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February 7, 2017

VIA HAND DELIVERY

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
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Harrisburg, PA 17105-3265

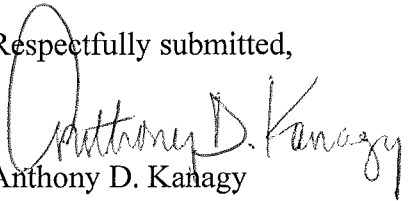
Re: Application of Transource Pennsylvania, LLC for All of the Necessary Authority, Approvals, and Certificates of Public Convenience (1) to Begin to Furnish and Supply Electric Transmission Service in Franklin and York Counties, Pennsylvania; (2) for Certain Affiliated Interest Agreements; and (3) for any Other Approvals Necessary to Complete the Contemplated Transactions
Docket Nos.

Dear Secretary Chiavetta:

Enclosed for filing is the Application of Transource Pennsylvania, LLC for the above-referenced proceeding. Also enclosed is a check in the amount of \$350.00 for payment of the filing fee. A CD containing a copy of the Application is also enclosed.

Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,


Anthony D. Kanagy

ADK/skr
Enclosure

cc: Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

VIA FIRST CLASS MAIL

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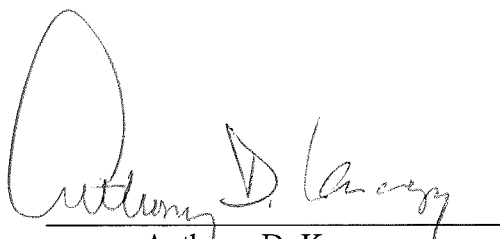
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Date: February 7, 2017



Anthony D. Kanagy

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Application of Transource Pennsylvania, :
LLC for All of the Necessary Authority, :
Approvals, and Certificates of Public :
Convenience (1) to Begin to Furnish and :
Supply Electric Transmission Service in : Docket Nos.
Franklin and York Counties, Pennsylvania; :
(2) for Certain Affiliated Interest :
Agreements; and (3) for any Other :
Approvals Necessary to Complete the :
Contemplated Transactions :

**APPLICATION OF
TRANSOURCE PENNSYLVANIA, LLC**

I. INTRODUCTION

1. By this Application, Transource Pennsylvania, LLC (“Transource PA” or the “Applicant”) hereby requests all necessary authority, approvals and certificates of public convenience from the Pennsylvania Public Utility Commission (the “Commission”) pursuant to Sections 1101 and 2102 of the Public Utility Code, 66 Pa.C.S. §§ 1101 and 2102, authorizing Transource PA to begin to furnish and supply electric transmission service within two corridors to be located in Franklin and York Counties, Pennsylvania.

As explained in detail below, PJM Interconnection, L.L.C. (“PJM”) identified a need to alleviate transmission congestion constraints across the Pennsylvania and Maryland border. To address these congestion constraints, PJM approved a Market Efficiency project, identified by PJM as Baseline Upgrade Numbers b2743 and b2752, and also described from time to time as “Project 9A.” PJM’s Baseline Upgrade Numbers b2743 and b2752 involve upgrades at existing substations in Maryland, two new substations in Pennsylvania, and two new interstate

transmission lines between Maryland and Pennsylvania. The core of this baseline upgrade project comprises the transmission facilities designated by PJM to be constructed, owned, maintained, and operated by Transource PA and Transource Maryland, LLC (“Transource MD”), which together are referred to as the Independence Energy Connection Project (“Independence Project”).

2. Transource PA is responsible for the Pennsylvania portion of the Independence Project as further described below. Specifically, Transource PA will construct, own, maintain, and operate two new electric transmission substations in Pennsylvania, and the Pennsylvania portions of two new 230 kV interstate transmission lines that constitute the Pennsylvania portion of the Independence Project.¹

3. As a prerequisite to carry out this needed utility work in Pennsylvania, Transource PA herein seeks Commission approval to begin to furnish and supply electric transmission service to or for the public through two new 230 kV transmission lines to be sited and located in Franklin and York Counties and as described more in detail below. Transource PA further seeks all other approvals and certificates appropriate, customary, or necessary under the Public Utility Code to carry out the transactions contemplated in this Application in a lawful manner.

4. The complete names and addresses of the Applicant is:

Transource Pennsylvania, LLC
1 Riverside Plaza,
Columbus, Ohio 43215-2372
Attention: Antonio Smyth

¹ Pursuant to 52 Pa. Code §§ 57.71-57.77 and 69.3101-69.3107, Transource PA will in the near future separately file an application(s) seeking all necessary Commission approval(s) to site, locate, and construct the Pennsylvania portion of the two new proposed 230 kV transmission lines.

5. The attorneys for the Applicant are:

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The Applicant's attorneys are authorized to receive all notices and communications regarding this Application.

6. The Application is organized as follows:

- Section II provides a description of Transource PA and other entities involved in the Independence Project;
- Section III provides an overview of the proposed Independence Project and the electric service to be provided by Transource PA;
- Section IV sets forth the legal standards applicable to the approvals requested in the Application;
- Section V demonstrates that the proposed electric transmission service to be furnished by Transource PA will be to or for the public;
- Section VI demonstrates that the proposed electric transmission service to be furnished by Transource PA is reasonably necessary for the accommodation or convenience of the public;

- Section VII demonstrates that Transource PA will have the requisite technical, legal and financial fitness to provide the proposed electric transmission service within the Commonwealth;
- Section VIII addresses certain of Transource PA's affiliated interest agreements related to the Independence Project;
- Section IX provides additional supporting data; and
- Section X sets forth the conclusion and the requested approvals.

7. The Applicant submits, as explained in more detail herein, that all criteria necessary for granting of the required approvals pursuant to the Public Utility Code have been met and, therefore, the Application should be approved without conditions.

II. THE PARTIES AND RELATED ENTITIES

A. APPLICANT

8. Transource PA is a limited liability company organized and existing under the laws of Delaware. Transource PA is a wholly-owned direct subsidiary of Transource Energy, LLC ("Transource Energy").

9. Transource PA was formed to construct, own, operate, and maintain electric transmission facilities and equipment within the Commonwealth of Pennsylvania.

10. Upon receipt of all necessary approvals, Transource PA will construct, own, operate, and maintain two new Pennsylvania substations and the Pennsylvania portions of two proposed new 230 kV interstate transmission lines to be sited and located in Franklin and York Counties as further described below.

B. RELATED ENTITIES

1. Transource Energy, LLC

11. Transource Energy is a limited liability company organized and existing under the laws of Delaware. Transource Energy is headquartered in Columbus, Ohio.

12. Transource Energy is the direct parent of, and wholly owns, Transource PA and Transource MD.

13. Transource Energy participates in three regional transmission organizations, including PJM, the Midwest Independent System Operator, and the Southwest Power Pool.² Transource Energy is focused on the development and investment in competitive electric transmission projects across the United States.

14. Transource Energy is indirectly owned by a partnership between American Electric Power Company, Inc. (“AEP”) and Great Plains Energy Incorporated (“GPE”). AEP Transmission Holding Company, LLC, a direct wholly-owned subsidiary of AEP, owns 86.5% of Transource Energy, and GPE Transmission Holding Company, LLC, a direct wholly-owned subsidiary of GPE, owns 13.5% of Transource Energy.

15. AEP is a corporation organized and existing under the laws of New York. Headquartered in Columbus, Ohio, AEP is an energy and utility holding company that, through its subsidiaries: (i) serves more than five million customers in eleven states; (ii) owns and operates more than 40,000 circuit miles of electric transmission lines, and approximately 224,000 miles of electric distribution lines; and (iii) has nearly 32,000 megawatts of generating capacity.

16. GPE is a corporation organized and existing under the laws of Missouri. Headquartered in Kansas City, Missouri, GPE is the holding company of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company. The utilities operate under the trade name KCP&L and serve over 800,000 customers in Missouri and Kansas with a

² PJM, the Midwest Independent System Operator, and the Southwest Power Pool collectively manage transmission facilities in all or part of 28 states, the District of Columbia, and the province of Manitoba in Canada.

combined diverse generation platform of more than 6,100 MW of capacity. The KCP&L companies operate approximately 3,600 circuit miles of transmission lines.

17. Attached as Appendix 1 is an organizational chart showing Transource Energy and its existing subsidiaries that have made formula rate filings at the Federal Energy Regulatory Commission (“FERC”) (as of 01/31/2017).

2. Transource Maryland, LLC

18. Transource MD is a limited liability company organized and existing under the laws of Maryland. Transource MD is a wholly-owned direct subsidiary of Transource Energy.

19. Transource MD was formed to construct, own, operate, and maintain electric transmission facilities and equipment within the State of Maryland. Upon receipt of all necessary approvals, Transource MD will construct, own, operate, and maintain the Maryland portions of two proposed new 230 kV interstate transmission lines associated with the Independence Project as further described below.

III. PROPOSED ELECTRIC TRANSMISSION SERVICE TO BE FURNISHED BY TRANSOURCE PA

20. PJM is a FERC-approved Regional Transmission Organization charged with ensuring the reliable and efficient operation of the electric transmission system under its functional control, and coordinating the transmission of electricity in all or parts of thirteen states, including Pennsylvania, and the District of Columbia.

21. In order to ensure reliable transmission service, PJM prepares an annual Regional Transmission Expansion Plan (“RTEP”).³ The RTEP is an annual planning process that

³ PJM’s RTEP process is currently set forth in Schedule 6 of PJM’s Amended and Restated Operating Agreement (“Schedule 6”). Schedule 6 governs the process by which PJM’s members rely on PJM to prepare an annual regional plan for the enhancement and expansion of the transmission facilities to ensure long-term, reliable electric service consistent with established reliability criteria. In addition, Schedule 6 addresses the procedures used to develop the RTEP, the review and approval process for the RTEP, the

encompasses a comprehensive series of detailed analyses to ensure electric power continues to flow reliably to customers under stringent reliability planning criteria.⁴

22. In addition to the reliability analysis, PJM's RTEP includes a Market Efficiency Analysis to identify congestion on electric transmission facilities that has economic or wholesale market effects, as well as potential improvements to electric transmission economic efficiencies. The electric transmission needs identified in this analysis stem from the fact that the PJM transmission grid provides the means for generators to participate in a competitive wholesale market to supply electricity, both capacity and energy, to customers in PJM's geographic footprint no matter where in this area the electrical load is located.

23. The electric transmission infrastructure needs identified by the PJM Market Efficiency Analysis are addressed by market efficiency transmission projects, which are aimed specifically at improving electric transmission economic efficiencies and alleviating electric transmission constraints that have an economic impact on PJM's wholesale energy or capacity markets.

24. When PJM's Market Efficiency Analysis identifies a need to relieve congestion on electric transmission facilities, PJM opens a Long Term Proposal Window, to solicit the submittal of potential solutions (*i.e.*, market efficiency projects) to addresses those needs. PJM's solicitation of market efficiency project submittals through its Long Term Proposal Window is a competitive process consistent with FERC Order No. 1000.⁵ Potential solutions are evaluated using two criteria: first, the project must address the congestion identified in the Market

obligation of transmission owners to build transmission upgrades included in the RTEP, and the process by which interregional transmission upgrades will be developed.

⁴ PJM Manual 14B outlines the RTEP process and reliability criteria use for this process. PJM Manual 14B is available at: <http://www.pjm.com/~media/documents/manuals/m14b.ashx>.

⁵ A summary of FERC Order No. 1000 is available at: <http://www.ferc.gov/industries/electric/indus-act/trans-plan.asp>.

Efficiency Analysis; and, second, the project benefits must exceed the costs by at least 25 percent.⁶

25. Market efficiency projects that are selected through PJM's Long Term Proposal Window are presented to stakeholders and recommended to the PJM Board of Managers ("PJM Board") for approval. If approved, such market efficiency projects are included in the RTEP as Baseline Projects.

26. Importantly, pursuant to Schedule 6 of PJM's Amended and Restated Operating Agreement, after the PJM Board approves a proposed market efficiency project, the successful project proponent is obligated to complete the project once PJM and the successful entity execute a Designated Entity Agreement, which specifically designates the entity or entities having construction responsibility for the project.

27. In October 2014, PJM opened a Long Term Proposal Window ("2014/15 RTEP Long Term Proposal Window") to solicit proposals to address, among other things, transmission congestion across the Pennsylvania and Maryland border.⁷ In response, Transource Energy, the parent of Transource PA, submitted a proposal that consists of the following inter-dependent elements: (i) upgrades at existing substations in Maryland; (ii) two new substations in Pennsylvania; and (iii) two new interstate transmission lines between Maryland and Pennsylvania.

⁶ Project benefits are measured by comparing the benefits in the form of net load payments and/or production costs with and without the proposed project for a 15-year study period. The economic benefit/cost ratio threshold test is set forth in PJM Manual 14B, Attachment E, available at: <http://www.pjm.com/~media/documents/manuals/m14b.ashx>.

⁷ See PJM, LLC, "PJM RTEP - 2014/15 RTEP Long Term Proposal Window Problem Statement & Requirements Document," Version 2 (Oct. 30, 2014), available at <https://www.pjm.com/~media/planning/rtep-dev/expan-plan-process/ferc-order-1000/rtep-proposal-windows/2014-15-rtep-long-term-proposal-window-problem-statement-and-requirements-document.ashx>.

28. After extensive evaluation and review with stakeholders, PJM selected Project 9A to address the needs identified in PJM's 2014/15 RTEP Long Term Proposal Window because it provided the highest benefit-to-cost ratio, the most total congestion savings, and the most production cost savings.⁸ On August 2, 2016, the PJM Board approved Project 9A, as Baseline Upgrade Numbers b2743 and b2752.

29. On November 2, 2016, PJM and Transource Energy, on behalf of Transource PA and Transource MD, executed a Designated Entity Agreement. Pursuant to Schedule E of the Designated Entity Agreement, Transource PA is responsible for the construction, ownership, maintenance, and operation of the two new substations in Pennsylvania; and the Pennsylvania portion of the two new interstate transmission lines between Maryland and Pennsylvania contemplated in Baseline Upgrade Numbers b2743 and b2752. Under the same agreement, Transource MD is responsible for the construction, ownership, maintenance, and operation of the Maryland portion of the two new interstate transmission lines between Maryland and Pennsylvania contemplated in Baseline Upgrade Numbers b2743 and b2752.⁹ The portions of Baseline Upgrade Numbers b2743 and b2752 to be constructed, owned, maintained, and operated by Transource PA and Transource MD are known, together, as the Independence Energy Connection Project.

30. On November 14, 2016, the Designated Entity Agreement was filed with the FERC Commission in Docket No. ER17-349-000. A true and correct copy of the Designated

⁸ The recommendation of PJM staff to approve the Independence Project is available at: <http://www.pjm.com/~media/committees-groups/committees/teac/20160811/20160811-board-whitepaper-august-2016.ashx>.

⁹ PJM's 2014/2015 RTEP Baseline Upgrade Numbers b2743 and b2752 also includes upgrades to the existing Conastone and Ringgold Substations in Maryland and reconductoring of the Conastone-Northwest double-circuit 230 kV line and the Ringgold-Catoctin 138 kV line in Maryland. The upgrades to these existing facilities will be the responsibility of the incumbent Maryland utilities.

Entity Agreement is provided as Appendix 2. FERC approved the Designated Entity Agreement on January 12, 2017.¹⁰

31. Pursuant to Schedule 6 of PJM's Amended and Restated Operating Agreement, and as stated in the Designated Entity Agreement, Transource PA and Transource MD are required to complete the Independence Project by June 1, 2020.

32. Pertinent to this Application, the Pennsylvania portion of the Independence Project as approved by PJM involves: (i) construction of two new substations in Pennsylvania, namely the Rice Substation and Furnace Run Substation, and (ii) construction of the Pennsylvania portion of two new overhead double-circuit 230 kV interstate transmission lines, namely the Rice-Ringgold 230 kV Transmission Line and the Furnace Run-Conastone 230 kV Transmission Line, and associated structures, equipment, and other facilities necessary to operate the transmission lines.

33. Upon receipt of all necessary approvals, the new Rice-Ringgold 230 kV Transmission Line will be sited to extend approximately 27 miles, connecting the existing Ringgold Substation located near Smithsburg, Washington County, Maryland, and the new Rice Substation to be located in Franklin County, Pennsylvania. Transource PA will construct, own, operate, and maintain the Pennsylvania portion of the Rice-Ringgold 230 kV Transmission Line, and Transource MD will construct, own, operate, and maintain the Maryland portion of the line.

34. The new Rice Substation will be constructed, owned, operated, and maintained by Transource PA. In addition to interconnecting with the Ringgold Substation, the new Rice Substation will tie into the existing Hunterstown-Conemaugh 500 kV Transmission Line.

¹⁰ FERC's order approving the Designated Entity Agreement is available at: https://elibrary.ferc.gov/idmws/file_list.asp?accession_num=20170112-3047

35. Upon receipt of all necessary approvals, the new Furnace Run-Conastone 230 kV Transmission Line will be sited to extend approximately 15 miles, connecting the existing Conastone Substation located near Norrisville, Hartford County, Maryland, and the new Furnace Run Substation to be located in York County, Pennsylvania. Transource PA will construct, own, operate, and maintain the Pennsylvania portion of the Furnace Run-Conastone 230 kV Transmission Line, and Transource MD will construct, own, operate, and maintain the Maryland portion of the line.

36. The new Furnace Run Substation will be constructed, owned, operated, and maintained by Transource PA. In addition to interconnecting with the Conastone Substation, the new Furnace Run Substation will tie into the existing Three Mile Island – Peach Bottom 500 kV Transmission Line.

37. Upon completion of the Independence Project, and subject to receipt of all necessary approvals, Transource PA will provide electric transmission service within a transmission corridor to be sited from the new Rice Substation in Franklin County, Pennsylvania to the Pennsylvania/Maryland border. Transource PA also will provide electric transmission service within a transmission corridor to be sited from the new Furnace Run Substation in York County, Pennsylvania to the Pennsylvania/Maryland border.

38. Upon approval of this Application, Transource PA will in the near future separately file an application(s) seeking all necessary Commission approval(s) to site, locate, and construct the Pennsylvania portion of the two new proposed 230 kV transmission lines described above. However, as a prerequisite, Transource PA herein seeks, among other things, Commission approval to begin to furnish electric transmission service as a public utility within transmission corridors to be sited in Franklin and York Counties as described above.

IV. LEGAL STANDARDS AND APPROVALS REQUESTED

A. SERVICE TO OR FOR THE PUBLIC

39. A “public utility” is defined Section 102 of the Public Utility Code as follows:

(1) Any person or corporations now or hereafter owning or operating in this Commonwealth *equipment or facilities* for:

(i) ... *transmitting, distributing or furnishing ... electricity ... for the production of light, heat, or power to or for the public for compensation.*

66 Pa.C.S. § 102.

40. The Pennsylvania Supreme Court has concluded that “the public or private character of the enterprise does not depend upon the numbers of persons by whom it is used, but upon whether or not it is open to the use and service of all members of the public who may require it.” *Drexelbrook Associates v. Pa. PUC*, 418 Pa. 430, 435, 212 A.2d 237, 239 (1965) (citations omitted). The Commonwealth Court found a gas company provided service “to or for the public” when it placed no restrictions upon whom it served and provided service to the extent that capacity was available on its facilities. *Dunmire Gas Company v. Pa. PUC*, 413 A.2d 473, 474 (Pa. Cmwlth. 1980); *see also Waltman v. Pa. PUC*, 596 A.2d 1221 (Pa. Cmwlth. 1991), *aff’d*, 533 Pa. 304, 621 A.2d 994 (1993) (holding that the public nature of the services were not changed by the fact that the only entities that would desire them were those engaged in high volume business).

41. Further, the Commission has recently explained that FERC-regulated transmission companies are “public utilities” under Pennsylvania law if they: (1) own, maintain, or operate in the Commonwealth equipment or facilities used for the transmission of electricity, and (2) directly or indirectly serve Pennsylvania customers for compensation. *See Petition of American Transmission Systems, Incorporated for a Declaratory Order that it is not a Public*

Utility as Defined in 66 Pa. C.S. § 102 and is not Required to Obtain a Certificate of Public Convenience under 66 Pa. C.S. § 1102(A) to Own and Operate Equipment and Facilities in Pennsylvania Used Only to Furnish Interstate Electric Transmission Service Subject to the Jurisdiction of the Federal Energy Regulatory Commission, Docket No. P-2013-2388149 (Pa. PUC Order entered Aug. 11, 2016) (hereinafter “Petition of ATSP”).

42. As explained in Section V below, the electric transmission service to be furnished by Transource PA through the two new electric transmission substations and two new 230 kV transmission lines in Pennsylvania will be to or for the public for compensation.

B. SECTION 1101 CERTIFICATE OF PUBLIC CONVENIENCE

43. Section 1101 of the Public Utility Code provides that “[u]pon the application of any proposed public utility and the approval of such application by the [C]ommission evidenced by its certificate of public convenience first had and obtained, it shall be lawful for any such proposed public utility to begin to offer, render, furnish, or supply service within this Commonwealth.” 66 Pa.C.S § 1101. Thus, before an entity may lawfully begin to furnish electric transmission service within the Commonwealth, it must first submit an application with the Commission requesting a certificate of public convenience.

44. Section 1103 of the Public Utility Code sets forth the procedure to obtain certificates of public convenience. Under Section 1103, a certificate of public convenience will be issued if the Commission “shall find and determine that the granting of such certificate is necessary or proper for the service, accommodation, convenience or safety of the public.” 66 Pa.C.S. § 1103. The Commission has interpreted this section to require the applicant to demonstrate a public need for the service and the applicant’s fitness to provide the service. *See Chester Water Authority v. Pa. PUC*, 581 Pa. 640, 868 A.2d 384 (2005); *Application of Newtown Artesian Water Company*, 2003 Pa. PUC LEXIS 40 (July 1, 2003).

45. In addition to public need and the applicant's fitness, an applicant for a certificate of public convenience must demonstrate that the proposed service will "affirmatively promote the service, accommodation, convenience, or safety of the public in some substantial way." *City of York v. Pa. PUC*, 449 Pa. 136, 151, 295 A.2d 825, 828 (1972). The "substantial public interest" standard is satisfied by a simple preponderance of the evidence of benefits, and such burden can be met by showing a likelihood or probability of public benefits that need not be quantified or guaranteed. *Popowsky v. Pa. PUC*, 594 Pa. 583, 611, 937 A.2d 1040, 1057 (2007). Further, the substantial public benefit test does not require that every customer receive a benefit. *Popowsky*, at 617-18, 937 A.2d at 1061.

46. As explained in Section VI below, the electric service to be furnished by Transource PA is reasonably necessary for the accommodation or convenience of the public.

47. Demonstrating the applicant's "fitness" involves three factors: (i) the technical capacity to meet the need in a satisfactory fashion; (ii) the financial ability to provide reliable and responsible service to the public; and (iii) legal fitness -- the ability to operate safely and legally. *See Warminster Twp. Mun. Auth. v. Pa. P.U.C.*, 138 A.2d 240 (Pa. Super. 1958).

48. As explained in Section VII below, Transource PA and Transource Energy are technically, financially, and legally fit to provide electric transmission service in Franklin and York Counties, Pennsylvania.

C. CHAPTER 21 AFFILIATED INTEREST AGREEMENTS

49. Under Public Utility Code Section 2102, Commission approval is required for any affiliated interest contract before it can become effective. 66 Pa.C.S. § 2102(a). Public Utility Code Section 2101(a) defines an "affiliated interest" to include the following: "(1) Every corporation and person owning or holding directly or indirectly 5% or more of the voting

securities of such public utility; and (2) Every corporation and person in any chain of successive ownership of 5% or more of voting securities.” 66 Pa.C.S. § 2101(a)(1)(2).

50. Public Utility Code Sections 2102(b) and (c) provide the standard for Commission review of an affiliate interest agreement:

(b) Filing and Action on Contract.... The commission shall approve such contract or arrangement made or entered into after the effective date of this section only if it shall clearly appear and be established upon investigation that it is reasonable and consistent with the public interest. If at the end of 30 days after the filing of a contract or arrangement, no order of rejection has been entered, such contract or arrangement, whether written or unwritten, shall be deemed, in fact and law, to have been approved. The commission may, by written order, giving reasons therefor, extend the 30-day consideration period. No such contract or arrangement shall receive the commission’s approval unless satisfactory proof is submitted to the commission of the cost to the affiliated interest of rendering the services or of furnishing the property or service described herein to the public utility....

(c) Disallowances of Excessive Amounts.... If the commission shall determine that the amounts paid or payable under a contract or arrangement filed in accordance with this section are in excess of the reasonable price for furnishing the services provided for in the contract, or that such services are not reasonably necessary and proper, it shall disallow such amounts, insofar as found excessive, in any proceeding involving the rates or practices of the public utility. In any proceeding involving such amounts, the burden of proof to show that such amounts are not in excess of the reasonable price for furnishing such services, and that such services are reasonable and proper, shall be on the public utility.

66 Pa.C.S. § 2012(b) and (c).

51. As part of the Independence Project, Transource PA will receive equity and debt financing, as well as certain services from its affiliates through service agreements, debt notes, and other affiliated company transactions as explained in Section VIII below. Transource PA therefore requests approval of these agreements under Section 2102 of the Public Utility Code, 66 Pa.C.S. § 2102, to the extent deemed necessary by the Commission.

V. TRANSOURCE PA WILL PROVIDE SERVICE TO OR FOR THE PUBLIC

52. As explained above, upon receipt of all necessary approvals, Transource PA proposes to provide electric transmission service through a new electric transmission substation and associated 230 kV transmission line that will, upon Commission approval, be sited to extend from the new Rice Substation in Franklin County, Pennsylvania to the Pennsylvania/Maryland border. Transource PA also will provide electric transmission service through a second new electric transmission substation and associated 230 kV transmission line that will, upon Commission approval, be sited to extend from the new Furnace Run Substation in York County, Pennsylvania to the Pennsylvania/Maryland border.

53. The Independence Project will be part of the interconnected electric grid that provides electric service to customers, including Pennsylvania customers. The Pennsylvania portion of the Independence Project will be interconnected with existing transmission facilities of Pennsylvania electric distribution companies (“EDCs”), which ultimately provide retail electric service to Pennsylvania customers.

54. As a PJM Transmission Owner, Transource PA will be required by federal law to provide open access to its transmission systems to be located in Franklin and York Counties, Pennsylvania.¹¹ Thus, Transource PA will hold itself out and may be required to directly serve

¹¹ FERC Orders No. 888, 889 require all public utilities owning and/or controlling transmission facilities to offer non-discriminatory open access transmission service. *See Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*, Order No. 888, FERC Stats. & Regs. P 31,036, 61 Fed. Reg. 21,540 (1996), clarified, 76 F.E.R.C. 61,009 and 76 F.E.R.C. 61,347 (1996), *on reh'g*, Order No. 888-A, FERC Stats. and Regs. P 31,048, 62 Fed. Reg. 12,274, clarified, 79 F.E.R.C. 61,182 (1997), *on reh'g*, Order No. 888-B, 81 F.E.R.C. 61,248, 62 Fed. Reg. 64,688 (1997), *on reh'g*, Order No. 888-C, 82 F.E.R.C. 61,046 (1998); *Open Access Same-Time Information System and Standards of Conduct*, Order No. 889, FERC Stats. & Regs. P 31,035, 61 Fed. Reg. 21,737 (1996), *on reh'g*, Order No. 889-A, FERC Stats. & Regs. P 31,049, 62 Fed. Reg. 12,484 (1997), *on reh'g*, Order No. 889-B, 81 F.E.R.C. 61,253 (1997).

interconnection transmission customers, electric generators, independent power producers, and suppliers through the facilities and equipment to be located within Pennsylvania.

55. Although Transource PA will be compensated through FERC-regulated interstate rates for the electric transmission services it will provide,¹² the Commission will have jurisdiction over the siting, reliability, and safety of the overhead high voltage electric transmission lines, as well as any Transource PA affiliated interest agreements.¹³

56. Under these facts, Transource PA submits that it will provide electric transmission service to or for the public for compensation.

VI. THE PROPOSED ELECTRIC TRANSMISSION SERVICE TO BE FURNISHED BY TRANSOURCE PA IS REASONABLY NECESSARY FOR THE ACCOMMODATION OR CONVENIENCE OF THE PUBLIC

57. As explained above, the PJM Board approved the Independence Project¹⁴ as a major component of Baseline Upgrade Numbers b2743 and b2752 on August 2, 2016.

58. Pursuant to Schedule 6 of PJM's Amended and Restated Operating Agreement, and as stated in the Designated Entity Agreement, Transource PA is required to complete the

¹² The Federal Power Act grants FERC jurisdiction over “the transmission of electric energy in interstate commerce and the sale of such energy at wholesale in interstate commerce,” 16 U.S.C. § 824(a), and requires “[a]ll rates and charges ... subject to the jurisdiction of the [FERC]” to be “just and reasonable,” *id.* § 824d(a).

¹³ See *Piedmont Environmental Council v. FERC*, 558 F.3d 304, 310 (4th Cir. 2009) (the siting of electric transmission lines is reserved for the states); 16 U.S.C. § 824(o)(i)(3) (“[n]othing in this section shall be construed to preempt any authority of any State to take action to ensure the safety, adequacy, and reliability of electric service within that State, as long as such action is not inconsistent with any reliability standard”); *Application Of TrAILCo For Approval For A Certificate Of Public Convenience To Offer, Render, Furnish Or Supply Transmission Service In The Commonwealth Of Pennsylvania*, Docket Nos. A—110172, et al., 2008 Pa. PUC LEXIS 1034 (Order entered Dec. 12, 2008) (states can exercise their authority to review certain affiliated interest agreements relating to transmission service and facilities without intruding on FERC’s rate jurisdiction). See also *Petition of ATSI*, pp. 29-30 (Commission asserted authority over interstate electric transmission facilities for purposes of siting, reliability, safety, and affiliated interest agreements).

¹⁴ As used in this application, the defined term “Independence Project” does not include the upgrades to existing facilities within Upgrade Projects b2743 & b2752 that will be constructed by incumbent utilities.

Pennsylvania portion of the Independence Project, and Transource MD is required to complete the Maryland portion of the Independence Project.

59. As found and approved by PJM, the facilities required in Baseline Upgrade Numbers b2743 and b2752 are necessary to alleviate transmission congestion costs across the Pennsylvania and Maryland border.¹⁵ This project was selected because it provided the best benefit-to-cost ratio, most total congestion savings, and the most production cost savings. Specifically, PJM found that the facilities required by Baseline Upgrade Numbers b2743 and b2752 are expected to save customers approximately \$620 million over 15 years. See Appendix 3 - PJM Staff White Paper – August 2016; Appendix 4 - PJM TEAC Presentation – May 12, 2016.

60. Although the primary benefits resulting from the Pennsylvania portion of the Independence Project relate to market efficiency and the reduction of congestion costs, these transmission facilities will also enhance the electrical strength and reliability of the area's electric transmission grid, provide additional and alternative paths to electricity in case of transmission outages, and facilitate the interconnection of future reliability, generation, and load projects in the area by virtue of the presence of these new transmission facilities as part of the area's transmission grid interconnected network.

¹⁵ Congestion occurs when there is heavy use of the transmission system in a specific area. When congestion occurs, lower-priced energy is prevented from flowing freely to a specific area on the grid because heavy electricity use is causing parts of the grid to operate near their limits. As a result, congestion generally raises the locational marginal pricing for electricity in congested areas.

VII. TRANSOURCE PA AND TRANSOURCE ENERGY HAVE THE REQUISITE TECHNICAL, LEGAL AND FINANCIAL FITNESS

A. TECHNICAL FITNESS

61. Transource PA and Transource Energy will have the required managerial and technical experience to own and operate the transmission facilities to be sited within Franklin and York Counties as described above.

62. As explained above, Transource PA is the direct subsidiary of Transource Energy, which is indirectly owned by a partnership between AEP and GPE. Transource Energy and Transource PA will be able to draw on the significant resources and experience of AEP's and GPE's rigorous and proven project management practices.

63. AEP and GPE currently employ approximately 300 people in transmission project management and construction management functions. Combined, AEP and GPE annually manage more than \$2 billion in projects and have extensive experience in projects of a magnitude comparable to the Independence Project.

64. Transource Energy operates its transmission assets with the highest standards of reliability, safety, and North American Electric Reliability Corporation ("NERC")¹⁶ compliance. Both AEP and GPE operate multiple, fully-functional control centers and employ more than 1,000 personnel in field operations to maintain, operate and restore transmission systems. Further, AEP and GPE have developed best-in-industry skills through over a 100+ year history of siting, designing, constructing, and operating transmission grids consisting of approximately 44,000 miles of transmission lines.

65. In addition, as part of its current business practice, AEP has established partnerships with third-party engineering consultants who are trained in the appropriate

¹⁶ On February 3, 2006, FERC certified NERC as the organization required to establish and enforce reliability standards for the bulk electric system.

application of AEP specifications and standards. Additionally, AEP has extensive experience in providing oversight to external consultants and third-party contractors, with industry-leading capabilities to effectively oversee all types of transmission siting, permitting, design and construction completed by outside firms.

66. By combining the unique capabilities of AEP and GPE, Transource Energy and Transource PA will have the necessary experience and expertise to successfully construct, own, operate, and maintain the proposed electric transmission facilities within Pennsylvania.

B. LEGAL FITNESS

67. Upon receipt of Commission approval, Transource PA will be legally fit to own and operate electric transmission facilities within the Commonwealth of Pennsylvania.

68. Transource PA is a direct subsidiary of Transource Energy, which is indirectly owned by a partnership between AEP and GPE. Transource Energy and its affiliates are in compliance in all material respects with federal and state laws in the jurisdictions in which they operate. None of the entities have been prosecuted, indicted, or investigated for criminal activity.

C. FINANCIAL FITNESS

69. Transource Energy and Transource PA have the financial fitness to construct, own, maintain, and operate the electric transmission facilities to be sited within Franklin and York Counties.

70. Transource PA will have financial resources available from Transource Energy, through the equity contributions and the affiliate financing transactions included in this application. Specifically, from time to time, Transource PA will receive equity contributions from Transource Energy, its direct parent, through a capital call notice, a form of which is

attached as Appendix 5. Transource PA will also obtain debt financing from Transource Energy through affiliate financing agreements a form of which is attached as Appendix 6.

71. The financial fitness of Transource PA is demonstrated by the credit rating of its direct parent, Transource Energy, whose Moody's credit rating is A2. A copy of Transource Energy's most recent Moody's credit opinion is attached as Appendix 7.

72. The financing terms and lower debt costs available to Transource Energy as a result of its strong A2 Moody's credit rating will ultimately benefit Transource PA's transmission customers by reducing the financing costs of the Independence Energy Connection Project, as compared to otherwise more costly financing. Moody's A2 credit rating reflects the financial strength and credit metrics of Transource Energy, and in this context evidences Transource PA's access to debt financing and its financial fitness to construct, own, operate, and maintain the Pennsylvania transmission facilities described in this application.

73. The financial fitness of Transource PA is further evidenced by the most recent financial statements of its ultimate parent companies, AEP and GPE. In addition, Transource PA's ultimate parents have combined liquid capital resources of approximately \$4 billion, which far exceed any equity contribution or inter-company debt amount that might be needed to support this project. Excerpts from AEP's and GPE's most recent 10-Qs, including the financial statements and discussion of liquidity, are provided in Appendix 8 and 9, respectively.

74. In addition to the strong balance sheets, both parents have investment grade credit ratings. The most recent S&P and Moody's credit ratings reports for AEP and GPE, as well as the past five years of credit ratings history, are attached at Appendix 10.

75. Through Transource Energy, and consistent with the affiliate transactions authority requested in this application, Transource PA will have ready access to debt and equity

capital as needed to fulfill its funding requirements to construct, own, operate, and maintain electric transmission facilities to be sited within Franklin and York Counties. Transource Energy, as an affiliate of AEP and GPE, has a track record of working with over 25 banks worldwide in raising tens of billions of dollars for energy infrastructure, including over \$3 billion of long-term debt financing specifically for transmission-only businesses.

VIII. AFFILIATED INTEREST AGREEMENTS

76. Transource PA will rely on the experience, expertise, and best practices developed by Transource Energy and its affiliates in order to construct, own, operate, maintain, finance, and manage the Pennsylvania portion of the Independence Project.

77. As part of this Application, Transource PA seeks the Commission's consent and approval to enter into an agreement with its affiliate and parent, Transource Energy, to receive certain services (the "Transource PA Services Agreement"). The form of the Transource PA Services Agreement is attached to this Application as Appendix 11.

78. These services to be provided through the Transource PA Services Agreement include: business, tax, risk management, siting and land acquisition, regulatory, procurement, engineering and design, construction, operation and maintenance, and web hosting services. Transource Energy will provide services to Transource PA through arrangements it has with American Electric Power Service Corporation ("AEPSC") and Kansas City Power & Light Company ("KCP&L").¹⁷ Upon request by Transource PA, Transource Energy will arrange for

¹⁷ Both AEPSC and KCP&L are affiliates of Transource PA and, therefore, the request for approval of the Transource PA Services Agreement implicitly also seeks approval of their affiliate transactions with Transource PA. The existing agreements between Transource Energy and AEPSC, and Transource Energy and KCP&L (the "AEPSC and KCP&L Services Agreements") are attached to this Application as Appendices 12 and 13, respectively. Under the terms of the Transource PA Services Agreement and the AEPSC and KCP&L Services Agreements, Transource PA is an express third party beneficiary of the AEPSC and KCP&L Services Agreements, which entitle Transource PA to enforce any rights, terms or conditions on the AEPSC and KCP&L Services Agreements with respect to such services.

services to be performed on behalf of and for the benefit of Transource PA by either AEPSC or KCP&L.

79. The services provided to Transource PA will be provided by Transource Energy at the cost for which Transource Energy receives services from AEPSC or KCP&L, which in turn are also provided at cost. Since the various services provided by Transource Energy to Transource PA will be provided at cost, Transource PA will receive timely and cost-effective services under this arrangement, and enjoy economies of scale made available by AEPSC's and KCP&L's furnishing of those services.

80. Transource PA will receive or provide service under the terms and conditions of the above-described agreements. Each of these agreements is with an "affiliated interest" of Transource PA as the term is defined in Section 2102(a) of the Public Utility Code.

81. The services to be provided through these agreements are necessary and proper for Transource PA to successfully construct, own, operate, and maintain the Pennsylvania portion of the electric transmission lines associated with the Independence Project as described above. Through these services, Transource PA will be able to use and rely on the extensive experience and expertise of its affiliates in the areas of siting, design, construction, operation, and maintenance of high voltage electric transmission facilities.

82. Additionally, as discussed above, Transource PA will receive equity contributions from Transource Energy. To the extent these contributions are subject to the Commission's authority to approve affiliate transactions, a form of capital call notice of Transource Energy, which would be the typical method to cause these equity contributions, is attached as Appendix 5.

83. Similarly, from time to time, and as necessary, Transource PA will receive debt financing from Transource Energy. The affiliate debt transactions for which approval is sought in the present application will be pursuant to affiliate financial agreements, a form of which is attached to this Application as Appendix 6. The terms of an affiliate financing agreement will reflect the lower financing costs that are available to Transource Energy as a result of its strong Moody's A2 credit rating, ultimately a benefit to Transource PA's transmission customers by virtue of Transource PA's lower financing costs resulting from these affiliate financing agreements, as compared with more costly financing.

84. For these reasons, Transource PA requests Commission approval of the above-identified agreements pursuant to Section 2102 of the Public Utility Code, 66 Pa.C.S. § 2102.

IX. ADDITIONAL SUPPORTING DATA

85. The following Appendices, containing additional information in support of this Application, are attached hereto:

- Appendix 1 – an organizational chart showing Transource Energy and its relevant domestic subsidiaries (as of 01/31/2017),
- Appendix 2 – Designated Entity Agreement
- Appendix 3 – PJM Staff White Paper – August 2016
- Appendix 4 – PJM TEAC Presentation – May 12, 2016
- Appendix 5 – Transource Energy Capital Call Notice
- Appendix 6 – Short-Term Debt Affiliate Agreement
- Appendix 7 – Transource Energy's Moody's Credit Opinion
- Appendix 8 – AEP's 10-Q Excerpts (as of September 30, 2016)
- Appendix 9 - GPE's 10-Q Excerpts (as of September 30, 2016)
- Appendix 10 – S&P, Moody's and 5-year credit ratings reports for AEP and GPE

- Appendix 11 – Transource PA Services Agreement
- Appendix 12 – AEPSC Services Agreement
- Appendix 13 –KCP&L Services Agreement

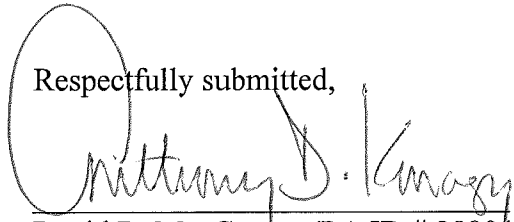
X. CONCLUSION AND REQUESTED APPROVALS

WHEREFORE, for all the foregoing reasons, Transource Pennsylvania, LLC respectfully requests that the Pennsylvania Public Utility Commission grant all necessary and customary approvals and issue the necessary certificates of public convenience under the Public Utility Code to:

1. Begin to furnish and supply electric transmission service to or for the public within a transmission corridor to be sited and located from the new Rice Substation in Franklin County, Pennsylvania to the Pennsylvania/Maryland border;
2. Begin to furnish and supply electric transmission service to or for the public within a transmission corridor to be sited and located from the new Furnace Run Substation in York County, Pennsylvania to the Pennsylvania/Maryland border;
3. Approve the affiliate interest agreements identified in this Application and attached as Appendices 5, 6, 11, 12 and 13; and

4. Grant any and all approvals necessary to carry out the transactions contemplated in this Application.

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Date: February 7, 2017

Attorneys for Transource Pennsylvania, LLC

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

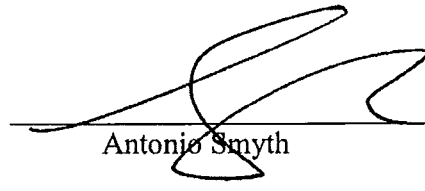
Application of Transource Pennsylvania, :
LLC for All of the Necessary Authority, :
Approvals, and Certificates of Public :
Convenience (1) to Begin to Furnish and :
Supply Electric Transmission Service in : Docket No.
Franklin and York Counties, Pennsylvania; :
(2) for Certain Affiliated Interest :
Agreements; and (3) for any Other :
Approvals Necessary to Complete the :
Contemplated Transactions :


VERIFICATION

I, Antonio Smyth, President of Transource Pennsylvania, LLC, hereby state that the facts set forth in the above-captioned Application are true and correct to the best of my knowledge, information and belief, and that if asked orally at a hearing in this matter, my answers would be as set forth therein.

I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Date: February 6, 2017


Antonio Smyth


Hector Gasim
Senior Counsel