

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;  
William L. Massey, and Nora Mead Brownell.

Connecticut Jet Power LLC

Docket No. ER03-563-020

ORDER ACCEPTING INITIAL BID COST INPUT INFORMATION FOR FILING

(Issued October 23, 2003)

1. In this order, under Section 205 of the Federal Power Act (FPA),<sup>1</sup> the Commission accepts for filing, as modified, Connecticut Jet Power LLC's (Connecticut Jet) proposed Peaking Unit Safe Harbor (PUSH) fixed cost inputs to the PUSH bid level<sup>2</sup> for the Connecticut Jet turbine peaking units. This order helps to ensure the continued availability of generating resources needed for system reliability while protecting competition in the New England electricity market.

**Background**

2. In Devon, the Commission directed ISO-NE to implement a temporary bidding mechanism that would enable high-cost generators needed for reliability to recover costs through market clearing prices rather than through reliability must-run agreements, which it found must be used thereafter only as a last resort. The Commission directed ISO-NE to implement a PUSH bidding mechanism, under which peaking units in Designated Congestion Areas (DCAs) could be eligible to bid, and set market-clearing prices, at an amount that included a fixed cost and variable cost component. The Commission held that the PUSH bidding mechanism would be effective June 1, 2003, and that it would only be temporary, until ISO-NE implemented (no later than June 1, 2004) a location or deliverability requirements mechanism in the installed capacity (ICAP) or resource adequacy market. The Commission also ordered ISO-NE to develop initial PUSH bidding levels for units in DCAs with a 2002 capacity factor of 10 percent or less, and it held that affected generators could file with the Commission information to revise those levels. In Devon Rehearing the Commission accepted, with modifications, ISO-NE

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<sup>1</sup> 16 U.S.C. § 824(e) (2000).

<sup>2</sup> Connecticut Jet's filing is made pursuant to the Commission's April 25, 2003 order in Devon Power LLC, et al., 103 FERC & 61,082 (2003) (Devon), order on reh'g, 104 FERC & 61,123 (2003)(Devon Rehearing).

market rules implementing the PUSH mechanism. The market rules, in part, provide a process by which eligible PUSH generators submit cost information to ISO-NE for the development of initial PUSH bid levels and also provide for the filing of PUSH costs pursuant to Section 205.

3. On September 10, 2003, in Docket No. ER03-563-020, Connecticut Jet submitted fixed cost data and information in support of its PUSH bid level for its jet units. Connecticut Jet states that “the attached fixed costs are, with one exception, the return on common equity, the fixed costs used by ISO-NE in developing its interim PUSH Reference Levels for Connecticut Jet. The one exception is that, instead of the 10.88% return on equity used by ISO-NE, the fixed cost data reflects a return on equity of 13.39%.”<sup>3</sup> Connecticut Jet states that “the 10.88% return represents the midpoint of a range of returns for a proxy group consisting of a number of financially healthy integrated utilities that face little, if any, competitive risk. As is the case with Applicants, the fact that Connecticut Jet is currently in a Chapter 11 bankruptcy proceeding provides strong, if not conclusive evidence, that Connecticut Jet faces much higher risks than the utilities comprising the proxy group used by the Commission.”

### **PUSH Bid Level Cost Data**

### **Notice of Filing and Protests**

4. Notice of Connecticut Jet’s PUSH bid cost input filing was published in the Federal Register, 68 Fed. Reg. 56,281 (2003), with comments, protests, or interventions due on or before October 1, 2003. A timely motion to intervene was filed by Northeast Utilities Service Company (NU) on behalf of the NU Operating Companies and Select Energy, Inc. Timely motions to intervene were filed by ISO-NE, with comments, and by Connecticut Municipal Electric Energy Cooperative (CMEEC), with a protest.

5. Pursuant to Rule 214 of the Commission Rules of Practice and Procedures, 18 C.F.R. § 385.214 (c)(1) (2003), the timely, unopposed motions to intervene serve to make NU, ISO-NE, and CMEEC parties to this proceeding.

6. ISO-NE recommends that two modifications should be made to Connecticut Jet’s PUSH Reference Level fixed costs. First, ISO-NE states that Connecticut Jet should

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<sup>3</sup>ISO-NE’s decision to use the 10.88 percent return on equity is based on Devon Rehearing which reversed the Commission’s approval of a 13.39 percent return on equity in the April 25 Order.

have included a rate base reserve for land easements that corresponds to the amortization of land easements included in its cost of service.<sup>4</sup> Second, ISO-NE proposes a return on common equity of 10.88 rather than the 13.39 percent return on common equity used by Connecticut Jet.

7. The only issue raised by CMEEC is that Connecticut Jet's fixed costs should reflect a return on common equity of 10.88 percent consistent with the Commission's order in Devon Rehearing rather than Connecticut Jet's proposed use of a return on common equity of 13.39 percent.

### **Discussion**

8. The Commission finds that the two adjustments made by ISO-NE to Connecticut Jet's cost of service information are reasonable. ISO-NE's reduction of the return on common equity from 13.39 percent to 10.88 percent is consistent with Devon Rehearing.<sup>5</sup> As we stated in PPL Wallingford, considering both the immediate and short-term nature of the PUSH mechanism, the rationale described in Devon to develop unit specific PUSH levels (e.g., a reasonable opportunity to recover costs), and the similarity of financial and operating risk among the owners of PUSH units, we believe that developing a specific Discount Cash Flow analysis for each owner of PUSH eligible units would not yield materially different results. Thus, we find that a 10.88 percent return on common equity is reasonable to compute fixed charges for PUSH bidding peaking units that may be required to supply power in New England during the short term period, as outlined in Devon.

9. In addition, Connecticut Jet has included in its cost of service information, without any support, a Management Fee of \$110,097.98. The only explanation provided is that Commission precedent permits such a fee. Since Connecticut Jet has included administration and general (A&G) expenses in its fixed costs, which are intended to cover all administrative and general costs including management fees, and since

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<sup>4</sup> ISO-NE states that "after CT Jet submitted its preliminary costs to ISO, the ISO inquired regarding the appropriateness of including the amortization of the cost of land rights, such as easements, in the test period when there are no reserve balances for the amortization. In responding to this inquiry, a representative of CT Jet stated that 'it would be appropriate to recognize a reserve for amortization of easements of 10% of their value reflected in CT Jet rate model.' In the CT Jet filing, CT Jet appears to have inadvertently neglected to make this adjustment. The ISO has made the necessary modification, as reflected in the cost of service."

<sup>5</sup> See Devon Rehearing, 104 FERC ¶ 61,123 at P 49.

Connecticut Jet has not supported a management fee over and above its A&G expenses, the Commission directs ISO-NE to exclude such a management fee from Connecticut Jet's fixed costs.

The Commission orders:

(A) Connecticut Jet's cost input information for establishing its PUSH bid level, submitted in Docket No. ER03-563-020, is hereby accepted subject to modifications as discussed in the body of this order, to become effective on the date of this order.

(B) ISO-NE is hereby directed, within 10 days of the date of this order, to file the required revisions to Connecticut Jet's PUSH bid level.

By the Commission.

( S E A L )

Linda Mitry,  
Acting Secretary.