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FERC Approves Incentives for Pepco's Mid-Atlantic Grid Expansion

The Federal Energy Regulatory Commission (FERC) has approved a series of rate incentives for Pepco Holdings Inc.'s proposed 230-mile Mid-Atlantic Power Pathway (MAPP) project, a major backbone transmission line from Virginia to New Jersey that would improve reliability in the PJM Interconnection region.

"The MAPP project is an example of the type of large-scale transmission project investment that the nation needs, and one that will significantly strengthen the grid by providing major consumer and reliability benefits for the Mid-Atlantic region," FERC Chairman Joseph T. Kelliher said. "FERC's granting of rate incentives for projects like this has helped us to nearly double the amount of grid investment across the country in recent years."

The MAPP project is a 500 kilovolt (kV), 230-mile transmission line that would be built in segments, starting at Virginia Electric and Power Company's Possum Point substation in Virginia and crossing over the Potomac River into southern Maryland. The project would then cross under the Chesapeake Bay, traverse the Delmarva Peninsula, cross the Delaware River and end in Southern New Jersey. The MAPP project, to be placed into service by 2013, is estimated to cost $1.05 billion; Pepco would be responsible for $950 million of it.

FERC authorized for the project a 1.5 percent return on equity (ROE) adder to the company's existing 11.3 percent ROE. That will result in an overall ROE of 12.8 percent. FERC also authorized full recovery of construction work in progress and prudently incurred abandoned plant costs. The rates took effect Nov. 1, 2008.

The project was identified in the PJM Regional Transmission Expansion Plan as a baseline project and has been approved by the PJM Board of Managers. It is projected to resolve 33 overloads on several interfaces in the Mid-Atlantic region and bring congestion relief and reliability benefits to the Baltimore-Washington area.

Pepco says the project will provide access to more than 1,300 megawatts of renewable wind generation in the western portion of PJM and will be operated as a "smart grid" that provides operating efficiencies; minimizes sags, spikes and other disturbances; corrects problems with minimal intervention by the grid operator; and monitors and diagnoses the health and condition of equipment and predicts the malfunction or failure of a device to prevent it from occurring. The project is expected to save $113 million annually to the Mid-Atlantic region, and $70 million annually for the entire PJM region if operated as an AC line. If the portion of the project crossing under the Chesapeake Bay is built as a 640 kV HVDC line, the annual savings would be $174 million and $91 million, respectively, and reduce production costs by $58 million annually for the entire PJM region.

FERC regulations under Order No. 679 state that projects seeking incentives must demonstrate that the facilities 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. The law added a new section 219 to the Federal Power Act directing FERC to establish incentive-based rate treatments for new transmission

construction. FERC's evaluation of incentive rate proposals is fact-specific and relies on Commission regulations.

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