal Audit** - LS Power will perform periodic internal audits of processes to ensure that charges from Affiliates to the Companies are subject to adequate controls and to identify any potential inefficiencies in the processes. There is no predefined schedule; internal audits will be identified based on risk and need.

**Loading Factor Review and Update** - The labor loading rate applied to labor to account for documented payroll related costs (e.g., payroll taxes, insurances, incentives, etc.) is reviewed annually, but may also be revised during the year to reflect any significant changes that may affect the labor loading rate.

**Benchmarking** – While some caution must be used in attempting to compare costs across Companies, LS Power uses benchmarking to review the reasonableness of costs in certain areas.

## VIII. Definitions

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**Affiliates** – Subsidiaries of LS Power that are related to each other due to common ownership or control.

**Business Support Labor** - Labor that supports all LS Power Affiliates rather than individual Companies, which includes Human Resources (“HR”), Information Technology (“IT”), and Indirect Executive Management (EM).

**Company(ies)** - LS Power Affiliates that currently, or in the future will, provide transmission service at cost-based rates subject to the jurisdiction of FERC or PUCT.

**Coordinated Party(ies)** - A third-party regional transmission operator, independent system operator, transmission owner, or generation owner connected to the Company.

**Coordinated Party(ies) Ratio** – A ratio of the number of Coordinated Party(ies) for the applicable Company as the numerator, divided by the total number of Coordinated Party(ies) for all Companies.

**Cost Allocation** – The method or ratio used to apportion costs. A cost allocator can be based on the origin of costs (as in the case of cost drivers), cost causative linkage of an indirect nature, or one or more overall factors (also known as general allocators).

**Cost Assignment** - The method or process of directly assigning/charging a cost.

**Cost Driver** – A measurable event or quantity which influences the level of costs incurred and which can be directly attributed to the origin of the costs. For example, number of users would be a cost driver for a service or software license where the cost is based on number of users.

**Cost Causation** – Cost causation is a cost of service principle that links a service or group of services of an indirect nature to the beneficiary of that service or group of services. For example, an Indirect cost such as rent is allocated based on the employees who utilize the rented facility.

**Direct Costs**- Costs which can be specifically identified with a particular product or service and are incurred directly for the benefit of one of the Companies.

**Direct Labor Ratio** – A ratio of directly charged time as a percentage of the total labor hours directly chargeable (excluding HR/IT/Indirect EM) for a particular period.

**Fully Loaded Labor Rate** – Hourly charge rate comprised of salaries and benefits including payroll taxes, workers compensation insurance, medical insurance, dental insurance, life insurance, accidental death insurance, long term disability insurance, 401k contributions and incentive compensation costs.

**Functional Loaded Labor Cost** – Fully Loaded Labor Rate multiplied by the hours worked during a given period for a function that is allocated, such as HR/IT/Indirect EM.

**Indirect Costs**- Costs that cannot practically be directly charged to a Company.

**Individual Loaded Labor Rate** – Fully Loaded Labor Rate for an individual.

**Non-Labor Allocator** – A ratio of total Direct and Indirect labor hours to a Company from one office location over the total labor hours from the same office location. The Non-Labor Allocator is used to allocate Indirect non-labor costs.

**Property, Plant, and Equipment Ratio** – The ratio of a Company’s Property, Plant, and Equipment balance (gross plant in service as defined in FERC’s Uniform System of Accounts) as a percentage of all Companies’ Property, Plant, and Equipment balance that are applicable to the charges being allocated.

**Service Agreement** – Legal agreement between an Affiliate and Company which describes the guidelines, terms and conditions under which services are provided. Service Agreements may also be referred to as Management Service Agreements. If required, these Service Agreements are filed with the utility regulatory commissions.

**Transaction Codes** - Include, but are not limited to, GL codes, company codes, subaccounts, work orders, cost elements, or purchase order numbers.

**Transmission Breaker** - A breaker with a nominal operating voltage above 100 kV.

**Transmission Breaker Ratio** – A ratio of the number of Transmission Breakers owned by the applicable Company and being operated by the control room as the numerator, divided by the total number of Transmission Breakers being operated by the control room for all applicable Companies.

**Transmission Circuit** - A circuit with a nominal operating voltage above 100 kV and a length greater than one mile.

**Transmission Circuit Ratio** – A ratio of the number of Transmission Circuits owned by the applicable Company and being monitored by the control room in the numerator, divided by the total number of Transmission Circuits being monitored by the control room for all applicable Companies.

**Transmission Operations Ratio** - A composite ratio based on an average of three drivers across the transmission function as follows: (1) 40% of costs based on the Transmission Breaker Ratio; (2) 40% of costs based on the Coordinated Parties Ratio; (3) 20% of costs based on the Transmission Circuit Ratio.