

155 FERC ¶ 61,226
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Norman C. Bay, Chairman;
Cheryl A. LaFleur, Tony Clark,
and Colette D. Honorable.

The Potomac Edison Company

Docket No. EC16-38-001

ORDER ON REHEARING

(Issued June 1, 2016)

1. On February 19, 2016, The Potomac Edison Company filed a motion for clarification or, in the alternative, a limited request for rehearing of the January 20, 2016 order in this proceeding authorizing a proposed transaction in which Potomac Edison will accept from Fourmile Wind Energy, LLC (Fourmile) at no cost, certain interconnection facilities (Interconnection Facilities) associated with Fourmile's generating facility located in Garrett County, Maryland (Transaction).¹ As discussed below, we will grant Potomac Edison's limited request for rehearing and dismiss its motion for clarification as moot.

I. Background

2. On November 20, 2015, Potomac Edison filed an application pursuant to section 203(a)(1) of the Federal Power Act² requesting Commission authorization for Potomac Edison to accept the Interconnection Facilities from Fourmile. Potomac Edison stated that Fourmile constructed the Interconnection Facilities pursuant to the Interconnection Construction Service Agreement (Service Agreement) entered into among Potomac Edison, Fourmile, and PJM Interconnection, L.L.C. Potomac Edison explained that the Service Agreement obligates Potomac Edison to take title to the Interconnection Facilities upon the successful energization and interconnection of Fourmile's generating facility. Potomac Edison further noted that Fourmile will transfer title of the Interconnection Facilities to Potomac Edison at no cost because, pursuant to the Service Agreement, Fourmile elected the "Option to Build" clause, meaning that Fourmile designed, procured, constructed, and installed the Interconnection Facilities at

¹ *The Potomac Edison Co.*, 154 FERC ¶ 62,035 (2016) (January 20 Order).

² 16 U.S.C. § 824b (2012).

its own cost. As a result, in its application, Potomac Edison requested waiver of the Commission's proposed accounting entries requirement because the non-cash transaction will have no impact on account balances.³

3. In the January 20 Order, the Commission, acting through authority delegated to the Director, Division of Electric Power Regulation – West, approved the Transaction, finding it consistent with the public interest, but did not accept Potomac Edison's proposed accounting treatment.⁴ The Commission concluded that, while the Transaction may have no dollar impact on Potomac Edison's books and records, Potomac Edison must nevertheless record the plant assets on its books at their depreciated original cost consistent with instructions to Account 102, Electric Plant Purchased and Sold, and Electric Plant Instruction No. 5, Electric Plant Purchased or Sold.

II. Discussion

A. Request for Rehearing

4. Potomac Edison requests limited rehearing of the accounting directive in the January 20 Order, which, according to Potomac Edison, could increase depreciation expense for assets that it accepted at no cost.⁵ Specifically, in the January 20 Order the Commission stated that its "regulations require plant assets acquired as an operating unit or system to be recorded at the depreciated original cost if they have previously been devoted to utility service."⁶ The Commission also stated that the difference between the zero dollar amount of the cash consideration of the plant assets and the net book value of the plant assets acquired should be recorded as a negative acquisition adjustment in Account 114, Electric Plant Acquisition Adjustments," and "that negative acquisition adjustment should be cleared to Account 108, Accumulated Provision for Depreciation of Electric Utility Plant."⁷ The Commission directed that Potomac Edison clear the negative acquisition adjustment by debiting Account 114 and crediting Account 108.

³ January 20 Order, 154 FERC ¶ 62,035.

⁴ 18 C.F.R. § 375.307 (2015).

⁵ Potomac Edison Request, Docket No. EC16-38-001 (filed Feb. 19, 2016) (Request).

⁶ January 20 Order, 154 FERC ¶ 62,035 (citations omitted).

⁷ *Id.*

5. Potomac Edison contends that following the Commission's instructions would result in an increase in Potomac Edison's gross plant asset values in Account 101, Electric Plant In-Service, thereby improperly causing monthly depreciation to be recorded on this increase of gross plant in Account 101. Potomac Edison asserts that, while net book value of the Interconnection Facilities would be \$0, the gross plant value will be approximately \$3.5 million, which reflects the construction cost of the Interconnection Facilities as set forth in its application. Potomac Edison states that the gross book value, not the net book value, forms the basis of the depreciation expense calculation. Potomac Edison is concerned that the Commission's accounting directives would increase depreciation expense for assets it acquired at no cost. Therefore, Potomac Edison requests limited rehearing with respect to how it should follow the Commission's directives without inappropriately recognizing depreciation expense.⁸

B. Commission Determination

6. We will grant Potomac Edison's limited request for rehearing of the January 20 Order.⁹ Upon further consideration, we reverse the initial accounting directive that Potomac Edison record the Interconnection Facilities at their depreciated original cost. The Uniform System of Accounts (e.g., Electric Plant Instruction No. 2, Electric Plant Instruction No. 5, and Account 102) requires that only the original cost of the utility plant be recorded in the utility plant accounts.¹⁰ Because the Interconnection Facilities were newly constructed and not used in providing utility service prior to the Transaction, Potomac Edison will be the first entity that places the Interconnection Facilities in utility service.¹¹ As such, Potomac Edison's original cost of the plant is zero. Commission regulations require amounts included in the accounts for electric plant acquired as an operating unit or system to be stated at the cost incurred by the person who first devoted

⁸ Request at 2-4 (citing Potomac Edison Application, Docket No. EC16-38-000, at Attachment 2 – Interconnection Construction Service Agreement § 2.2.4 (filed Nov. 20, 2015)).

⁹ Because we grant the limited request for rehearing, we dismiss Potomac Edison's motion for clarification as moot.

¹⁰ See 18 C.F.R. pt. 101 (2015); Definition 23 (“Original cost, as applied to electric plant, means the cost of such property to the person first devoting it to public service.”).

¹¹ Although the Interconnection Facilities were energized prior to the transaction, the Interconnection Facilities were not yet in operation and, as a result, were not in utility service.

the property to utility service.¹² Therefore, whether we require Potomac Edison to account for the Transaction in accordance with Electric Plant Instruction No. 2, Electric Plant Instruction No. 5, or Account 102, Potomac Edison would record the Interconnection Facilities at their purchase price of zero. Moreover, our accounting directive explained herein (i.e., recording the Interconnection Facilities at their purchase price of zero) will not result in an increase in Potomac Edison's depreciation expense.

The Commission orders:

(A) Potomac Edison's limited request for rehearing is hereby granted, as discussed in the body of this order.

(B) Potomac Edison's motion for clarification is hereby dismissed as moot, as discussed in the body of this order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

¹² 18 C.F.R. pt. 101 at Definition 9 ("Cost means the amount of money actually paid for property or services.").