FEDERAL ENERGY REGULATORY COMMISSION
Washington, D.C. 20426

In Reply Refer To:
Office of Enforcement
Docket No. AC15-109-000
July 24, 2015

Central Maine Power Company
Attention: Ms. Catherine P. McCarthy
Bracewell & Giuliani LLP
2000 K Street N. W., Suite 500
Washington, D. C.

Dear Ms. McCarthy:

This is in response to your letter dated April 20, 2015, as supplemented on June 26, 2015. You filed the request on behalf of Central Maine Power Company (CMP) requesting approval to record an entry to Account 439, Adjustments to Retained Earnings, in order to recognize the correction of an accounting error in connection with CMP's conversion to tax normalization of its transmission assets.

Based on CMP's representations, its proposed accounting adjustments are approved for accounting purposes only. This accounting approval is not intended to influence the outcome of any rate treatment that may be established for this transaction.

CMP represents that prior to June 2000, CMP recovered its transmission revenue requirement through bundled retail rates that used the flow-through method for determining the tax component in rates. Beginning in June 2000, CMP unbundled its transmission rates and started collecting a revenue requirement which included a tax allowance based on the normalized income tax method in its FERC-approved transmission formula rates. However CMP followed the flow-through method of recording income taxes for financial accounting purposes between June 2000 and December 2013. During this period, CMP recorded deferred income taxes by debiting Account 182.3, Other Regulatory Assets, and crediting Account 282, Accumulated deferred Income Taxes – Other. Property, and Account 283, Accumulated deferred Income Taxes – Other. CMP did not record deferred income tax expense in its books for financial accounting purposes during this period. As a result, CMP in error recorded an offsetting regulatory asset for accumulated deferred income taxes that were not recovered in rates in Account 182.3 rather than recording an offsetting deferred income expense as would have been done with full normalization accounting.[1] Had CMP's accounting used the full normalization method for income taxes, CMP would have offset all additions to accumulated deferred income taxes by recoding a deferred income tax expense and not a regulatory asset and would not have overstated the rate base and equity.

Consequently, CMP proposes to correct the error by debiting Account 439 for $42 million, Account 283 for $29 million and while crediting Account 182.3 for $71 million. CMP's proposed accounting is consistent with the Commission's Uniform System of Accounts, General Instruction 7.1, Prior Period Items. This entry corrects the error by reversing the entries in Accounts 182.3 and 283. CMP addressed the overstatement of rate base and cost of capital between June 2000 and 2013 and related impacts to CMP's FERC formula rates in CMP's 2015 Formula Rate Update.[2]

The Commission delegated authority to act on this matter to the Director of the Office of Enforcement or his designee under 18 C.F.R. § 375.311 (2014). The Director has designated this authority to the Chief Accountant. This letter order constitutes final agency action. Your company may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713 (2014).

Sincerely,

Bryan K. Craig
Director and Chief Accountant
Division of Audits and Accounting
Office of Enforcement

[1] Since the regulatory asset itself is a temporary difference for which deferred incomes taxes are to be recognized, CMP also recorded an entry to debit Account 182.3 and credit Account 283, Accumulated Deferred Income Taxes - Other, for the total revenue requirement that would have been needed to be collected in future rates for the unfunded taxes.

[2] CMP's 2015 Formula Rate Update Docket No. ER09-938-000 filed on June 30, 2015.