



July 1, 2022

DesertLink 2021 Annual Update Notice and Disclosures

In accordance with its Formula Rate Implementation Protocols (“Protocols”), DesertLink, LLC (“DesertLink”) provides notice that its Annual Update, including its actual Net Revenue Requirement and the True-up Adjustment for rate year 2021 (“2021 True-up”) along with additional information contained herein, is available on the DesertLink website (desertlinktransmission.com/documents).

DesertLink will host an open meeting for the 2021 True-up between July 29 and August 12, 2022. Details will be posted to the DesertLink website at least seven days in advance.

Please direct any inquiries, information requests, and challenges to:

DesertLinkRates@desertlinktransmission.com

Accounting Changes and Other Disclosures

The DesertLink, LLC (“DesertLink”) filed rate includes Formula Rate Implementation Protocols (“Protocols”). Section 3.d.(iii) of the Protocols requires that, as part of the calculation of its actual Net Revenue Requirement and the True-up Adjustment (“Annual Update”), DesertLink identify changes in accounting that may affect inputs to the formula rate or the resulting charges billed under the formula rate (“Accounting Change”). Additional disclosure requirements in the Protocols are also listed below.

Accounting Changes

1. New standard or policy (Protocols Section 3.d.(iii).A.I)
None to report.
2. Issues of first impression (Protocols Section 3.d.(iii).A.II)
Nothing to report.
3. Prior period adjustments (Protocols Section 3.d.(iii).A.III)
Nothing to report.
4. Estimation methods (Protocols Section 3.d.(iii).A.IV)
Nothing to report.
5. Tax elections (Protocols Section 3.d.(iii).A.V)

Order No. 864

In response to the requirements of Federal Energy Regulatory Commission’s (“FERC” or



“Commission”) Order No. 864, DesertLink submitted, on April 15, 2020, and amended on December 23, 2021, a compliance tariff filing in Docket No. ER20-1573. On March 21, 2022, the Commission accepted DesertLink’s amended revisions to its formula rate template in compliance with the requirements of Order No. 864.

DesertLink notes that, as stated in its compliance filing, the federal corporate tax rate decrease resulting from the 2017 Tax Cuts and Jobs Act does not affect rate base or result in refundable excess ADIT amounts or recoverable deficient ADIT amounts because the initial provision of transmission services and collection of revenue requirement occurred after the effective date of the 2017 TCJA changes.

The decrease in the federal corporate tax rate reduced the regulatory asset in Account 182.3 and associated deferred tax liabilities in Accounts 282 and 283 related to accrued/capitalized AFUDC-equity. In addition, the decrease in the federal corporate tax rate reduced the regulatory asset in Account 182.3 and associated deferred tax liabilities in Account 283 related to equity carrying charges recorded with respect to deferred pre-commercial costs. The reduction of the regulatory asset reflects the reduced the revenue requirement associated with depreciation of AFUDC-equity accrued and capitalized before the associated plant was placed in service in August 2020.

NV Energy Transaction

On November 17, 2020, NV Energy, Inc. (“NV Energy”) and DesertLink filed an application in Docket No. EC21-23 requesting authorization for NV Energy to exercise an option to acquire a 20 percent interest in DesertLink (the “Transaction”). On January 29, 2021, the Commission authorized the Transaction which was consummated on April 30, 2021.

The Transaction is treated as a taxable sale of a portion of the assets of DesertLink. The Transaction causes a change to the tax basis of DesertLink assets (generally an increase) and to the timing of reversals of its book-tax differences that existed on the transaction date. The amounts of a company’s book-tax differences determine the amounts of its deferred tax assets (“DTAs”) and deferred tax liabilities (“DTLs”). In the DesertLink formula rate, DTAs and DTLs serve as adjustments to rate base. Importantly, the Transaction will not affect the lifetime amounts of expense recognition or associated taxable income.

Other Disclosures:

6. Cost valuation (Protocols Section 3.d.(iii).B)

Nothing to report.

7. Reorganization/merger (Protocols Section 3.d.(iii).B)

Please refer to “NV Energy Transaction” in item 5 above.

8. Affiliate cost allocation (Protocols Section 3.d.(v))

In accordance with subsection A of the referenced section of the Protocols, DesertLink has provided, as an appendix to this document, its Affiliate Cost Allocation Manual effective March 2000.



In accordance with subsection B of the referenced section of the Protocols, Desert Link provides, in the table below, the magnitude of affiliate costs by function that that have been allocated or directly assigned. All costs are for services provided to DesertLink by LSP Electric Services, LLC. This information may also be found on page 429 of DesertLink’s 2021 FERC Form No. 1.

Function	2021 Cost
Capital Project	\$ 129,362
Benefits & Payroll Taxes	296,369
Operations & Maintenance	85,291
Engineering & Project Oversight	228,114
Regulatory Compliance	152,445
Legal	42,135
Accounting & Financial Reporting, Tax Accounting	264,380
Treasury & Finance	22,696
Human Resources/Information Technology/Executive Management	85,369
Total	1,220,792

DesertLink Rate Year 2021 Explanation of Variances

The DesertLink, LLC (“DesertLink”) filed rate includes Formula Rate Implementation Protocols (“Protocols”). Section 2.d of the Protocols requires that, as part of the calculation of its actual Net Revenue Requirement and the True-up Adjustment (“Annual Update”), DesertLink “include a variance analysis of, at minimum, actual Net Revenue Requirement components of rate base, operating and maintenance expenses, depreciation expense, taxes, return on rate base, and revenue credits as compared to the corresponding components in the projected Net Revenue Requirement that was calculated for the prior Rate Year with an explanation of material changes.”

DesertLink began commercial operations in August 2020. The projected Net Revenue Requirement for the 2021 Rate Year (“2021 Projection”) was the prepared with less than two months of operations and based on best estimates available at the time. Table 1 (Summary and Explanation of Variances) below provides the values, percent differences, and main drivers of variances between the 2021 Projection and the 2021 True-up for selected components of Net Revenue Requirement.



Table 1 – Summary and Explanation of Variances

Appendix III item	2021 Projection	2021 True-up	Difference	True-up Variance Driver
Rate Base (13-Month Average)	\$ 195,280,188	\$ 199,108,201	+2.0%	Construction materials and spares greater than projected; ADIT differences not captured in projection
Rate of Return	6.21%	6.36%	+14 bps	Higher long term debt (LTD) cost than projected
Return on Rate Base	12,138,137	12,660,018	+4.3%	Higher average rate base and higher rate of return
Income Taxes	3,812,160	3,878,385	+1.7%	Function of higher return partially offset by lower than projected permanent differences adjustment
Total Return & Taxes	15,950,297	16,538,403	+3.7%	Higher return on rate base and income taxes
Operating Expenses:				
O&M and A&G Expenses	1,670,754	2,386,155	+42.8%	Projection did not include amortization of regulatory asset; Projected labor based on minimal operating data
Depreciation Expenses	3,868,034	3,876,723	+0.2%	Minimal variance
Non-income taxes	1,396,696	1,328,894	-4.9%	Lower property taxes than estimated for 2021 Projection
Total Operating Expenses	6,935,484	7,591,772	+9.5%	Higher O&M partially offset by lower property taxes
Gross Revenue Requirement	22,885,782	24,130,175	+5.4%	Higher return on rate base and higher operating expenses
Less: Revenue Credits	0	0	-	None
Net Revenue Requirement	\$ 22,885,782	\$ 24,130,175	+5.4%	

Appendix



Affiliate Cost Allocation Manual

March 2020

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

I. Introduction

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 Transactions¹, and the Public Utility Holding Company Act of 2005 (“PUHCA”)². 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

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.

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

² See 70 FR 75630.

III. Applicability

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

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

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

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

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

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.

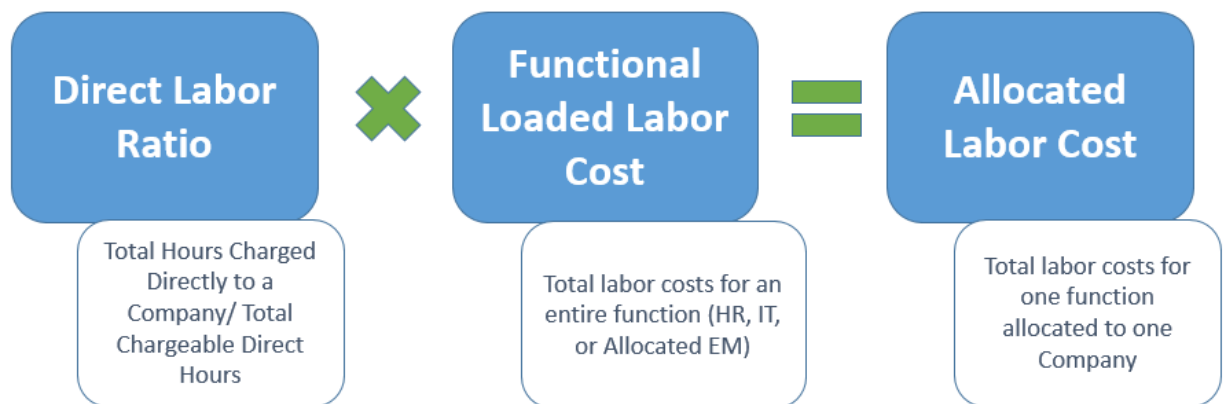
2) Indirect Costs

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



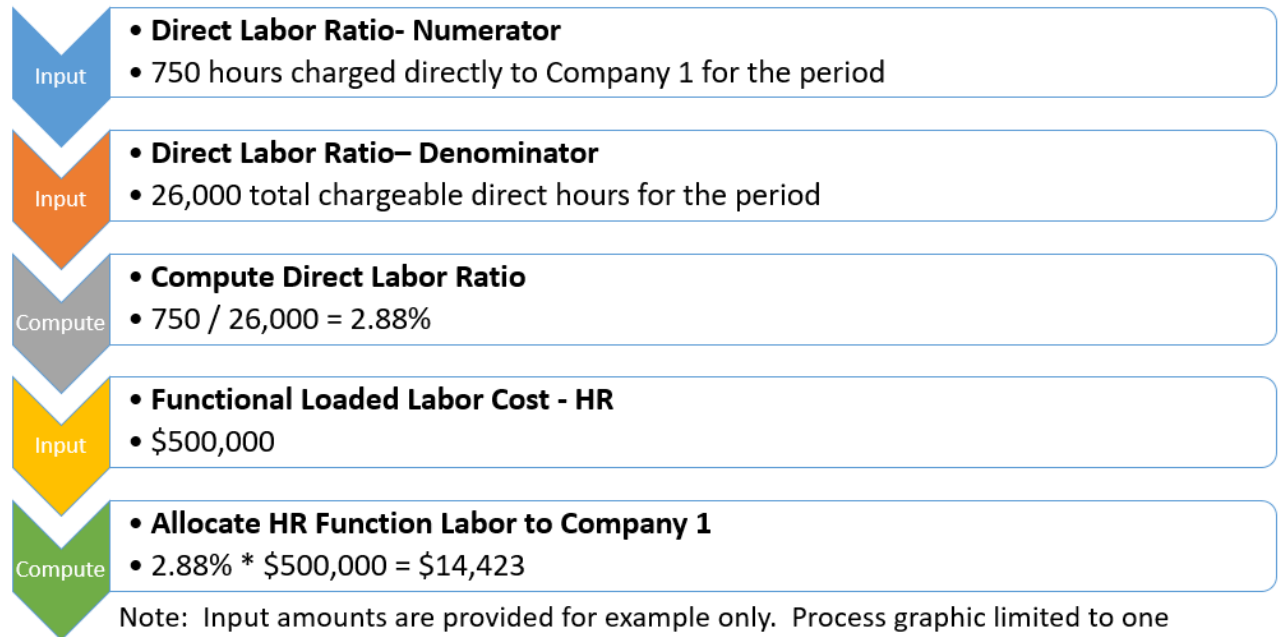
Note: Allocation process performed for each Company from each function (HR/IT/Allocated EM) for each period

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 services³, 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

³ 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.

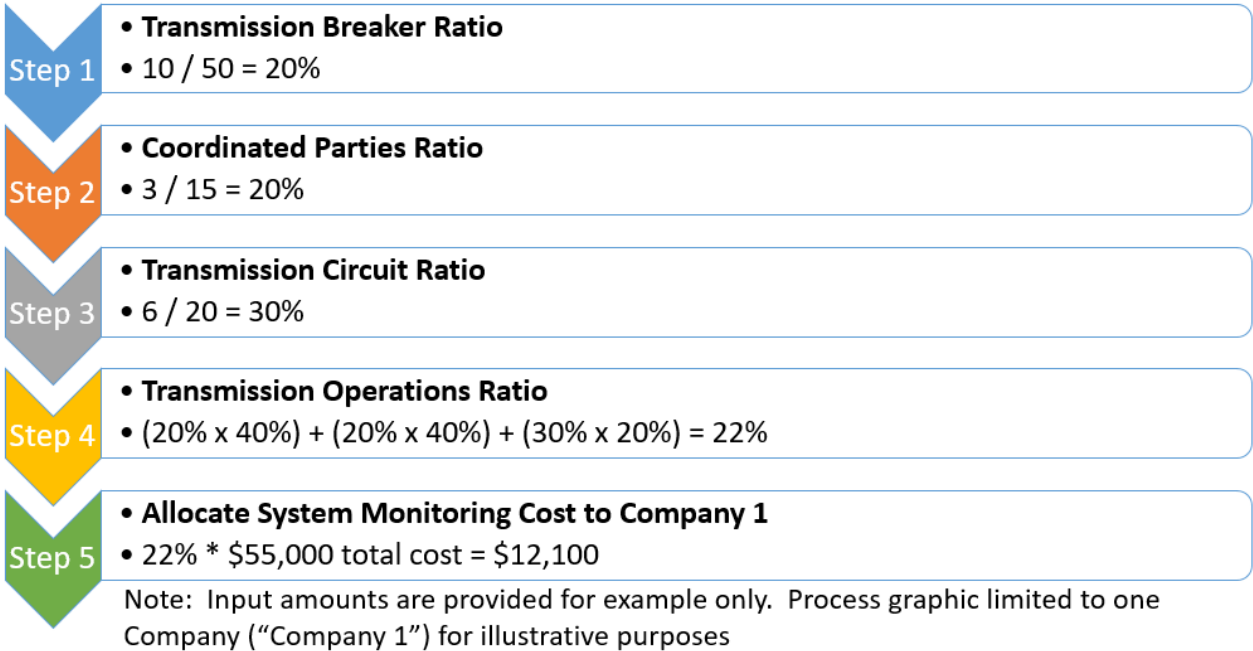
Ratio receive a weighting of 40% each; to a lesser extent, operations costs are also driven by the number of transmission line circuits monitored, so the Transmission Circuit Ratio receives a weighting of 20%. AFR accumulates the transmission data points used to support such allocations in the Companies’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

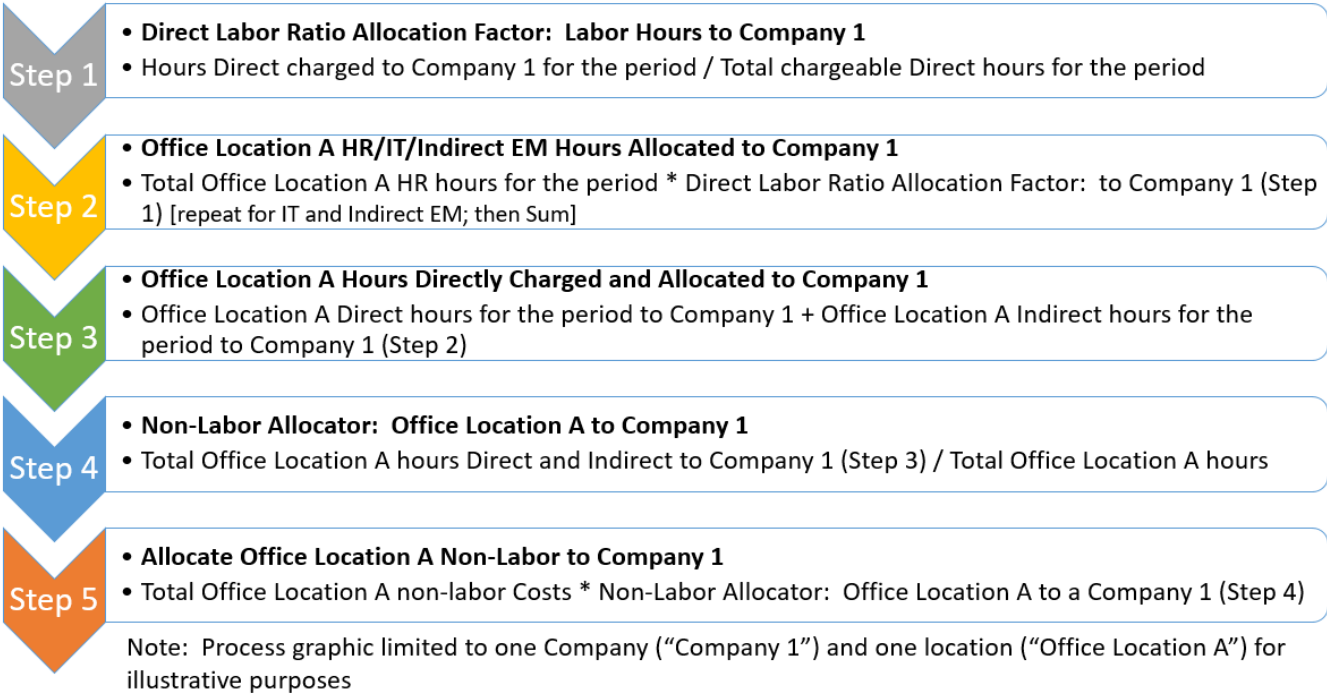
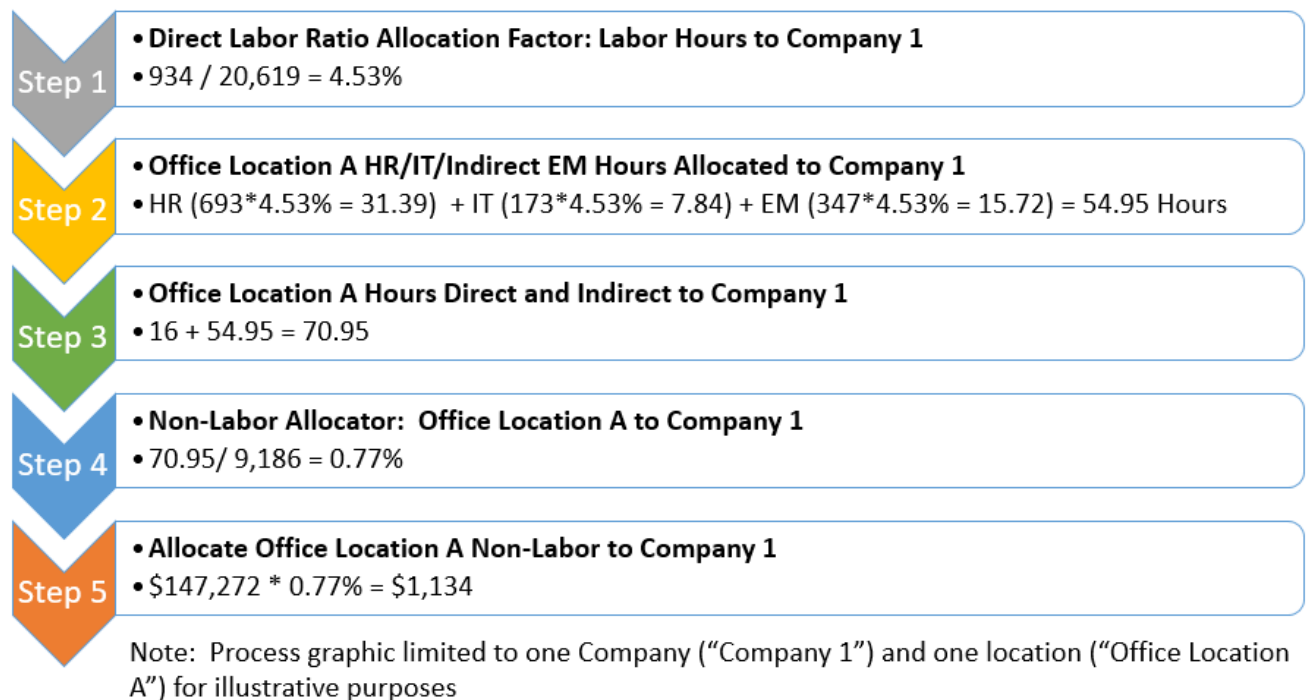


Figure 8 below provides an example of the non-labor allocation process being applied to one example location. The non-labor allocations for each location are grouped by the Company receiving non-labor allocation and added together to determine the total non-labor allocated to each Company.

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

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

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.