

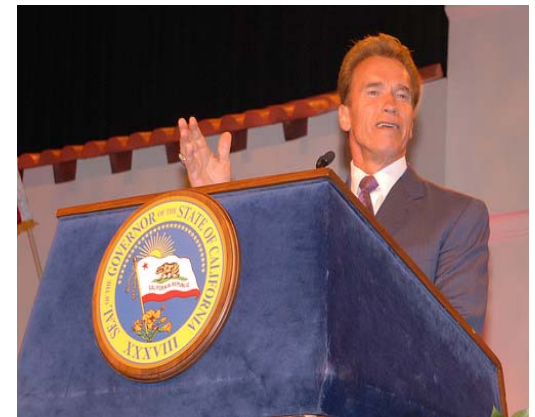
FERC and the Recent ROE Giveaway



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Energy Policy Act of 2005



- Congress determined that there is a need for rate incentives to encourage investment in transmission infrastructure
- Congress added a new section 219 to the FPA directing the FERC to establish, by rule, incentive-based (including performance-based) rate treatments for electric transmission
- FERC issued Order No. 679, which sets forth processes and standards under which a public utility can seek transmission rate incentives under sec. 219

FERC Order No. 679

THE PROPOSED INCENTIVE RATE MUST DEMONSTRATE A NEXUS BETWEEN THE INCENTIVE SOUGHT AND THE INVESTMENT BEING MADE

- (1) Any incentive-based ROE must fall within the range of reasonableness established by the Commission for the particular entity requesting the ROE for its investment in new transmission facilities;¹
- (2) While the incentive-based ROE will continue to fall within the traditional zone of reasonableness it will be adjusted upward and will be higher than would otherwise have been granted absent the incentive;²
- (3) No specific ROE adders are established;³
- (4) The Commission will determine the level of the incentive-based ROE on a case-by-case basis when an application for an incentive-based ROE is filed with the Commission;⁴
- (5) To receive an incentive-based ROE, a public utility must support the ROE request by demonstrating how the new facilities will ensure reliability or reduce transmission congestion.⁵

1) See Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 91-93 (2006)

2) *Id.*

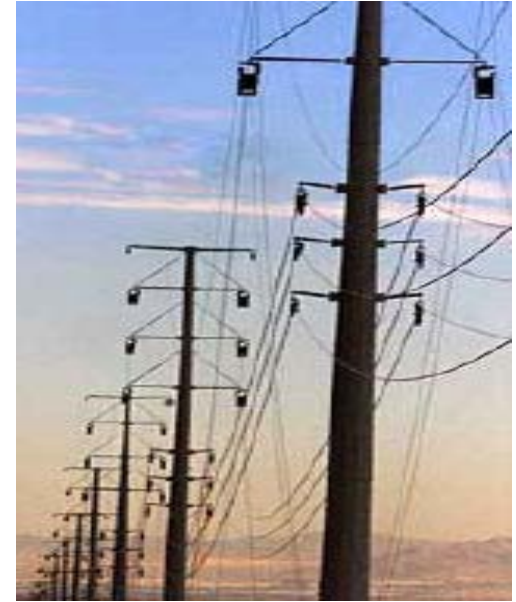
3) *Id.*

4) *Id.*

5) *Id.*

Transcos in California

- Atlantic Path 15
 - FERC approved ROE of 13.5%
- Startrans
 - FERC approved ROE of 13.5%
- Nevada Hydro
 - FERC ruled ROE to be set within the upper end of the zone of reasonableness
 - Must use FERC's established DCF methodology and take direction from *Atlantic Path* regarding proxy groups
 - Based on track record (using the suggested proxy group), FERC would be expected to approve an ROE of 13.5%



FERC Approves Southern California Edison's Request for Transmission Incentives

- granted a 125-basis point ROE incentive for Tehachapi and DPV2
- granted a 75-basis point ROE incentive for Rancho Vista
- granted a 50-basis point ROE incentive for ISO participation
- granted recovery in rate-base of 100% of CWIP during construction
- granted 100% recovery of prudently incurred abandonment cost

Query: How will these incentives be incorporated in a black-box settlement where no ROE is specified?



Energy Gateway Transmission Expansion Project

- \$6 billion project involving eight segments covering portions of Nevada, Idaho, Oregon, Utah, Washington and Wyoming
- FERC granted 200-basis point incentive on top of the base ROE (no sec. 205 rate filing yet to establish a base ROE)
 - Based on recent track record, FERC would be expected to approve an overall ROE in the high 12% or low 13%



New York Regional Interconnect (NYRI)

- FERC granted a 275-basis point ROE incentive
 - 125 basis points for a combined transmission and advanced technology incentive
 - 100 basis points for forming a Transco
 - 50 basis points for participating in an ISO
- No base ROE since NYRI has yet to submit a sec. 205 rate filing
 - Based on recent track record, with a 275-basis point adder, FERC may approve an overall ROE well beyond 13%
- NY Public Service Commission has yet to permit the line or determine if the transmission line either ensures reliability or reduces congestion



Central Maine Power Company's Maine Power Reliability Program Project

- FERC granted a 125-basis point ROE incentive
- Conditionally approved the recovery of 100% of CWIP in rate-base
- Approved the recovery of 100% of prudently incurred costs associated with abandonment
- Central Maine has not yet submitted a sec. 205 filing
- Incentives subject to ISO New England including the project in its regional system plan as a reliability transmission upgrade



Pepco Holdings Inc.'s Mid-Atlantic Power Pathway (MAPP) project

- 500 kV, 230-mile transmission line from Virginia to New Jersey crossing under the Chesapeake Bay
- FERC authorized an overall ROE of 12.8%
 - a 150-basis point incentive on top of the company's existing base ROE of 11.3%.
- FERC also authorized full recovery of construction work in progress and prudently incurred abandoned plant costs. The rates took effect Nov. 1, 2008.



IOU ROE from 10K filed at SEC for 2007 (no asterisk), Commission Responses (***) and Public Utilities Fortnightly (2007* or 2006**) ROE File

63 Total Entries

Company	ROE
Alabama Power	13.75%
Arizona Public Service	10.75%*
Entergy AR	11.00%
Oklahoma Gas & Electric AR	10.00%*
Pacific Gas & Electric CA	11.35% in the General Rate Case and no Transmission Owner ROE (black box settlement at FERC)***
Southern California Edison	11.50% in the General Rate Case and no Transmission Owner ROE (black box settlement at FERC)***
San Diego Gas & Electric	11.10% (GRC) & 11.35% (TO – FERC)***
Public Service Co CO	10.50%**
Progress Energy FL	11.75%
Florida Power & Light	No ROE for earnings (special capped rate formula); for additions to rate base the ROE is 11.75%



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Company	ROE
Georgia Power	11.25%
Idaho Power	10.25%**
Ameren CILCO IL	10.12%**
Ameren CIPS IL	10.08%**
Commonwealth Edison IL	10.04%**
Ameren IP IL	10.08%**
Southern Indiana Gas & Electric	10.40%*
Kansas City Power & Light KS	12.60%**
Kentucky Power Co	10.50%**
Duke Energy KY	11.50%**
Entergy Gulf States – LA	10.65%
Entergy LA	10.25%
Entergy NOLA	10.75%
Cleco Power LA	11.25%
Southwest Electric Power LA	10.565% (August 2008)



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Company	ROE
Maine Public Service	10.20%**
Potomac Electric Power MD	10.00%*
Delmarva Power & Light MD	10.00%*
Detroit Edison	11.00%
Consumers Energy MI	10.70%
Interstate Power & Light MN	10.39%**
Northern States Power MN	10.54%**
Entergy Mississippi	11.05%***
Mississippi Power	12.98%***
Kansas City Power & Light MO	11.25%**
Aquila Inc MO	10.25%*
Ameren UE MO	10.20%*
Sierra Pacific Power NV	10.60%**
Unitil Energy Systems NH	9.67%**
Central Hudson Gas & Electric NY	9.60%**



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Company	ROE
Duke Energy Carolinas NC	12.25%***
Progress Energy Carolinas SC	12.75%***
South Carolina Electric & Gas	11.00%***
Entergy Gulf States – TX	10.95%
PacifiCorp UT	10.25%**
Green Mountain Power VT	10.25%**
Appalachian Power VA	10.00%
Puget Sound Energy WA	10.40%***
PacifiCorp WA	10.20%***
Avista WA	Avista WA
APCo/Wheeling (AEP Utilities) WV	10.50%***
MonPower/PE (APS Utilities) WV	10.50%***
Wisconsin Power & Light	10.80%*
Wisconsin Public Service	10.90%*



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Company	ROE
Montana Dakota Utilities WY	None Authorized – Authorized rate of return on rate base (9.96%) only. Effective 02/01/94***
Rocky Mountain Power WY	10.25% - Effective 05/01/08***
Cheyenne Light, Fuel & Power WY	10.90% - Effective 01/01/08***