

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Sudeen G. Kelly, Marc Spitzer,
Philip D. Moeller and Jon Wellinghoff.

Central Maine Power Company

Docket Nos. ER06-963-000
ER06-963-001

ORDER CONDITIONALLY ACCEPTING ACCOUNTING TREATMENT AND
RATE RECOVERY OF REGIONAL TRANSMISSION ORGANIZATION
FORMATION COSTS

(Issued August 7, 2006)

1. In this order, the Commission conditionally accepts Central Maine Power Company's (Central Maine) proposed accounting treatment for certain deferred Regional Transmission Organization (RTO) formation costs and their subsequent cost recovery through formula rates contained in Attachment F and in Schedule 21-CMP of ISO New England, Inc.'s (ISO-NE) Transmission, Markets and Services Tariff (Tariff).

Background

2. On May 11, 2001 Central Maine, among others, requested approval from the Commission's Chief Accountant to defer costs (including carrying charges) associated with the "Joint Petition for a Declaratory Order to Form the New England Regional Transmission Organization."¹ On August 14, 2001, Central Maine's request was approved.² On March 24, 2004, the Commission granted RTO status to ISO-NE,³ and the RTO became operational on February 1, 2005.

¹ See New England Transmission Owners, Docket No. RT01-86-000, Joint Petition for a Declaratory Order to Form the New England Regional Transmission Organization (January 16, 2001).

² Unpublished Letter Order in Docket No. AC01-43-000 (Aug. 14, 2001) (August 2001 Letter Order).

³ See *ISO New England, Inc.*, 106 FERC ¶ 61,280 (2004).

Central Maine's Filing

3. On May 5, 2006, Central Maine submitted its proposed accounting and rate treatment for the deferred RTO formation costs. (May 2006 Filing). Central Maine states that it incurred nearly \$2.6 million of costs, including carrying charges, associated with the ultimate formation of ISO-NE's RTO. Central Maine is seeking Commission approval to transfer these deferred RTO formation costs currently recorded in Account 186, Miscellaneous Deferred Debts, to Account 182.3, Regulatory Commission Expenses and then amortize them to Account 928, Regulatory Commission Expenses, over a three-year period beginning in January 2006. Central Maine states that it is not proposing any changes or modifications to the formula rates under Schedule 21-CMP or Attachment F of ISO NE's Tariff, as the amortized costs would be a data input included in the annual update to Central Maine's local and regional formula rates beginning June 1, 2007 based on 2006 calendar year FERC Form No. 1⁴ data. Central Maine states that the costs would be allocated between local and regional customers pursuant to the defined allocation factors of the formula rates and based on Central Maine's ratio of investment in Pool Transmission Facilities and Non-Pool Transmission Facilities. Central Maine maintains that its filing changes how it proposes to account for the deferred interim RTO formation costs that otherwise would have been recoverable in rates on an "as incurred" basis as well as the timing of when those costs are reflected in its rates.⁵ Central Maine points out that its proposed accounting and associated cost recovery is consistent with the rates and accounting policies accepted by the Commission in other proceedings.⁶

Notice of Filing and Responsive Pleading

4. Notice of Central Maine's May 2006 filing was published in the *Federal Register*, 71 Fed. Reg. 29,937 (2006), with interventions and protests due on or before May 26, 2006. The Maine Public Utilities Commission (Maine Commission) filed a notice of intervention and comments.

5. The Maine Commission states that it does not oppose the recovery of prudently incurred RTO formation costs by Central Maine. However, it asserts that Central Maine's filing fails to provide backup information supporting its filing. Specifically, the

⁴ FERC Form No. 1, Annual Report of Major Electric Utilities, Licensees and Others. See 18 C.F.R. § 141.1 (2006).

⁵ Central Maine points out that other participants in the formation of ISO-NE's RTO, who did not seek deferral, have already recovered similar interim RTO formation costs in their rates.

⁶ Citing *Duke Energy Corp.*, 94 FERC ¶ 61,080 (2001), *American Electric Power Service Corp.*, 104 FERC ¶ 61,013 (2003), *PJM Interconnection, LLC*, 109 FERC ¶ 61,012, *order on reh'g* 110 FERC ¶ 61,234 (2005).

Maine Commission maintains that: (1) Central Maine's costs are not broken down into the different RTO ventures, (2) there is no documentation of the RTO expenses, (3) carrying costs computations were not provided, and (4) the Return on Equity (ROE) upon which the carrying costs are based is not shown. The Maine Commission also points out that the ROE currently in effect, subject to refund (14.3 percent for regional rates and 13.8 percent for local rates)⁷ may be changed based on a pending Initial Decision in Docket No. ER04-157-000⁸ as well as the outcome of a separate pending court challenge to the 50 basis point RTO-joining adder. As a result, according to the Maine Commission, Central Maine's carrying cost calculation may need to be adjusted to reflect the finally approved rate. The Maine Commission, therefore, requests the Commission to require Central Maine to supplement its filing and to provide another opportunity to comment on Central Maine's supplemental filing. The Maine Commission avers that, at a minimum, Central Maine must provide a breakdown of which costs are attributable to each of the RTO proceedings for which it seeks to recover costs as well as documentation for these costs, including its calculation of carrying costs. The Maine Commission further requests the Commission to require Central Maine to adjust the carrying costs as necessary to reflect the finally approved ROE in Docket No. ER04-157-000.

6. On June 8, 2006, Central Maine filed an answer providing additional information in response to the Maine Commission's comments (Answer). The Commission determined that this additional information constituted an amendment to Central Maine's filing, and, as such, issued a notice in the *Federal Register*, 71 Fed. Reg. 38,391(2006), with comments due on or before June 30, 2006. None was filed.

7. In its Answer, Central Maine argues that its May 5, 2006 filing provided sufficient detail for the Commission to approve its requested accounting treatment, including a break down of the interim RTO formation costs it incurred from 2001 through 2005 into six self-explanatory categories. Central Maine argues that, since the RTO effort was continuous, a breakdown of all costs by the various proceedings involved in this process is not available and not required since the costs were deferred pursuant to the August 2001 Letter Order rather than charged to FERC Account 928. However, in order to provide as much information as possible, Central Maine provides a table that shows the interim RTO formation costs incurred by year. Central Maine also challenges the Maine

⁷ See *Bangor Hydro-Electric Co.*, 106 FERC ¶ 61,280 (2004), *order on reh'g*, 109 FERC ¶ 61,147 (2004), *Order Authorizing RTO Operations*, 110 FERC ¶ 61,111 (2005).

⁸ The Initial Decision determined that a base ROE of 10.72 percent was appropriate for the New England Transmission Owners. See *Bangor Hydro-Electric Company*, 111 FERC ¶ 63,048 (2005).

Commission's assertion that the carrying charges included in Central Maine's deferred RTO formation costs may need further adjustment based on the outcome of the proceeding in Docket No. ER04-157-000. Central Maine explains that, in this case, similar to other deferrals of regulatory-related costs, it used a 12.22 percent carrying cost rate that was approved by the Maine Commission⁹ and has been in effect and widely used since 1997. Thus, Central Maine asserts that an adjustment for the Commission's ultimate decision in Docket No. ER04-157-000 is not necessary or warranted.

Procedural Matters

8. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2006), the Maine Commission's notice of intervention serves to make it a party to this proceeding.

Discussion

9. We will conditionally accept Central Maine's proposed accounting treatment for its deferred RTO formation costs and their subsequent cost recovery through formula rates. With respect to the proposed accounting, the instructions to Account 182.3 provide in part that this account will include specific expenses that would be included in net income determinations in one period under the general requirements of the Uniform System of Accounts but for it being probable that such expenses will be included in a different period for purposes of developing rates. As discussed below, we accept Central Maine's proposal for rate recovery of the deferred RTO formation costs. Therefore, it is proper under the Commission's accounting rules to include the deferred RTO formation costs, inclusive of carrying costs, in Account 182.3 at this time.

10. However, as we found in *International Transmission Company* (107 FERC ¶ 61,089 (2004)), including an expense in a different accounting period from the revenues designed and approved to provide for its recovery may result in misleading financial statements, as the results of operations may not be fairly portrayed. We will therefore require Central Maine to start amortization of the deferred RTO costs starting on June 1, 2007, the same time it begins collecting these deferred costs in rates, rather than January 1, 2006. Additionally, Central Maine is required to make all required changes to its formula rate to reflect this accounting. The required tariff changes will not alter the amount or timing of billings under the previously approved formula rate. However, these tariff changes are needed to insure that the recovery of the amounts in rates corresponds to the revised accounting amortization.

⁹ Citing *Investigation of Central Maine Power Company's Stranded Cost, Transmission and Distribution Utility Revenue Requirements, and Rate Design*, 1999 Me. PUC LEXIS 259, at *159 (Docket No.97-580) (Mar. 19, 1999).

11. With respect to Central Maine's proposed rate recovery of the deferred RTO formation costs, the Commission concludes that Central Maine's proposal is reasonable and adequately supported, as well as consistent with our actions in other cases.¹⁰ In this regard, we note that Central Maine provided further information in response to the Maine Commission's concerns, including a breakdown of the RTO formation costs and a calculation of the carrying charges on the deferred costs. The Commission noticed this additional information as an amendment to Central Maine's filing, and we note that the Maine Commission provided no further comments.¹¹ We further find that Central Maine's use of a 12.22 percent carrying charge rate is reasonable in the circumstances and, because it is not related to the ROE in Docket No. ER04-157-000, does not need to be adjusted. Therefore, the Commission approves Central Maine's proposal to amortize the deferred RTO costs.

The Commission orders:

(A) Applicant's proposed accounting and rate treatment is hereby conditionally accepted as discussed in the body of this order.

(B) Applicant is hereby directed to file, within 30 days of the issuance of this order, a compliance filing to revise its tariff, as discussed in the body of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.

¹⁰ *Supra* note 7.

¹¹ The Maine Commission had asked that the Commission require Central Maine to supplement its filing and to provide another opportunity to comment on the supplemental filing.