
FEDERAL ENERGY REGULATORY COMMISSION



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NEWS RELEASE

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COMMISSION CONDITIONALLY GRANTS DUQUESNE LIGHT'S REQUEST FOR TRANSMISSION RATE INCENTIVES; SETS HEARING ON ROE

The Federal Energy Regulatory Commission has conditionally granted Duquesne Light Co.'s petition for transmission rate incentives in connection with a proposed \$184 million transmission expansion project in Western Pennsylvania.

The Commission accepted Duquesne's proposed formula rate to recover its revenue requirement for transmission facilities it turned over to operation and control of PJM Interconnection LLC, effective December 1, 2006. PJM is the Commission-approved regional transmission organization for the Mid-Atlantic region.

But the Commission directed Duquesne to file additional information in support of its request for incentive rates for transmission upgrades known as Transmission Owner Identified projects in PJM's regional transmission expansion planning process. The Commission directed Duquesne to file the additional support within 30 days.

"Underinvestment in the power grid is a national problem that threatens reliability and raises costs to consumers. The Commission promotes greater investment in order to strengthen the grid. However, we will only approve incentive rate proposals that satisfy the requirements of the Federal Power Act and our regulations. Our evaluation of incentive proposals will continue to be fact-specific and require the application of Order No. 679 to each proposal, on a case-by-case basis," Chairman Joseph T. Kelliher said.

Duquesne plans to build a new high-voltage transmission line to enhance the reliability of transmission service in the Pittsburgh area. The company also plans to increase the capacity of two existing underground transmission lines. Parts of the project have been completed, with the entire project targeted for completion in 2009.

The Commission noted that, prior to joining PJM in January 2005, Duquesne identified the need for these transmission upgrades. Duquesne stated that reliability criteria might not be met for certain portions of its system as early as the summer of 2008

unless the system upgrades are made.

The incentive rates approved today relate only to those projects supported by PJM's determination that the projects are needed for reliability – i.e., projects included in PJM's RTEP process. The Commission-approved RTEP process provides for the construction of expansions and upgrades to PJM's transmission system. The Commission conditionally accepted those projects characterized as Transmission Owner Identified (TOI) projects under the PJM reliability process, subject to Duquesne filing additional evidence in support of the TOI upgrades.

Under the Commission's rules (Order No. 679), to be eligible for proposed incentives, an applicant must demonstrate that the facilities it proposes either ensure reliability or reduce the cost of delivered power by reducing transmission congestion. Order No. 679 implements section 1241 of the Energy Policy Act of 2005, which added a new section 219 to the Federal Power Act directing the Commission to establish incentive-based rate treatments for new transmission construction.

The Commission emphasized that, in Order No. 679, the proposed incentive rate must also be shown to have a “nexus between the incentive sought and investment being made.” In addition, the Commission emphasized that “evaluation of incentive rate proposals will be fact specific” and rely on the Commission regulations.

Duquesne's proposal satisfies the nexus requirement, the Commission determined in today's order. “Duquesne's requested incentives fall within the scope of incentives outlined in Order No. 679 and have been supported by Duquesne's demonstration that there is a nexus between the incentive sought and the risks faced...,” the Commission said. The Commission added that the “incentives will further the goals of section 219 by providing upfront regulatory certainty and rate stability.”

The Commission set for hearing Duquesne's proposed base return on equity (ROE), in order to determine a range of reasonable returns for a public utility. With the proposed incentives, Duquesne is proposing a 13.81 percent ROE, and the Commission conditionally granted an incentive ROE in the upper range, up to one and one-half percentage points above a base-level ROE.

The Commission also accepted Duquesne's proposed construction work in progress (CWIP) costs in its rate base, emphasizing that the incentive applies exclusively to a return on construction costs. The Commission also granted Duquesne's incentive requests to expense prudently incurred pre-commercial operations costs, and to recover any prudently incurred costs of the project in the event the project is cancelled due to factors beyond Duquesne's control.

