

APPENDIX J

**Statement In Compliance With CWIP Regulations,
Including Statement BM**

**STATEMENT REGARDING
CONSTRUCTION WORK IN PROGRESS REGULATIONS
18 C.F.R. § 35.13(h)(38) & 18 C.F.R. § 35.25**

In this proceeding, Pioneer seeks authorization to include 100 percent of Construction Work In Progress (“CWIP”) costs associated with the Pioneer Project (“Project”) in rate base. This Statement supplements the information provided elsewhere in this filing and provides the information required to satisfy the Commission’s CWIP regulations at 18 C.F.R. § 35.13(h)(38) (2008) (Statement BM) and 18 C.F.R. § 35.25 (2008).

I. SECTION 35.13(H)(38): STATEMENT BM—CONSTRUCTION PROGRAM STATEMENT

Under Section 35.13(h)(38) of the Commission’s regulations, an applicant seeking to include CWIP in rate base is required to submit Statement BM in support of its request. That Statement requires the applicant to explain, among other things, why the proposed project is prudent and consistent with a least-cost energy supply program. Pioneer submits that the information provided below and elsewhere in this filing demonstrate that the Project is prudent and consistent with a least-cost energy supply program.

The Project consists of approximately 240 miles of 765 kV transmission facilities located in Indiana. It will also be necessary to interconnect the Project with existing lower voltage transmission facilities. A map showing the proposed location of the facilities is included within the testimony of Mr. Christopher M. Fallon as Exhibit No. PNR-200. The Project is expect to have a capacity of over 4,000 MW, cost about \$1 billion, and be in service in the 2014-2015 timeframe.

As explained below, the Project will improve reliability, eliminate existing and anticipated congestion on the transmission system, reduce losses, and permit the interconnection of substantial quantities of wind generation. The Pioneer Project will run between two existing 765 kV substations, the Rockport Station in the south (in PJM) and the Greentown Station in the north (in Midwest ISO). As described in more detail in Mr. Fallon’s testimony, the line will also traverse an area in central Indiana that is experiencing substantial development of wind-powered generation. With a capacity of over 4,000 MW, the Project will be able to accommodate thousands of megawatts of new wind generation without requiring substantial upgrades to the underlying lower-voltage networks. Pioneer can help unload those facilities through the enhanced carrying capability of the 765 kV facilities coupled with the addition of one or more “collector” stations strategically located transmission substation in the heart of the area ripe for wind development that will provide an easy connection for these wind projects.

Having a 765 kV “backbone” network in place will allow more economic interconnections, thereby enhancing the likelihood that a greater number of the generation resources proposed for this area will actually be developed. The addition of the Project to the transmission network will allow more economic interconnections for currently proposed projects, and may also incent additional wind project projects to locate in the area to take advantage of the ease of interconnection.

The Project has not yet been formally approved for inclusion in either PJM’s or the Midwest ISO’s regional transmission expansion plan, and has not yet received all necessary regulatory approvals. Pioneer has begun the process of obtaining the necessary approvals is working with PJM and the Midwest ISO to have the Project included in the the RTOs’ regional expansion plans.

For further information on the Project, please see the transmittal letter and the Testimony of Heather Geiger (Exh. No. PNR-100), Christopher M. Fallon (Exh. No. PNR-200), and Lisa M. Barton (Exh. No. PNR-300).

II. SECTION 35.25 REQUIREMENTS

A. Section 35.25(c)(4): Support for request for waiver of the requirement related to forward looking allocators

Consistent with Paragraph 119 of Order No. 679, Pioneer requests waiver of Section 35.25(c)(4). *Promoting Transmission Investment Through Pricing Reform*, Order No. 679, 116 FERC ¶ 61,057 at P 119 (2006) (waiving § 35.25(c)(4) as it pertains to forward-looking allocation ratios and preventing double whammy caused by the inclusion of CWIP associated with new investment in transmission). Concerns about the possibility of a “double whammy” (described by the regulations as arising from a situation in which a wholesale customer embarks upon its own or participates in a program to supply itself with all or a portion of its future power needs) are not present in the case of CWIP for transmission upgrades. Since there is no double whammy associated with paying for two sets of transmission facilities, the Pioneer Project involves precisely the type of new investment in transmission for which the Commission’s waiver in Order No. 679 should apply. Furthermore, concerns about the possibility of a CWIP-induced “price squeeze” relate to generation facilities, and to situations where a utility’s retail rates are regulated by state commissions and its wholesale rates are regulated by this Commission. Price squeeze issues are not present here because Pioneer’s request relates solely to transmission CWIP and its transmission rates are regulated solely by this Commission. Pioneer is a “wires-only” company and thus does not own any generation facilities. Accordingly, based on these facts, Pioneer requests waiver of the requirement to use forward-looking allocation ratios for CWIP included in rate base.

B. Sections 35.25(e) and 35.25(f): Discontinuance of AFUDC and Accounting Procedures

Sections 35.25(e) and 35.25(f) of the Commission’s regulations require an applicant seeking CWIP recovery to discontinue the capitalization of AFUDC for CWIP that is included in rate base and to propose accounting procedures to ensure that customers will not be double-charged for AFUDC and CWIP. As discussed in the testimony of Mr. Dany Wiles, Pioneer’s accounting procedures for CWIP will ensure that AFUDC is not capitalized on CWIP included in rate base. Mr. Wiles explains that Pioneer will use the PowerPlant System to maintain its accounting records for CWIP electric plant assets during construction and after the project is placed in service. The PowerPlant System includes the capability to identify specific work orders that should not be included in the calculation and capitalization of AFUDC. The work orders related to the construction that have been granted incentive treatment will be identified in PowerPlant and no AFUDC will be calculated on their balances. This will ensure that the CWIP in the formula rate filing will not include AFUDC, and will prevent a double-recovery of CWIP and capitalized AFUDC on the same rate base items.

C. Section 35.25(g): Anticompetitive Procedures

Section 35.25(g) of the Commission's regulations requires a CWIP applicant to provide certain information regarding the potential anti-competitive impacts of CWIP recovery, including the proposed CWIP levels included in the CWIP applicant's wholesale and retail rates. The requirements in Section 35.25(g)(1)(ii)-(iii) related to CWIP included in retail rates are not applicable to this proceeding because service provided over the Pioneer transmission facilities is entirely under this Commission's jurisdiction. Thus, as Pioneer will have no retail rates, this portion of these regulations is inapplicable. With respect to 18 C.F.R. § 35.25(g)(1)(i), there is no percentage increase attributable to non-pollution control CWIP as this case does not involve a rate increase from pre-existing rates.