

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Pepco Holdings, Inc.

Docket No. ER08-1423-000

(Issued November 3, 2008)

Attached is the statement by Commissioner Kelly concurring to an order issued on October 31, 2008 in the above-referenced proceeding. *Pepco Holdings, Inc.*, 125 FERC ¶ 61,130 (2008).

Kimberly D. Bose,
Secretary.

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Pepco Holdings, Inc.

Docket No. ER08-1423-000

(Issued November 3, 2008)

KELLY, Commissioner, *concurring*:

This order addresses a request for incentive rate treatment filed by Pepco Holdings, Inc. (PHI) with respect to its Mid-Atlantic Power Pathway (MAPP) Project. PHI requests Commission authorization for the following incentives: (1) a 150-basis point return on equity (ROE) adder for the MAPP Project to be added to its previously-accepted 11.3% ROE, (2) authorization to recover 100% of construction work in progress (CWIP); and (3) authorization to recover 100% of all prudently-incurred development and construction costs if the MAPP Project is abandoned or cancelled for reasons beyond PHI's control.

I applied the project-based criteria that I have relied upon in previous transmission incentives proceedings in order to determine whether the MAPP Project warrants incentive rate treatment.¹ Based on those criteria, I conclude that it does. Consistent with decisions I have made in previous proceedings, I conclude that the MAPP Project warrants incentive rate treatment in the form of the requested CWIP and abandoned plant incentives. I further find that a basis point adder of 150 basis points is appropriate. Thus, based on the reasons articulated below, I concur with this order. I further commend PHI for submitting an application that contains a full and comprehensive set of exhibits and evidence in support of its request for incentives.

The MAPP project is a 230-mile, 500 kV transmission project that will cross four states—Virginia, Maryland, Delaware, and New Jersey. PHI proposed the MAPP Project to provide backbone transmission that directly interconnects the high voltage system in Virginia with the Delmarva Peninsula and congested load centers farther to the north, where no PJM backbone facilities currently exist. In terms of absolute cost (PHI's portion of the estimated costs is \$950 million but could be as high as \$1.35 billion) and relative to PHI's current transmission rate base (roughly equivalent to PHI's existing transmission rate base), the MAPP Project represents a significant expansion of PHI's transmission system. The MAPP Project also provides a range of public interest benefits. Among others, the

¹ *American Electric Power Service Corporation*, 118 FERC ¶ 61,041 (2007).

MAPP Project will produce a minimum of 2,500 MW of additional transfer capability across the eastern PJM region. It will also result in annual reductions in congestion and production costs, both in the Mid-Atlantic region and across the whole of PJM.

With respect to the specific incentives requested by PHI, I agree that approval of inclusion of 100% of CWIP in ratebase and the recovery of construction and development costs if the project is abandoned before completion, as long as that is due to reasons beyond PHI's control, are supported by the long construction period and large cost, both in absolute terms and as a percentage of current rate base. PHI has shown that, given the size of its investment (at least \$950 million), approval of the CWIP incentive will provide steadier cash flows, stabilize credit metrics and ultimately reduce interest expenses. In addition, the regulatory challenges associated with a transmission project that crosses four states and includes a submarine crossing of Chesapeake Bay warrant approval of the abandoned plant incentive.

I can also support an incentive ROE adder of 150 basis points. I base this decision on PHI's exceptional use of new technologies and on the far-reaching regional benefits the MAPP Project will create. Order No. 679-A states "the most compelling case for incentive ROEs are new projects that present special risks or challenges, not routine investments made in the ordinary course."² The MAPP Project meets this standard insofar as it includes investments in a wide array of technologies that are not seen in the ordinary course of business. For example, PHI will deploy phase angle regulators sized for 1,000 MWs, "making these units unlike any others currently in use."³ PHI will also use state-of-the-art microprocessor protective relaying throughout the MAPP Project, which enables transmission system self-diagnostics and improved transmission protection and system restoration. More generally, PHI indicates that these technologies and others will be employed across the whole of the MAPP project, reflecting a unified technology strategy rather than incorporating limited segments of technology at discrete points.

² *Promoting Transmission Investment through Pricing Reform*, Order No. 679-A, FERC Stats. & Regs. ¶ 31,236, at P 60 (2006), *order on reh'g*, 119 FERC ¶ 61,062 (2007).

³ Pepco Holdings, Inc., Potomac Electric Power Company, Delmarva Power & Light Company, and Atlantic City Electric Company August 18, 2008 Request for Incentive Rate Treatment for Mid-Atlantic Power Pathway, Docket No. ER08-1423 -000, Exhibit PHI-19 at 3.

The MAPP Project also provides public interest benefits that, on balance, contribute to the appropriateness of the ROE adder. The MAPP Project provides an increase in west-to-east transfer capability within PJM of at least 2,500 MW. (That increase could be as high as 5,100 MW were PJM to authorize the incorporation of HVDC technology into the project.) Three major east-west 500 kV transmission lines in western and central Pennsylvania will directly benefit from the construction of MAPP Project.⁴ Also, the MAPP Project will provide relief in Baltimore and Washington DC areas to compensate for pending generation retirements. Installation of the MAPP Project also offers significant economic benefits. The estimated annual congestion costs savings within the Mid-Atlantic area range from \$113 million to \$174 million; \$70 million to \$91 million to the entire PJM RTO. The annual overall production cost reductions for the entire PJM RTO are estimated to be between \$35 million and \$58 million annually.

Finally, the order finds that PHI has made a sufficient demonstration that the final ROE applicable to the MAPP Project (12.8%) is within the range of reasonable returns. The order relies on a DCF analysis presented by PHI to make that confirmation. I have previously dissented from orders that established an ROE where none existed before without an evidentiary hearing.⁵ PHI's currently applicable ROE was determined via settlement and accepted by the Commission in 2006⁶ and PHI has submitted evidence to show that the requested ROE falls within the zone of reasonableness. No intervening party has provided its own DCF analysis. In instances, as here, where the base ROE, to which the incentive adder is applied, is recently approved, intervening parties do not provide independent DCF analyses, and the applicant has provided sufficient supporting evidence, it is appropriate for the Commission to confirm that the resultant ROE falls within the zone of reasonableness without an evidentiary hearing.

For these reasons, I respectfully concur with this order.

Suedeem G. Kelly

⁴ Pepco Holdings, Inc., Potomac Electric Power Company, Delmarva Power & Light Company, and Atlantic City Electric Company August 18, 2008 Request for Incentive Rate Treatment for Mid-Atlantic Power Pathway, Docket No. ER08-1423 -000, Exhibit PHI-1 at 29.

⁵ *Virginia Electric and Power Company*, 123 FERC ¶ 61,098 (2008).

⁶ *Baltimore Gas & Electric Co.*, 115 FERC ¶ 61,066 (2006).