
FEDERAL ENERGY REGULATORY COMMISSION



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NEWS RELEASE

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COMMISSION AUTHORIZES INCENTIVE RATES FOR NEW ENGLAND TRANSMISSION EXPANSION

The Federal Energy Regulatory Commission in a majority decision today authorized a return on equity for the owners of the ISO New England transmission grid, including an incentive rate to encourage badly needed transmission expansion and ensure grid reliability in the New England region.

“Our order shows that the Commission recognizes the need to strengthen the New England interstate transmission grid, in order to assure reliability and relieve congestion that results in higher prices for consumers. Our approach today is fully consistent with the Energy Policy Act of 2005, and the transmission pricing reform final rule the Commission approved unanimously only three months ago,” stated Commission Chairman Joseph T. Kelliher.

Today’s order affirms in part, and reverses in part, a May 2005 Initial Decision by a Commission administrative law judge. The order largely affirms the judge’s findings supporting the calculation of the base-level return on equity. However, the order reverses the judge’s findings regarding the need and reach of the 100 basis points incentive. The Commission rejected the judge’s reliance on a “but for” test for transmission incentives, an analytical approach that was also specifically rejected in the Commission’s transmission pricing reform final rule, approved unanimously in July 2006. The Commission concluded there is a sufficient link between the cost of the return on equity incentive and the benefits that will be derived. “[T]here is an undisputed need for the projects,” the Commission said noting evidence from ISO New England’s 2004 regional transmission planning process.

The Commission first found that the incentive was appropriate because it will assist ISO New England in bringing need transmission projects on line in a timely fashion. The Commission next found that the incentive should apply “to all projects identified as necessary by ISO New England in its regional planning process.”

The Commission noted that its transmission incentive policy “is to promote the

development and maintenance of a healthy transmission infrastructure, including the promotion of all transmission projects designed to provide efficient, reliable, and non-discriminatory transmission service.”

The order relied on the Commission’s authority under section 205 of the Federal Power Act, not the transmission pricing reform final rule. Section 205 gives the Commission broad authority to grant incentives for greater investment where need has been demonstrated. Consistent with previous orders, the incentive rate approved by the Commission must remain bounded within the range of reasonableness. The Commission concluded that the return on equity falls within that range with the additional 100 basis points. The Commission’s authority to grant transmission incentives in New England under section 205 was recently affirmed by the courts.

The Commission noted that ratepayers will benefit because the present insufficient New England grid network leads to congestion costs and reliability issues, including involuntary load shedding. Completion of the transmission projects should help in minimizing these costs, the Commission said.

When setting the incentive rate, the Commission first determined that a base-level return on equity of 10.2 percent was appropriate, based on a proxy group made up of northeast utility companies. The Commission next found that this base-level return should be adjusted by:

- 50 basis points, or one-half percent, (as reflected in a prior order), in return for the transmission owners’ voluntary agreement to transfer the operational control over their facilities to ISO New England;
- 100 basis points, or 1 percent, as an incentive to encourage transmission expansion in the New England region; and
- 74 basis points reflecting updated bond data (an adjustment limited to a prospective application commencing with the date of the Commission’s order).

The resulting returns on equity are 11.7 percent covering the initial rate effective date (February 1, 2005), until now, and 12.4 percent going forward.

The New England transmission owners are Bangor Hydro Electric Co., Central Maine Power Co., NSTAR Electric & Gas Corp., New England Power Co., Northeast Utilities Service Co., United Illuminating Co., Vermont Electric Power Co., Green Mountain Power Corporation, Central Vermont Public Service Corporation, Florida Power & Light Company – New England Division, Unitil Energy Systems, and Fitchburg Gas and Electric Light Company.