147 FERC 61,142
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Acting Chairman;
Philip D. Moeller, John R. Norris,
and Tony Clark.

PJM Interconnection, L.L.C. and Public Service Electric and Gas Company	Docket No. ER14-1608-000

ORDER ON TRANSMISSION RATE INCENTIVES AND FORMULA RATE PROPOSAL

(Issued May 27, 2014)

1. On March 28, 2014, PJM Interconnection, L.L.C. (PJM) submitted, on behalf of Public Service Electric and Gas Company (PSE&G), a request for authorization to recover certain transmission incentive rate treatments pursuant to sections 205 and 219 of the Federal Power Act (FPA)[1] and Order No. 679[2] for PSE&G's investment in the Bergen-Linden Corridor Transmission Project (Bergen-Linden Corridor Project).[3] As discussed below, we grant PSE&G's request for transmission rate incentives, effective May 28, 2014, as requested, subject to PSE&G submitting a compliance filing within 30 days of the date of this order, as discussed below.

[1] 16 U.S.C. §§ 824d, 824s (2012).

[2] *Promoting Transmission Investment through Pricing Reform*, Order No. 679, FERC Stats. & Regs. ¶ 31,222 (2006), *order on reh'g*, Order No. 679-A, FERC Stats. & Regs. ¶ 31,236, *order on reh'g*, 119 FERC ¶ 61,062 (2007). The Commission provided additional guidance regarding the application of its transmission incentive policies in *Promoting Transmission Investment Through Pricing Reform*, 141 FERC ¶ 61,129 (2012) (2012 Incentives Policy Statement).

[3] Pursuant to Order No. 714, this filing was submitted by PJM on behalf of PSE&G. PJM is making this filing in order to retain administrative control over the PJM Open Access Transmission Tariff (OATT). Thus, PSE&G states that it has requested PJM to submit this request for incentive rate treatment for the Bergen-Linden Corridor Project in the eTariff system as part of PJM's electronic-Intra PJM Tariff. PSE&G Transmittal at 2.

I. Background

2. In its March 28, 2014 filing, PSE&G states[4] that it is a wholly-owned subsidiary of Public Service Enterprise Group Incorporated with a FERC-approved formula rate.[5] PSE&G also states that most of its transmission system is located in the State of New Jersey and that its 2,600-square-mile service area in New Jersey provides service to almost 75 percent of the state's population. PSE&G explains that it is a transmission-owning member of PJM, the regional transmission organization that coordinates the transmission of wholesale electricity within PJM's footprint.

3. PSE&G states that the PJM Regional Transmission Expansion Plan (RTEP) analysis identified short circuit issues in PSE&G's zone in Northern New Jersey beginning in 2015 and that beginning in 2018 a number of thermal issues would be expected to occur. PSE&G explains that the PJM RTEP process determined that the 345 kV double circuit project – the Bergen-Linden Corridor Project – would be the "most effective at reducing the available fault currents on the PSE&G system to below 80 kA" and resolving the identified thermal issues.[6]

II. Description of the Filing

A. Description of the Bergen-Linden Corridor Project

4. The Bergen-Linden Corridor Project includes the construction of 26 single circuit miles of new overhead 345 kV lines and 30 miles of underground circuits, including one mile of new circuits to be constructed beneath Newark Bay.[7] The projected in-service dates of the Bergen-Linden Corridor Project would occur in three phases: Phase 1 (345 kV conversion in the Hudson-Bergen overhead transmission corridor) targeted to be in-service by June 2016; Phase 2 (345 kV conversion in the Linden-Bayway overhead transmission corridor) targeted to be in-service by June 2017; and Phase 3 (work on the facilities interconnected by underground cable, looping together Bayway-North Avenue-Newark Airport-Bayonne-Marion) targeted to be in-service by June 2018.

---

[4] PSE&G Transmittal at 8.

[5] *Pub. Serv. Elec. and Gas Co.*, 124 FERC ¶ 61,303 (2008).

[6] PSE&G Transmittal at 15 n.30 (referencing Ex. No. PEG-1 (Direct Testimony of Jorge L. Cardenas) at 7 and http://www.pjm.com/~/media/committeesgroups/committees/teac/20131211/20131211-december-2013-pjm-board-approval-of-rtep-whitepaper.ashx).

[7] *Id.* at 18.

5. PSE&G states that, according to the PJM RTEP analysis, the Bergen-Linden Corridor Project will resolve identified reliability criteria violations through the upgrade and construction of the following facilities:

- Upgrading switching stations to 345 kV;
- Upgrading double circuit 138 kV to 345 kV transmission lines from Ridgefield to Jersey City and from Elizabeth to Linden;
- Constructing a new substation at Newark Airport;
- Upgrading the 138 kV underground network; and
- Building a new 345 kV circuit from Bayonne to Elizabeth under Newark Bay.[8]

6. PSE&G contends that the Bergen-Linden Corridor Project is subject to significant siting and permitting risks. PSE&G explains that the Bergen-Linden Corridor Project is a large-scale effort that will cross highly-developed residential and industrial areas, large bodies of water, including Newark Bay and the Elizabeth River, and environmentally sensitive lands.[9]

7. During its December 2013 Board meeting, PJM approved the Bergen-Linden Corridor Project at an estimated cost of $1.2 billion in its RTEP and assigned responsibility for the project to PSE&G.[10]

B. Request for Incentives and Proposed Formula Rate

8. PSE&G requests approval for two incentive-based rate treatments pursuant to sections 205 and 219 of the FPA and Order No. 679. First, PSE&G seeks inclusion of 100 percent of prudently-incurred construction work in progress in rate base (100 percent CWIP). PSE&G explains that 100 percent CWIP recovery will provide the cash flow necessary for PSE&G to invest in the Bergen-Linden Corridor Project. Additionally, PSE&G states that 100 percent CWIP recovery will mitigate risk by providing up-front regulatory certainty and enhanced liquidity metrics for credit rating agencies and lenders. PSE&G has proposed revisions to its formula rate under PJM's OATT to provide 100 percent CWIP recovery.[11]

---

[8] *Id.*

[9] *Id.* at 17-18.

[10] *Id.* at 4, 17.

[11] PJM Interconnection, L.L.C., Intra-PJM Tariffs, OATT ATT H-10A, OATT Attachment H-10A - Public Service Electric and Gas Comp, 8.0.0.

9. Second, PSE&G seeks recovery of 100 percent of prudently-incurred costs of transmission facilities that are cancelled or abandoned for reasons beyond PSE&G's control (Abandonment Incentive). PSE&G states that the Abandonment Incentive would remove a potential disincentive for PSE&G to invest in the Bergen-Linden Corridor Project, by removing the risk that PSE&G would bear the costs of the Bergen-Linden Corridor Project in the event of cancellation. It would also provide assurance to credit rating agencies and lenders, according to PSE&G.

10. Although PSE&G is not seeking a stand-alone incentive return on equity adder for advanced technologies, PSE&G states that the Bergen-Linden Corridor Project will include advanced transmission technologies, including advanced conductor materials, gas-insulated substations, microprocessor-based relays, fiber optic protection and communication links, substation wide area networks, integrated substation automation and equipment and line monitoring, and synchrophasors. PSE&G explains that these technologies will allow the Bergen-Linden Corridor Project to be operated as a "Smart Grid." PSE&G also claims that the Bergen-Linden Corridor Project will utilize available industry interoperability and open architecture standards.[12]

11. PSE&G states that the combination of incentives requested will help PSE&G attract capital needed to go forward with the investment in the Bergen-Linden Corridor Project, with virtually no impact on customers, lower nominal revenue requirements, and no increase on a present value base while avoiding rate shock.[13] PSE&G does not request a change to its approved Return on Equity (ROE) of 11.68 percent.[14]

III. Notice of Filing and Responsive Pleadings

12. Notice of the March 28, 2014 filing was published in the *Federal Register*, 79 Fed. Reg. 18,900 (2014), with interventions or protests due on or before April 18, 2014. Timely motions to intervene were filed by Exelon Corporation, PJM, the New Jersey Board of Public Utilities (New Jersey BPU) and Consolidated Edison Company of New York, Inc. Motions to intervene and protests were filed on April 18, 2014 by the New Jersey Division of Rate Counsel (New Jersey Rate Counsel), Linden VFT, LLC, (Linden VFT), and the Public Power Association of New Jersey (PPANJ). PSE&G and New Jersey BPU filed answers on May 5, 2014 in response to the protests.

---

[12] PSE&G Transmittal Letter at 27-28.

[13] *Id.* at 35.

[14] PSE&G Transmittal, Attachment H-10A in Appendix A.

IV. Discussion

A. Procedural Matters

13. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2013), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

14. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 213(a)(2) (2013), prohibits an answer to protests unless otherwise ordered by the decisional authority. We accept PSE&G's and New Jersey BPU's answers because they have provided information that assisted us in our decision-making process

B. Substantive Matters

15. In the Energy Policy Act of 2005,[15] Congress added section 219 to the FPA, directing the Commission to establish, by rule, incentive-based rate treatments to promote capital investment in transmission infrastructure. The Commission subsequently issued Order No. 679, which sets forth processes by which a public utility may seek transmission rate incentives pursuant to section 219, including the incentives requested here by PSE&G. Additionally, in November 2012, the Commission issued a Policy Statement providing additional guidance regarding its evaluation of applications for transmission rate incentives under section 219 and Order No. 679.[16]

1. Section 219 Requirement

16. Pursuant to Order No. 679, an applicant may seek to obtain incentive rate treatment for transmission infrastructure investment that satisfies the requirements of section 219, i.e., the applicant must show that "the facilities for which it seeks incentives either ensure reliability or reduce the cost of delivered power by reducing transmission congestion."[17] Order No. 679 established a process for an applicant to follow to demonstrate that it meets this standard, including a rebuttable presumption that the standard is met if: (1) the transmission project results from a fair and open regional planning process that considers and evaluates projects for reliability and/or congestion[18] and is found to be acceptable to the Commission; or (2) a project has received

---

[15] Pub. L. No. 109-58, § 1241 119 Stat. 594 (2005).

[16] *See supra* note 2.

[17] Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 76.

[18] *Id.* P 58.

construction approval from an appropriate state commission or state siting authority.[19] Order No. 679-A clarifies the operation of this rebuttable presumption by noting that the authorities and/or processes on which it is based (i.e., a regional planning process, a state commission, or siting authority) must, in fact, consider whether the project ensures reliability or reduces the cost of delivered power by reducing congestion.[20]

a. PSE&G's Proposal

17. PSE&G states that the Bergen-Linden Corridor Project is entitled to the rebuttable presumption that it meets the requirements of FPA section 219(a) by ensuring reliability or reducing the cost of delivered power by reducing congestion. PSE&G states that the Bergen-Linden Corridor Project qualifies for the rebuttable presumption because it was approved and included in the 2013 PJM RTEP, through which PJM reviewed and affirmed the Bergen-Linden Corridor Project's congestion relief and reliability benefits.[21]

b. Commission Determination

18. We find that the Bergen-Linden Corridor Project is entitled to the rebuttable presumption established in Order No. 679 and, therefore, satisfies the above-noted requirements of section 219. The Bergen-Linden Corridor Project was vetted and approved as part of the 2013 PJM RTEP as a baseline reliability project. This classification means that PJM made a determination that the Bergen-Linden Corridor Project mitigates congestion or ensures PJM's ability to continue to serve load reliably.[22] In this regard, the Commission has held that the PJM RTEP constitutes "a fair and open regional planning process" that considers and evaluates projects for reliability and/or congestion for purposes of the rebuttable presumption provided in Order No. 679.[23]

---

[19] *Id*.

[20] Order No. 679-A, FERC Stats. & Regs. ¶ 31,236 at P 49.

[21] PSE&G Transmittal at 3 and Ex. No. PEG-1 (Direct Testimony of Jorge L. Cardenas) at 6-9, 14-19.

[22] *See, e.g.*, *PJM Interconnection, L.L.C.*, 137 FERC ¶ 61,253, at P 19 (2011); *see also Duquesne Light Co*., 118 FERC ¶ 61,087, at PP 62-66 (2007); *Balt. Gas & Elec. Co.*, 120 FERC ¶ 61,084, at P 41 (2007), *reh'g denied*, 122 FERC ¶ 61,034 (2008).

[23] *See Potomac-Appalachian Transmission Highline*, 122 FERC ¶ 61,188, at P 29 (2008) (stating that "[p]rojects that are identified as 'baseline' projects in the PJM RTEP process are those that benefit customers in one or more transmission owner zones for the purpose of maintaining reliability or mitigating congestion on the PJM grid"); *see also* Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 58; Order No. 679-A, FERC Stats. & Regs. ¶ 31,236 at P 49.

2. 100 Percent CWIP in Rate Base

a. PSE&G's Proposal

19. PSE&G seeks to include 100 percent CWIP associated with the Bergen-Linden Corridor Project in its transmission rate base. PSE&G explains that 100 percent CWIP recovery will provide upfront regulatory certainty, rate stability, and improved cash flow.[24] PSE&G contends that Bergen-Linden Corridor Project imposes a number of financial risks and challenges. PSE&G states that without 100 percent CWIP recovery, it will be required to increase its debt levels to fund the Bergen-Linden Corridor Project and will add to the burdens that the company will be facing.[25]

20. PSE&G argues that spending on the Bergen-Linden Corridor Project, which represents a 15.5 percent increase in the entire PSE&G capital expenditure program over the next three years, will significantly increase PSE&G's financial challenges, potentially weakening its coverage ratios and other financial metrics if rate incentives are not granted by the Commission. In addition, the Bergen-Linden Corridor Project could face delays and cost increases resulting from construction challenges. Allowing 100 percent CWIP in rate base would mitigate these pressures in large part.[26] PSE&G adds that allowing CWIP in rate base will result in better rate stability for the consumers by spreading the rate impact over the entire construction period and avoiding rate shock.[27] PSE&G notes that the Commission has granted 100 percent CWIP recovery for PSE&G's portion of Susquehanna-Roseland line, PSE&G's Burlington-Camden, the National Grid and North Central Reliability projects, and the Mickleton-Gloucester-Camden project.[28]

21. PSE&G states that without 100 percent CWIP recovery cash returns would be delayed, short-term liquidity metrics would be adversely impacted, and the risk that investors would not be paid their debt service would increase. Consequently, PSE&G contends that bondholders and lenders could require higher interest on the debt. PSE&G also argues that this incentive addresses the risk of additional cash outflows associated with potential cost increases from escalating materials and labor costs, permit appeals, or delays in the acquisition of rights-of-way. Additionally, PSE&G claims that 100 percent CWIP recovery addresses the risk that the Bergen-Linden Corridor Project may be

---

[24] PSE&G Transmittal Letter at 3.

[25] *Id.* at 6.

[26] *Id.*

[27] *Id.* at 7.

[28] *Id.* at 5.

delayed by providing cost recovery during construction.[29] PSE&G explains that inclusion of 100 percent CWIP in rate base is necessary to avoid a multi-year delay between expenditures and the date PSE&G would begin to fully recover financing costs. PSE&G asserts that this delay would negatively affect cash flows, lower credit metrics, and increase the cost of financing during the construction period.

22. PSE&G explains that it has accounting procedures and controls in place to ensure that customers will not be charged for both capitalized allowance for funds used during construction (AFUDC) and corresponding amounts of CWIP for the Bergen-Linden Corridor Project, as required by 18 C.F.R. § 35.25(e). PSE&G explains that it will use a unique work order structure for the Bergen-Linden Corridor Project to ensure that no AFUDC is accrued on the Bergen-Linden Corridor Project. Additionally, PSE&G states that it performs monthly reviews of AFUDC charges which will ensure that only eligible projects receive AFUDC.[30]

b. <u>Protest</u>

23. The New Jersey Rate Counsel asserts that PSE&G has not adequately demonstrated a nexus between its request for 100 percent CWIP and the project expenditures for the Bergen-Linden Corridor Project and that PSE&G does not need 100 percent CWIP to support its participation in the project.[31] The New Jersey Rate Counsel further states that PSE&G has recently had its corporate credit rating upgraded.[32] The New Jersey Rate Counsel also requests that (1) the approval of 100 percent CWIP be conditioned upon the submittal by PSE&G of detailed and accurate cost support for the projects at issue; and (2) the setting of a limit on 100 percent CWIP payments at the level of accurate project cost estimates.[33] In the event the Commission does not reject PSE&G's request for 100 percent CWIP, New Jersey Rate Counsel asks that the Commission set the request for hearing.[34]

---

[29] PSE&G Transmittal Letter, Ex. No. PEG-2 (Direct Testimony of Michael A. Wiater) at 3-5, 26.

[30] *Id*. at 22-23.

[31] New Jersey Division of Rate Counsel Protest at 1-2, 9.

[32] *Id.* at 8.

[33] *Id.* at 2.

[34] *Id*.

c. Answers

24. The New Jersey BPU's answer supports New Jersey Rate Counsel's protest regarding PSE&G's burden of demonstrating a nexus between its request for 100 percent CWIP and the project expenditures for the Bergen-Linden Corridor Project, or in the alternative, setting the request for hearing.[35]

25. In response to New Jersey Rate Counsel's assertion that PSE&G has not adequately demonstrated a need for 100 percent CWIP for the Bergen-Linden Corridor Project, PSE&G states that the estimated cost of $1.2 billion for the Bergen-Linden Corridor Project would impose significant financial pressures on PSE&G during the five-year construction period, particularly with respect to the multi-billion dollar capital construction program that PSE&G will undertake during the next several years.[36] PSE&G further states that the Commission should reject New Jersey Rate Counsel's request that costs above current cost projections be rejected because the costs at issue would be recovered through formula rates, which would be subject to a prudency review.[37] PSE&G disagrees with New Jersey Rate Counsel's request that in the alternative the Commission set for hearing the 100 percent CWIP, stating New Jersey Rate Counsel has not made a sufficient showing to support a request for an evidentiary hearing.[38]

d. Commission Determination

26. We grant PSE&G's request to include 100 percent CWIP in rate base, subject to compliance, as discussed below. In Order No. 679, the Commission established a policy that allows utilities to include, where appropriate, 100 percent of prudently incurred, transmission-related CWIP in rate base.[39] The Commission stated that this rate treatment will further the goals of section 219 by providing up-front regulatory certainty, rate stability, and improved cash flow, reducing the pressures on an applicant's finances caused by investing in transmission projects.[40]

---

[35] New Jersey BPU Answer at 5.

[36] PSE&G Answer at 6.

[37] *Id.* at 13.

[38] *Id*.

[39] Order No. 679, FERC Stats. & Regs. ¶ 31,222 at PP 29, 117.

[40] *Id.* P 115.

27. We reject New Jersey Rate Counsel's assertion that PSE&G has not adequately demonstrated a nexus between its request for 100 percent CWIP and the project expenditures for the Bergen-Linden Corridor Project. In Order No. 679, the Commission stated that it will consider each proposal on the basis of the particular facts of the case.[41] We find that PSE&G has shown a nexus between the proposed 100 percent CWIP and its investment in the Bergen-Linden Corridor Project. The Bergen-Linden Corridor Project is expected to cost $1.2 billion, and is not expected to go fully into service until 2018.[42] The cost and timing for completing the Bergen-Linden Corridor Project will put pressure on PSE&G's finances, as the project would represent approximately 30 percent of PSE&G's gross investment in transmission property at the end of 2013.[43] Given the effects of delayed cash flow, relative size of the investment, and adverse impacts on short-term liquidity metrics, 100 percent CWIP should help alleviate some of the pressure the Bergen-Linden Corridor Project would create. The inclusion of 100 percent CWIP in rate base will provide PSE&G with a steady cash flow during the construction period that will help protect PSE&G's financial metrics, and as a result, relieve downward pressure on its credit rating. Furthermore, the 100 percent CWIP will help insulate PSE&G's customers from rate shock that might otherwise accompany use of AFUDC.[44]

28. Because there are sufficient facts in the record and New Jersey Rate Counsel has not made specific allegations that there is a dispute as to a material fact, we deny the request that the determination of the 100 percent CWIP be set for hearing.[45] We decline New Jersey Rate Counsel's request to require PSE&G to submit separate cost support for the Bergen-Linden Corridor Project and to impose a cap on 100 percent CWIP payments at the level of project cost estimates. New Jersey Rate Counsel has advanced no reasons

---

[41] *Id.* P 117.

[42] PSE&G Transmittal Letter at 5.

[43] PSE&G Transmittal Letter at 7-8.

[44] *See, e.g., PJM Interconnection L.L.C.*, 135 FERC ¶ 61,229, at P 78 (2011); *Okla. Gas & Elec. Co.*, 133 FERC ¶ 61,274, at P 48 (2010); *PPL Elec. Utils. Corp.*, 123 FERC ¶ 61,068, at PP 40-43 (2008); *Am. Elec. Power Serv. Corp.*, 116 FERC ¶ 61,059, at P 59 (2006), *order on reh'g*, 118 FERC ¶ 61,041, at P 27 (2007).

[45] *Duquesne Light Co.*,135 FERC ¶ 61,237, at P 15 (2011); *BP West Coast Prods. LLC v. SFPP, L.P.*, 121 FERC ¶ 61,239, at P 35 (2007) ("The Commission is not required to hold a hearing when issues of material fact are not in dispute."); *see also Pac. Gas & Elec. Co. v. FERC*, 306 F.3d 1112, 1119 (D.C. Cir. 2002) (holding that the Commission "may properly deny an evidentiary hearing if the issues, even disputed issues, may be adequately resolved on the written record, at least where there is no issue of motive, intent, or credibility.")

in support of its request, which, if imposed, could lead to the exclusion of prudently incurred costs. We note that any CWIP costs related to the Bergen-Linden Corridor Project will be recovered through formula rates and all charges billed under formula rates are subject to prudence challenges.[46] As PSE&G notes in its answer, customers may obtain CWIP cost information regarding the Bergen-Linden Corridor Project through the formula rate protocols and PSE&G's annual filing of FERC Form 730.[47] In addition, while the Commission has indicated it "expects applicants for an incentive ROE based on a project's risks and challenges to commit to limiting the application of the incentive ROE based on a project's risks and challenges to a cost estimate," New Jersey Rate Counsel neither provides evidence nor articulates reason for the Commission to condition granting 100 percent CWIP for the Bergen-Linden Corridor Project on such a commitment.

29. We find that PSE&G's proposed accounting procedures and controls are sufficient to ensure that customers will not be charged for both capitalized AFUDC and corresponding amounts of CWIP included in rate base. We note that PSE&G must also have sufficient accounting controls and procedures to ensure that unpaid accruals properly recorded in the Bergen-Linden Corridor Project work orders are excluded from transmission rate base. A public utility may accrue AFUDC on eligible construction expenditures properly recorded in Account 107, Construction Work in Progress, or include such amounts in rate base when authorized by the Commission. This practice compensates a public utility for its out-of-pocket construction costs. However, it would be inappropriate to accrue AFUDC or include in rate base and earn a return on amounts charged to Account 107 that have not been paid. Therefore, we grant PSE&G's proposal for 100 percent CWIP, subject to PSE&G making a compliance filing, within 30 days of the date of this order, that details the accounting controls and procedures it will use to identify and remove unpaid accruals from rate base. The compliance filing should update Note B of Attachment H-10A of its formula rate under PJM's OATT to disclose that unpaid accruals are being used to reduce CWIP balances included in rate base. Additionally, we note that PSE&G's accounting controls and procedures may be subject to scrutiny through Commission audit or rate review.

---

[46] *Delmarva Power & Light Co.*, 145 FERC ¶ 61,055, at P 22 & n.45 (2013) (providing that the "costs recovered through the formula rate are not part of the rate itself and have not been reviewed" and "therefore may be challenged"); *see also Appalachian Power Co.*, 23 FERC ¶ 61,032, at 61,088 (1983) (establishing that the Commission is not precluded from examining the reasonableness of fuel costs automatically collected under a formula rate).

[47] PSE&G Answer at 13.

3. Abandonment Incentive

a. PSE&G's Proposal

30. PSE&G requests the right to recover, pursuant to an FPA section 205 filing, 100 percent of prudently incurred costs in the event of project abandonment due to factors beyond its control. PSE&G states that the Abandonment Incentive would remove a potential disincentive to PSE&G's participation in the Bergen-Linden Corridor Project by removing the risk that PSE&G would bear the costs of the project in the event of cancellation. PSE&G explains that the consequences of abandonment would be significant because of the large size of its investment in the Bergen-Linden Corridor Project in relation to its projected capital expenditure.[48]

31. PSE&G states that the 100 percent CWIP would not mitigate all of the risks facing the project. PSE&G explains that the Abandonment Incentive, along with 100 percent CWIP in rate base, would allow it to attract the capital needed to continue to deliver reliability benefits and lower the revenue requirements on a nominal basis with virtually no impact to customers.[49] PSE&G asserts that the Abandonment Incentive is necessary to reassure the financial community, including credit rating agencies and lenders, and to attract investors, given the significant risk that the Bergen-Linden Corridor Project might be canceled after substantial funds have been spent. PSE&G argues that assurance of cost recovery if the Bergen-Linden Corridor Project is abandoned will help it compete for internal funds.[50]

32. PSE&G argues that the Bergen-Linden Corridor Project faces an increased risk of abandonment for two reasons. First, PSE&G asserts that the Bergen-Linden Corridor Project requires permits from multiple jurisdictions and failure to obtain all necessary permits might cause the Project to be canceled. Second, PSE&G asserts that the Bergen-Linden Corridor Project will require years to obtain the necessary permits and during this period the PJM RTEP process may reevaluate the need for the Project and cancel it. Furthermore, PSE&G explains that construction may need to start before all necessary permits are obtained to meet the PJM in-service date.

---

[48] PSE&G notes that the Bergen-Linden Corridor Project would increase its capital expenditure by about 15.5 percent over the next three years. PSE&G Transmittal Letter at 6.

[49] *Id.* at 7.

[50] *Id.* at 32-34.

b. Protests

33. The New Jersey Rate Counsel does not oppose granting the Abandonment Incentive, but requests that PSE&G be required to make a separate showing in a section 205 filing that 1) identifies relevant development and construction costs for which PSE&G seeks recovery, 2) demonstrates that cancellation or abandonment was the result of circumstances beyond PSE&G's control, and 3) shows that, overall, cost recovery would be just and reasonable.[51]

c. Answers

34. New Jersey BPU agrees with New Jersey Rate Counsel that PSE&G be required to make in a separate showing a section 205 filing that any Abandonment Incentive requested identifies relevant construction costs, demonstrates that cancellation or abandonment was the result of circumstances beyond PSE&G's control, and that recovery of those costs would be just and reasonable.[52]

35. PSE&G responds that requiring it to make a separate showing in a section 205 filing that "from an overall perspective" abandoned plant cost recovery is just and reasonable "introduces potential new arguments that go beyond the Commission's traditional standard for abandoned plant recovery."[53]

d. Commission Determination

36. We will grant the requested Abandonment Incentive so that PSE&G will have the opportunity to recover its prudently incurred costs for the Bergen-Linden Corridor Project if the Project is abandoned for reasons beyond PSE&G's control, subject to PSE&G filing under section 205 of the FPA for recovery of abandonment costs. In Order No. 679, the Commission found that the Abandonment Incentive is an effective means of encouraging transmission development by reducing the risk of non-recovery of costs.[54] We find that PSE&G has demonstrated, consistent with Order No. 679, a nexus between the recovery of 100 percent of prudently incurred abandonment costs and its planned investment in the Bergen-Linden Corridor Project. In particular, we find persuasive PSE&G's argument that this incentive addresses financial risks and challenges that PSE&G could face with its lenders by assuring cost recovery for prudently incurred costs

---

[51] New Jersey Division of Rate Counsel Protest at 10-11.

[52] New Jersey BPU at 5.

[53] PSE&G Answer at 14.

[54] Order No. 679, FERC Stats. & Regs. ¶ 31,222 at PP 163-166.

in the event of an abandonment that is beyond PSE&G's control. We are also persuaded by PSE&G's argument above that the consequences of project abandonment could be significant given the large size of the project investment compared to PSE&G's existing electric plant and that this incentive would address such risks and challenges.

37. However, we note with respect to New Jersey Rate Counsel's protest that, if the Bergen-Linden Corridor Project is cancelled before it is completed, PSE&G is required to make a filing under section 205 of the FPA to demonstrate that the costs were prudently incurred before it can recover any abandoned plant costs, as PSE&G commits to doing in the filing. PSE&G must also propose in its section 205 filing a just and reasonable rate to recover such costs. Order No. 679 specifically requires that any utility granted this Abandonment Incentive that then seeks to recover abandoned plant costs must submit such a section 205 filing.[55]

4. Nexus Test and Total Package of Incentives

38. An applicant for a transmission rate incentive must demonstrate a nexus between the incentives being sought and the investment being made. In Order No. 679-A, the Commission clarified that its nexus test is met when an applicant demonstrates that the total package of incentives requested is tailored to address the demonstrable risks or challenges faced by the applicant.[56] Applicants must provide sufficient support to allow the Commission to evaluate each element of the package and the interrelationship of all elements of the package. The Commission noted that this nexus test is fact-specific and requires the Commission to review each application on a case-by-case basis. The Commission has, in prior cases, approved multiple rate incentives for particular projects as long as each incentive satisfies the nexus test. This is consistent with Order No. 679 and our interpretation of section 219 authorizing the Commission to approve more than one incentive rate treatment for an applicant proposing a new transmission project, as long as each incentive is justified by a showing that it satisfies the requirements of section 219 and that there is a nexus between the incentives proposed and the investment made.[57]

---

[55] *Id*. P 166.

[56] Order No. 679-A, FERC Stats. & Regs. ¶ 31,236 at P 115.

[57] Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 26.

a. PSE&G's Proposal

39. PSE&G contends that, consistent with Order Nos. 679 and 679-A, each requested incentive is tailored to the risks and challenges of the Bergen-Linden Corridor Project. PSE&G asserts that the incentives would cumulatively result in lower financing costs for PSE&G and thus a lower revenue requirement paid by PSE&G ratepayers.

40. PSE&G states that the Bergen-Linden Corridor Project imposes financial risks and challenges upon PSE&G. PSE&G notes that the Bergen-Linden Corridor Project will cost approximately $1.2 billion, with the majority of the costs expected to be expended over 40 months. In order to fund the Bergen-Linden Corridor Project, PSE&G expects to increase its long-term debt outstanding by 10.5 percent, and increase capital expenditures by 15.5 percent over the next three years. PSE&G asserts that the requested incentives are necessary to avoid weakening PSE&G's coverage ratios and other financial metrics.[58] In this context, PSE&G is planning to embark on a major capital expenditure program over the next three years with an estimated total of approximately $6.2 billion. While a large portion of this amount will be for transmission investments, PSE&G will also be making investments in solar power, energy efficiency and demand response projects outlined in New Jersey's Energy Master Plan. PSE&G states that this unprecedented level of investment will present significant financial challenges for the company.[59] PSE&G states that 100 percent CWIP and the Abandonment Incentive are necessary for it to attract financing for the Bergen-Linden Corridor Project and to maintain its creditworthiness.

b. Protests

41. PPANJ states that, although it does not necessarily oppose the two requested transmission incentives, it claims that granting the incentives in conjunction with PSE&G's existing return on equity would result in a rate that is unjust and unreasonable. Alternatively, PPANJ asks the Commission to set the matter for hearing and direct PSE&G to file evidence needed to evaluate all of the incentives' interrelationships with the underlying base ROE.[60]

42. Linden VFT states that it is in the process of filing a complaint regarding PJM's solution-based DFAX cost allocation and requests that the Commission either: (1) reject PSE&G's incentive request filing without prejudice and direct PSE&G to re-file

[58] PSE&G Transmittal Letter at 18-22.

[59] *Id.* Ex. No. PEG-2 (Direct Testimony of Michael A. Wiater) at 7.

[60] PPANJ Protest at 3.

following the conclusion of the other dockets dealing with cost allocation;[61] (2) hold this proceeding in abeyance pending the outcome of those dockets; or (3) set this proceeding for hearing and consolidate it with the other dockets.[62]

c. Answers

43. New Jersey BPU agrees with PPANJ's position that PSE&G's return on equity should be reevaluated in light of PSE&G's request for the 100 percent CWIP and the Abandonment Incentive.[63]

44. PSE&G reiterates that in the instant proceeding it did not ask for a change in its allowable return on equity, and that PPANJ's protest regarding return on equity is beyond the scope of this proceeding and should be dismissed by the Commission.[64] PSE&G explains that other proceedings are already underway to address PJM's proposed cost allocation for various transmission projects in the PJM RTEP, in which Linden VFT is an active participant, and that the issues in those cost allocation proceedings are not relevant to this proceeding. PSE&G requests that the Commission deny Linden VFT's motion to consolidate because there are no common issues of law and fact.[65]

d. Commission Determination

45. We find that PSE&G has satisfied the nexus test for the incentives requested for the Bergen-Linden Corridor Project. PSE&G has shown that the Bergen-Linden Corridor Project will resolve multiple reliability problems, and will reduce congestion by increasing transfer capability. This is consistent with the Commission's recognition in Order No. 679 of the importance of encouraging "investors to take the risks associated with constructing large new transmission projects that can integrate new generation and otherwise reduce congestion and increase reliability."[66]

---

[61] Docket Nos. ER14-972-000 and ER14-1485-000 (dealing with PJM's determination of nested zone and cost allocation for RTEP projects).

[62] Linden VFT Protest at 4.

[63] New Jersey BPU Answer at 4.

[64] PSE&G Answer at 17-18.

[65] *Id.* at 16.

[66] Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 25.

46. PSE&G has also demonstrated that the scope of the Bergen-Linden Corridor Project poses significant risks and challenges. The Bergen-Linden Corridor Project will require a number of siting and permitting processes at multiple jurisdictional levels, and may be cancelled or modified through the PJM RTEP process. The Bergen-Linden Corridor Project also faces significant construction challenges, and requires large investments in material and equipment in advance of construction. Moreover, the Bergen-Linden Corridor Project will require a significant investment by PSE&G that would threaten PSE&G's coverage ratios and financial metrics.

47. PSE&G has shown that the total package of incentives, i.e., 100 percent CWIP and the Abandonment Incentive, is tailored to address the risks and challenges that it faces in constructing the Bergen-Linden Corridor Project. As discussed above, PSE&G has demonstrated that each of the requested incentives will reduce the risks it faces and address potential obstacles to the construction of the Bergen-Linden Corridor Project.

48. We deny PPANJ's and New Jersey BPU's request to reduce PSE&G's ROE because it is beyond the scope of this proceeding. PSE&G's ROE is not at issue in this proceeding, and a separate FPA section 205 proceeding or section 206 complaint would be necessary to change the ROE contained in PSE&G's formula rates.[67]

49. The issues pending in the RTEP proceedings[68] deal with the appropriate cost allocation methodology for the RTEP projects in the PJM transmission planning region, not with the actual cost of the RTEP projects. Because cost allocation issues are not before the Commission in this proceeding, but rather are pending in the RTEP proceedings, we deny Linden VFT's request to hold the instant proceeding in abeyance.[69] The total projected cost of the Bergen-Linden Corridor Project is not disputed in the instant proceeding, and the requested incentives do not add to the cost of the project or impact the amount of costs ultimately to be allocated unless the project is abandoned. The Abandonment Incentive does not change the cost allocation methodology, but rather provides for recovery of abandoned costs based on such cost allocation.

50. We similarly deny Linden VFT's request to consolidate this proceeding with the proceedings in Docket Nos. ER14-972-000 and ER14-1485-000 dealing with regional cost allocation for RTEP projects. In general, the Commission formally consolidates matters for purposes of hearing and decision only if a trial-type evidentiary hearing is

---

[67] *See N. Ind. Pub. Serv. Co.*, 141 FERC ¶ 61,231, at P 48 (2012) (Order on Petition for Declaratory Order).

[68] *See supra* note 62.

[69] *See PJM Interconnection, L.L.C.*, 147 FERC ¶ 61,028 (2014) (*rehearing pending*).

required to resolve common issues of law and fact and consolidation will ultimately result in greater administrative efficiency.[70] As such, the proceedings here do not warrant consolidation and, in any event, we believe the record here is sufficient for us to rule on PSE&G's filing without a hearing.

The Commission orders:

(A) PSE&G's request for authorization of 100 percent CWIP for the Bergen-Linden Corridor Project is granted, subject to PSE&G submitting a compliance filing, within 30 days of the date of this order, as discussed in the body of this order.

(B) PSE&G's request for the Abandonment Incentive for the Bergen-Linden Corridor Project is granted, as discussed in the body of this order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

---

[70] *See, e.g.*, *Duke Energy Corp.*, 139 FERC ¶ 61,193, at P 20 (2012); *In re Terra-Gen Dixie Valley, LLC*, 132 FERC ¶ 61,215, at P 44 n.74 (2010); *S. Cal. Edison Co.*, 129 FERC ¶ 61,304, at P 26 (2009), amended by 130 FERC ¶ 61,092 (2010); *Startrans IO, L.L.C.*, 122 FERC ¶ 61,253, at P 25 (2008).