FEDERAL ENERGY REGULATORY COMMISSION

NEWS

March 20, 2008
Docket No. ER06-278-000

NEWS MEDIA CONTACT
Celeste Miller - 202.502.8680

FERC Encourages Transmission Grid Investment

The Federal Energy Regulatory Commission (FERC) today continued to encourage investment in the interstate power grid, by granting certain incentives consistent with its Energy Policy Act of 2005 (EPAct 2005) incentive rate policy.

"The U.S. needs increased investment in the interstate power grid, both to assure reliability and support competitive wholesale power markets. We are moving in the right direction, and investment levels have nearly doubled in recent years. A number of FERC policies have encouraged greater grid investment levels, including our transmission incentives policy," FERC Chairman Joseph T. Kelliher said. "Every case that has come before us is reviewed on the merits under the rules we put in place in 2006. When transmission incentive proposals are consistent with our rules, we grant them. When they are inconsistent with our rules, or when an applicant does not adequately support an incentive request, we reject them."

EPAct 2005 directed FERC to establish incentive rules to encourage greater investment in the nation's aging transmission infrastructure, promote electric power reliability and lower costs for consumers by reducing transmission congestion. Order No. 679 allows a public utility to obtain incentive rate treatment for transmission infrastructure investments under certain conditions. As required by EPAct 2005, FERC consistently has required that applicants demonstrate that the new facilities either will ensure reliability or reduce the cost of delivered power by reducing transmission congestion. Further, the Commission has required applicants to demonstrate a nexus between the incentive requested and the investment made. Finally, FERC consistently has held that for all applicants, the resulting rates, charges, terms and conditions from the incentives must be just and reasonable and not unduly discriminatory or preferential.

With respect to today's decisions, FERC granted the Nevada Hydro Company Inc. (Nevada Hydro) certain transmission rate incentives for the Talega-Escondido/Valley-Serrano Interconnect project (TE/VS Interconnect) in Riverside County in Southern California. The 500 kilovolt transmission line would link San Diego Gas & Electric Company's transmission system with Southern California Edison.

FERC granted Nevada Hydro an incentive equity return and a hypothetical 50 percent equity/50 percent debt capital structure during the construction period for its proposed TE/VS Interconnect to provide the regulatory certainty necessary to proceed with project financing. The company demonstrated a nexus between the incentives and the investment, and demonstrated that the project is not routine and will provide a critical link between two major transmission corridors in California.

FERC denied Nevada Hydro's request for full recovery of Construction Work in Progress and abandonment costs for the TE/VS Interconnect, saying the company failed to show how the requested incentives are related to the associated risks. FERC also denied the company's request for a three-year rate moratorium for the TE/VS Interconnect as unsupported.

The company also requested rate incentives for the Lake Elsinore Advanced Pump Storage project

(LEAPS), which FERC denied.

The LEAPS facility “may not be operated and/or managed by the California Independent System Operator Corporation or functionalized as transmission for rate recovery purposes,” FERC said. Accordingly, FERC denied Nevada Hydro’s request for incentives for the LEAPS project, but encouraged Nevada Hydro to pursue other regulatory incentives.

In a separate case, FERC granted Westar Energy, Inc. (Westar) incentive rate treatment for a 345 kilovolt transmission upgrade project known as the Wichita-to-Reno-to-Summit Line. FERC cited the project’s ability to ensure reliability and reduce the delivered cost of power. Westar met the nexus test by showing that there is a nexus between the return on equity (ROE) incentive and the accelerated depreciation of 15 years and its investment in the line.

Yet the Commission denied incentive rate treatment for Westar’s proposed 345 kilovolt (kV) transmission line from the Rose Hill substation to the Kansas/Oklahoma border and a 560 MVA 345 kV to 230 kV transformer. FERC said that Westar had failed to demonstrate the requisite nexus between the incentives requested and demonstrable risks or challenges associated with the Rose Hill-to-Sooner Line. With the transformer incentive request, FERC said Westar failed to show that the ROE incentive or the accelerated-depreciation incentive it requested could encourage investment in the 230 kV transformer because the project was completed and in service on Dec. 15, 2007.

FERC accepted, in part, a related filing by Westar for revisions to its cost-of-service formula rate for all transmission facilities turned over to the operational control of the Southwest Power Pool. The Commission established hearing and settlement judge procedures so that Westar can demonstrate, among other things, the justness and reasonableness of its proposal. The hearing will be held in abeyance during settlement talks and the settlement judge will report to the Chief Judge and FERC within 30 days of appointment of the settlement judge concerning the status of the settlement discussions.

In other action, FERC responded to rehearing requests in Docket No. ER04-157-014, Bangor Hydro-Electric Company, *et al*, where the Commission reaffirmed its decision to allow the transmission owners within ISO New England to earn an ROE of 12.4 percent, which includes a 100 basis point adder, for new projects that are completed and on line by Dec. 31, 2008. The Commission granted rehearing in ruling that projects that come on line after that date will be examined on a case-by-case basis and must be consistent with Order No. 679 in order to qualify for an incentive ROE. The incentives in Bangor Hydro were evaluated under Commission policy that preceded its incentive rate rule, Order No. 679. By requiring transmission owners to file for incentives under Order No. 679 for new projects, the Commission establishes a consistent national approach towards transmission incentives in all regions of the country.

(30)

R-08-18