

123 FERC ¶ 61,067
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Sudeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

Pacific Gas and Electric Company

Docket No. EL08-24-000

ORDER ON PETITION FOR DECLARATORY ORDER

(Issued April 21, 2008)

1. On December 21, 2007, Pacific Gas and Electric Company (PG&E) filed a petition for declaratory order (Petition) seeking incentive rate treatment under Order No. 679¹ for a proposed transmission project (Project) that would deliver up to 3,000 MW of new renewable power from British Columbia, Canada and the Pacific Northwest to northern California, along an approximately 1,000-mile transmission line and benefiting multiple regions and communities. PG&E asserts that this Project will enable and advance inter-regional and international development and integration of renewable energy resources to enable PG&E's customers and customers of other load serving entities in California and the Pacific Northwest to access new renewable resources to help meet the various states' renewable portfolio standards and greenhouse reduction goals. PG&E also states that the integration and coordination of a number of regional reliability transmission projects currently being contemplated in the Pacific Northwest provide an opportunity to increase the reliability of electric services for millions of customers in the West. As discussed herein, we will grant PG&E's Petition, in part, and allow it to recover prudently incurred pre-commercial costs related to the Project and prudently incurred abandonment costs if the Project is abandoned for reasons beyond PG&E's control. We find these incentives are appropriate given the significant policy goals and objectives that will be achieved by the development of the Project.

I. Background

A. The Project

2. The Project is a proposed bulk power transmission system that will deliver up to 3,000 MW of new renewable power over 1,000 miles from British Columbia, Canada,

¹ *Promoting Transmission Investment through Pricing Reform*, Order No. 679, FERC Stats. & Regs. ¶ 31,222, *order on reh'g*, Order No. 679-A, FERC Stats. & Regs. ¶ 31,236 (2006), *order on reh'g*, 119 FERC ¶ 61,062 (2007).

and the Pacific Northwest to northern California. The Project is contemplated to consist of a 500 kV high-voltage alternating current line that spans from the Canadian border to the Grizzly substation in Oregon, and a 500 kV high-voltage direct current line from the Grizzly substation to the Tesla substation located in PG&E's service territory.

3. PG&E anticipates that the Project will reduce congestion, improve reliability, and help to develop renewable resources in Canada. Although the renewable resources have not yet been planned or built, PG&E anticipates their completion by 2015, concurrent with the completion of the Project. The estimated total cost of the Project, excluding any upgrades to adjacent existing transmission systems, is \$3.2 billion.

4. Four other companies, including Avista Corporation (Avista), British Columbia Transmission Corporation, PacifiCorp, and the Transmission Agency of Northern California (TANC), are participating with PG&E to plan the Project (collectively, Project Steering Team) and may join in its final development. Although final cost allocations have not been determined, PG&E expects to assume 50 to 60 percent of the Project's costs, which is an estimated \$1.9 billion.

B. Project's Development Status

5. PG&E explains that the Project has not been reviewed or approved by a state commission, siting authority, or regional planning group.² PG&E states that it has undertaken the Western Electricity Coordinating Council (WECC) Project Planning and Rating Review procedures in order to study the Project. The WECC Project Planning and Rating Review procedure consists of three processes.³ The first process, in which PG&E is currently involved, is the Regional Planning Project Review. The second process, which PG&E has initiated, is the Project Rating Review through which studies are conducted to ensure that new projects are integrated into the existing system with a rating while recognizing protected ratings of other facilities. The third process requires that project sponsors report potential significant additions and changes to the interconnected system in order that WECC members have the opportunity to review and comment on the additions or changes.

² Petition at 25.

³ This WECC planning process is intended to inform others of the opportunity to participate in or review a project, and for the project sponsor to solicit participation. It is intended to avoid duplicate projects and allow a new project to integrate others' needs by mutual agreement. This process consists of three phases: Phase 1 defines the proposed Project and includes a proposed rating; Phase 2 examines the planned rating from Phase 1 and produces an "accepted rating" for the Project (this phase will examine the simultaneous and non-simultaneous transfer capability); and Phase 3 covers the construction period of the project and confirms the accepted rating.

6. PG&E further states that it has met with various stakeholders and submitted an initial report to WECC on November 1, 2007 (November 1 Report), which contained an initial feasibility analysis. PG&E explains that the second process, the Project Rating Review, will produce in-depth studies regarding the Project's impact on reliability and congestion benefits.⁴

7. PG&E filed with its Petition the initial WECC feasibility studies. These studies generally analyzed: (i) a projection for the need of new resources in northern California, the Pacific Northwest, and Canada by 2015; (ii) a feasibility analysis that reviewed 13 possible alternatives for the Project; (iii) preliminary system studies to determine the impact that the Project may have on the grid; and (iv) the preliminary cost of the Project.⁵

8. PG&E acknowledges that the Project is in the early stage of development, that the studies are preliminary or conceptual in nature, and that the Project, as currently contemplated, may change as PG&E works with stakeholders. PG&E also concedes that further study will be needed to select the preferred transmission route, to optimize the capacities and technology that will be utilized for the Project, and to assess the Project's reliability benefits. PG&E will perform these studies during Phase 2 of the WECC process at an estimated cost of \$20 million in 2008 and 2009 alone.

C. Requested Incentives

9. PG&E requests the following incentives under Order No. 679: (1) authorization to recover 100 percent of prudently incurred development and construction costs if the Project is abandoned or cancelled as a result of factors beyond the control of PG&E; (2) authorization to expense and recover all prudently incurred pre-commercial operations costs incurred during the pre-operational planning and testing period; (3) authorization to recover 100 percent of prudently incurred transmission-related construction work in progress (CWIP); and (4) an additional 150 basis point adder to the return on equity (ROE) associated with the revenue requirement of the Project, as demonstrated in a future section 205 filing.

10. PG&E asserts that the package of incentives is appropriately tailored to the demonstrable risks of the Project. According to PG&E, the multi-jurisdictional, multi-entity, multi-national nature of the Project entails significant business, financial, regulatory, and political risks. It asserts that the required incentives are necessary to offset these risks, to provide up-front regulatory certainty and to ease pressure on PG&E's finances and cash flow that would result from the Project.

⁴ Petition at 12.

⁵ Petition at 30.

11. With regard to abandonment costs, PG&E requests recovery of all prudently incurred development and construction costs if the Project is abandoned for reasons beyond PG&E's control. PG&E has suggested that a number of factors may be outside of its control, including: (1) renewable resources may fail to locate and develop in Canada; (2) the cost of raw materials may increase; (3) more affordable resources may be developed in alternative locations; (4) other Project Steering Team members may terminate their participation in the Project; and (5) new generation and/or transmission technologies may make Canadian renewable resources less cost effective. According to PG&E, the ability to recover abandonment costs will help to hedge its risk, will allow management to allocate the necessary resources for the Project, and will facilitate ongoing development efforts with Project Steering Team members and other entities that may participate in the Project.

12. PG&E also requests the recovery of all prudently incurred pre-commercial operation costs. PG&E notes that these costs may include "preliminary surveys, plans and investigations made for the purpose of determining the feasibility of utility projects" and any other costs associated with any studies mandated by regulatory bodies.⁶ PG&E claims that the recovery of these costs will help offset its financial risks and burden for this Project, especially considering its long construction lead time.

13. For similar reasons, PG&E requests recovery of 100 percent of CWIP because of the Project's financial risks and the burdens created by the immense cost of the Project. PG&E claims that this incentive will provide PG&E with up-front regulatory certainty and improved cash flow. In addition, PG&E asserts that the recovery of CWIP will provide rate stability by spreading the Project's costs over an 8-10 year period prior to its completion date, which helps to avoid possible rate shock to customers.

14. Lastly, PG&E asserts that the ROE adder is necessary to compensate PG&E for the unusual and significant project-specific risks. PG&E asserts that the adder may encourage other utilities to consider participation in and/or development of projects such as the one proposed here.

II. Notice of the Filing and Responsive Pleadings

15. Notice of PG&E's Petition was published in the *Federal Register*, 73 Fed. Reg. 1,874 (2008), with interventions and protests due on or before January 22, 2008.

16. The California Public Utilities Commission (CPUC) filed a notice of intervention. Timely motions to intervene were filed by: Powerex Corporation; California Municipal Utilities Association; PacifiCorp; San Diego Gas & Electric Company; the City and County of San Francisco, California; Bay Area Municipal Transmission Group (Bay Area

⁶ See Petition at 37 & n.60.

Munis);⁷ and Southern California Edison Company. In addition, timely comments and protests were filed by: California Department of Water Resources State Water Project (SWP);⁸ Metropolitan Water District of Southern California (Metropolitan); Sacramento Municipal Utility District (SMUD); Northern California Power Agency (NCPA); Trans Bay Cable LLC (Trans Bay); Six California Cities;⁹ M-S-R Public Power Agency (M-S-R); Modesto Irrigation District (Modesto); and TANC.¹⁰

17. Several untimely motions to intervene and protests were filed in this proceeding, including an untimely motion to intervene filed by Avista and untimely protests filed by Northernlights Transmission Inc. (Northernlights), Bay Area Munis, and Sea Breeze Pacific Regional Transmission System (Sea Breeze).

18. PG&E filed an answer to the protests and comments (Answer) on February 6, 2008.

A. Protests and Comments

19. The protestors generally request that the Commission dismiss or reject PG&E's Petition without prejudice to PG&E supplementing or refiling once it has further developed its proposal. Alternatively, SWP requests that further proceedings be established, but held in abeyance, until adequate information is available. Northernlights requests that the Commission establish further proceedings or initiate settlement discussions to consider whether the Project will increase reliability and decrease congestion and how it will be integrated with other proposed projects.

20. Protestors also generally argue that the Petition is premature because the Project's costs, ownership structure, operational aspects, and rate impacts are unknown.¹¹ They contend that Commission action would be premature because further studies are needed to determine the reliability and congestion benefits of the Project and to decide among the 13 different possible line configurations. They also assert that PG&E has not yet vetted this Project through a regional planning process and the renewable generation resources

⁷ Bay Area Munis includes the Cities of Santa Clara, Palo Alto, and Alameda, California.

⁸ SWP states that it supports the CPUC's comments.

⁹ Six California Cities include the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California.

¹⁰ SMUD, Modesto, and M-S-R state that they support TANC's comments.

¹¹ See comments of SWP, Six California Cities, SMUD, Trans Bay, TANC, Bay Area Munis, and Sea Breeze.

have not been developed. In fact, the protestors claim that it is not clear whether the Project will be under CAISO operational control, nor whether any of the other potential Project participants are seeking or planning to seek incentives. Several protestors are concerned that PG&E's ratepayers will bear all of the risk of the Project.

21. Protestors further contend that PG&E's filing does not contain sufficient evidence to grant incentives under Order No. 679.¹² In particular, they argue that PG&E failed to establish that the Project will reduce the cost of delivered power or improve reliability. Moreover, they assert that, as PG&E admits, the Project did not result from a Commission-approved regional planning process and, thus, does not qualify for the rebuttable presumption regarding these facts under Order No. 679. The protestors also challenge whether PG&E has shown a nexus between the requested incentives and the risks associated with the Project.

22. Bay Area Munis, Sea Breeze, and Metropolitan argue that the Commission should not grant incentives until alternative, competing projects are considered and vetted through the regional planning process. Sea Breeze, for example, contends that there are better projects currently under development by other private and public utilities and non-utility merchant developers to bring renewable power into California and that these alternative projects could provide greater benefits and less environmental disruption. Sea Breeze concludes that the Commission should make clear that as a matter of policy, it will not grant transmission development incentives to an entity without offering comparable incentives for alternative projects, at least until that entity can affirmatively demonstrate that its proposal is the best solution available to meet the identified need. Metropolitan argues that ratepayers will be harmed if the Project is encouraged with incentives, while more beneficial, cost-effective transmission projects are deferred or even abandoned if they do not receive incentive rate treatment.

23. A number of protestors argue that granting PG&E's request will set a bad precedent and encourage a deluge of premature petitions, thereby diverting the attention and limited resources of the Commission, state commissions, and interested parties from other Commission proceedings that are not so speculative.¹³

24. A number of protestors argue that PG&E has not justified approval of the full set of incentives.¹⁴ They assert that the overall package of incentives is redundant and overcompensates PG&E for the risks associated with the Project. In addition, the CPUC

¹² See comments of SWP, Six California Cities, Metropolitan, NCPA, TANC, Northernlights, and Sea Breeze.

¹³ See comments of SWP, the CPUC, Metropolitan, and Sea Breeze.

¹⁴ See comments of SMUD, TANC, and CPUC.

and Metropolitan argue that PG&E's requested incentives, in part, are duplicative of CPUC-approved incentives in a state proceeding. These protestors emphasize that the CPUC already provided PG&E with the authority to recover as much as \$14 million to study the feasibility of the Project. The protestors argue that certain incentives (*e.g.*, CWIP and recovery of abandoned plant) lower overall project risk such that a higher ROE may not be appropriate.

25. Other protestors argue that the Commission should not grant PG&E a blank check to study the Project at the expense of ratepayers.¹⁵ These protestors request that the Commission cap the incentives to known or reasonably projected costs, subject to a proper prudence review, in order to prevent incentive returns on cost overruns and to provide an incentive for PG&E to timely complete the Project.

B. PG&E's Answer

26. PG&E replies that the Petition is not premature and the Project is entitled to incentives under the Commission's policy. PG&E explains that it filed the Petition at this early stage because it needs up-front regulatory certainty regarding the recovery of certain costs to ensure further development of the Project. PG&E states that the Project is at a critical stage and that, as the lead sponsor, it seeks the incentives to reduce its own risk exposure and to maintain co-sponsor support of the Project.

27. PG&E also claims that the protestors are mistaken regarding its ability to recover \$14 million under a CPUC-approved feasibility study. PG&E acknowledges that while it has been authorized to recover such money under a CPUC order, it emphasizes that the CPUC order only permits recovery of initial feasibility studies regarding the procurement of renewable generation from British Columbia. PG&E states that the money does not address "any of the myriad steps necessary to support the actual *development and implementation* of a specific transmission project such as the one contemplated in PG&E's Petition."¹⁶ PG&E makes clear that it does not and will not seek to recover the costs associated with the CPUC-approved feasibility studies as part of any FERC-approved rates.¹⁷

28. PG&E argues that it is entitled to an ROE adder notwithstanding the other incentives that may be granted by the Commission. While it notes that CWIP and abandoned plant recovery incentives may help to reduce the overall risk of the Project, these incentives do not eliminate all risks and do not preclude consideration of an ROE

¹⁵ See comments of NCPA, SMUD, and TANC.

¹⁶ Answer at 10 (emphasis in original).

¹⁷ *Id.* at 12.

adder. PG&E points to numerous Commission orders that have permitted the simultaneous recovery of CWIP, abandonment costs, pre-commercial costs and an ROE adder.¹⁸

29. Finally, PG&E disagrees that Commission approval of the incentives may skew the development of competing projects. PG&E asserts that it is complying with the requirements of Order No. 890 by engaging in open and coordinated planning with all stakeholders in the areas affected by the Project, including other transmission owners, the WECC, the Northwest Power Pool, ColumbiaGrid, the Northern Tier Transmission Group, and the CAISO. PG&E further notes that the various sponsors of transmission projects in the Pacific Northwest region have pledged their commitment to coordinate their respective planning studies.

III. Discussion

A. Procedural Matters

30. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure,¹⁹ the notice of intervention and the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. In addition, we will grant the unopposed, late interventions and protests of Avista, Northernlights, Bay Area Munis, and Sea Breeze, given the early stage of this proceeding, the absence of any undue prejudice or delay, and their interest in this proceeding.

31. Rule 213(a) of the Commission's Rules of Practice and Procedure²⁰ prohibits an answer to a protest, unless otherwise permitted by the decisional authority. We will accept PG&E's answer because it has provided information that assisted us in our decision-making process.

B. Commission Determination

32. Under section 219 of the Federal Power Act, the Commission is required to provide rate incentives for investment in transmission facilities "for the purpose of benefiting consumers by ensuring reliability and reducing the cost of delivered power by reducing transmission congestion."²¹ Thus, under Order No. 679, an applicant must show, among other requirements, that a proposed project will either ensure reliability or

¹⁸ *Id.* at 14.

¹⁹ 18 C.F.R. § 385.214 (2007).

²⁰ *Id.* § 385.213(a)(2).

²¹ 16 U.S.C. § 824s (2006).

reduce the cost of delivered power by reducing transmission congestion in order to qualify for rate incentives.²² PG&E acknowledges throughout its Petition, however, that given the early stage of planning the Project is “anticipated” or “expected” to meet this requirement.²³ PG&E concedes that further studies will be needed to show that the Project will, in fact, improve reliability or reduce congestion. Thus, while we find that the Project does not meet the requirements of Order No. 679 at this time, we will grant PG&E’s request for incentives, in part, under our authority to grant incentives that promote particular policy objectives.

33. As we noted in Order No. 679-A, our authority to grant policy-based incentives is well established and exists in addition to our policy under Order No. 679.²⁴ Decisions regarding incentives “involve matters of rate design . . . [and] policy judgments [that go to] the core of [the Commission’s] regulatory responsibilities.”²⁵ Based on this authority, we believe that there is a significant policy objective in finding that just and reasonable rates can include incentives to utilities, such as PG&E, that develop multi-regional and multi-national transmission projects. Because of the size, scope and complexity of these projects, many companies may be unwilling and unable to spend significant sums of money to assess whether the project would ensure reliability and/or reduce congestion. In addition, there is an important policy objective in encouraging companies to explore new ways of finding and delivering renewable resources. PG&E’s Project supports both of these policy objectives. We therefore believe that granting certain of PG&E’s incentive rate requests will result in just and reasonable rates but defer consideration of the remainder until development of the Project is further along.

34. The proposed Project is exceptional in both size and purpose, as it will transport as much as 3,000 MW of new renewable power over 1,000 miles from British Columbia, Canada, through the Pacific Northwest, and into northern California. PG&E proposes that this Project, similar to the Pacific Intertie, can be designed to take advantage of the

²² 18 C.F.R. § 35.35(i); see *Baltimore Gas and Elec. Co.*, 120 FERC ¶ 61,084, at P 40 (2007) (*BG&E*). Although Order No. 679 permits a rebuttable presumption regarding this standard in certain cases, PG&E admits that it is not yet entitled to a rebuttable presumption for the Project. See Petition at 25; Answer at 2-3, 9.

²³ Petition at 18. For example, on page 18, PG&E states that “preliminary data [*i.e.*, the reports] suggest that the Project is also expected to provide reliability benefits.” On that same page, PG&E states that “it is anticipated that there will be a reduction in the level of remedial actions . . . needed for the loss of two transmission elements to achieve satisfactory system performance.”

²⁴ Order No. 679-A, FERC Stats. & Regs. ¶ 31,236 at n.37.

²⁵ *Id.* (citations and internal citation marks omitted).

complementary relationship between the seasonal demands of summer-peaking California and winter-peaking Pacific Northwest and British Columbia, making it possible to share resources to meet the energy needs of both regions. Additionally, PG&E expects the Project to improve the reliability of the bulk transmission grid in these geographic regions. PG&E claims that access to the new renewable resources will help reduce the cost of delivering power to customers because additional transmission capacity will allow the markets in the West access to more generation and to avoid or reduce congestion in the existing path connecting Canada, the Pacific Northwest and California. The Project is also expected to facilitate the ability of utilities in California, Oregon and Washington to comply with their respective renewable portfolio mandates and greenhouse reduction goals. PG&E expects that this Project will create an opportunity for transmission planning coordination amongst various regions given the possible involvement of utilities in three states and one Canadian province. Once completed, this Project has the potential for realizing a number of benefits that are consistent with significant policy objectives of the Commission.

35. The Project's size and scope are likely to create unique and special challenges for PG&E. With an estimated total cost of \$3.2 billion, which does not include any upgrades to adjacent existing transmission systems, and a seven-year construction lead time, the Project is without doubt an immense financial undertaking for PG&E or any utility. PG&E also faces substantial risks associated with planning and developing this multi-jurisdictional transmission project, as PG&E will have to receive siting authority and permits from three states, various regional planning organizations, and Canada. While PG&E has attracted Project co-sponsors to help ameliorate these risks (*i.e.*, the Project Steering Team), the management and maintenance of this team creates additional risks for PG&E.

36. Based on these facts and the nature of the Project, we find that it is appropriate to grant PG&E's request to recover prudently incurred abandonment costs. As we have emphasized in other proceedings, the recovery of abandonment costs is an effective means of encouraging transmission development by reducing the risk of non-recovery of costs.²⁶ Such is the case here. Thus, we expect that the recovery of these costs will help PG&E to finance the Project and attract and maintain co-sponsors willing to develop the Project. Accordingly, we will grant PG&E's request for recovery of 100 percent of prudently incurred costs if the Project is abandoned for reasons beyond PG&E's control. Consistent with Commission policy, the utility's rates based on these costs must be

²⁶ Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 163.

shown to be just and reasonable in a subsequent section 205 filing for recovery of abandoned plant.²⁷

37. Likewise, we will grant PG&E's request to recover prudently incurred pre-commercial costs, subject to a future section 205 filing that will ensure the utility's rates will be just and reasonable. The recovery of such costs will provide PG&E with up-front regulatory certainty and will assist PG&E in its effort to attract financing and co-sponsors for the Project. In addition, we expect that this incentive will enhance PG&E's cash flow during the construction period, reduce interest expense, assist with financing, and improve coverage ratios used by rating agencies to determine credit quality. Given the size of the Project and its construction lead time, this incentive will be significant as PG&E moves forward with the Project.

38. While this order provides PG&E with the ability to recover prudently incurred abandonment costs and pre-commercial costs, PG&E will have to seek recovery of these costs as part of future section 205 filings and will have to demonstrate that the costs, in fact, were prudently incurred and will result in just and reasonable rates. PG&E also will have to establish that these costs were not recovered as part of the CPUC-approved rates for feasibility studies. Stakeholders will be able to challenge these costs at that time.

39. As for the issue of whether the Project is the best solution or whether competing projects are entitled to incentives, we reiterate our policy to review each request for incentives on its own merits and on a case-by-case basis.²⁸ Only PG&E's Petition is before us here. Thus, we are reviewing only whether that petition meets the requirements for incentives under Commission policy.

40. Finally, we defer consideration of PG&E's requested CWIP and ROE incentives. Given the early stage of the Project's development, we find it premature to address these requests. Once PG&E completes the necessary studies to demonstrate that the Project meets the statutory standard under section 219 and the requirements of Order No. 679, we

²⁷ *Id.* P 165-66. But, the Commission notes that:

[i]f an applicant obtains a declaratory order finding that the proposal qualifies for incentive-based rate treatment, the subsequent section 205 proceeding would be limited to a review of the applicant's rates and would not include a review of whether the applicant's facility qualifies to receive incentive-based rate treatments.

Id. P 78.

²⁸ *Southern Cal. Edison Co.*, 121 FERC ¶ 61,168, at P 46 (2007).

encourage PG&E to resubmit a request for any additional incentives it believes appropriate for the Project under Order No. 679.

The Commission orders:

PG&E's petition for declaratory order is hereby granted in part, as discussed in the body of this order.

By the Commission. Commissioners Kelly and Wellinghoff concurring with separate statements attached.

(S E A L)

Kimberly D. Bose,
Secretary.

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Pacific Gas and Electric Company

Docket No. EL08-24-000

(Issued April 21, 2008)

KELLY, Commissioner, *concurring*:

In this order, the Commission addresses a request for transmission rate incentives submitted by Pacific Gas and Electric Company (PG&E) for a proposed transmission project that would deliver up to 3,000 MW of new renewable power from British Columbia, Canada and the Pacific Northwest to northern California. PG&E requests several incentives: 1) authorization to recover 100% of prudently incurred development and construction costs if the Project is abandoned or cancelled as a result of factors beyond its control; 2) authorization to expense and recover all prudently incurred pre-commercial operations costs incurred during the pre-operational planning and testing period; 3) authorization to recover 100% of prudently incurred transmission-related construction work in progress (CWIP); and 4) an additional 150 basis point adder to the return on equity (ROE).

I concur today for two reasons. First, I have reviewed the project according to criteria I have relied upon in previous proceedings¹ and have determined that future incentive rate treatment for the project as described in the petition would be warranted should the project be completed as presented in the petition. As described in the instant proceeding, PG&E contemplates a variety of developments that I deem to be worthy of incentive rate treatment, including a new 1,000 mile transmission line, cooperative efforts among several transmission owning utilities, and inter-regional and international development. Given that this project is in early stages of development, has not been reviewed by a state commission, siting authority, or regional planning group, and may indeed change as PG&E works with stakeholders, I concur with the decision to refrain from granting all the requested incentives. Even so, I believe that there is value in granting certain of the incentives so that development of the project may progress.

¹ See *American Electric Power Service Corporation*, 118 FERC ¶ 61,041 (2007).

Second, I am pleased to see that, while we grant incentives to PG&E (authority to recover prudently incurred pre-commercial costs related to the project and prudently incurred abandonment costs if the Project is abandoned for reasons beyond PG&E's control), we are requiring PG&E, in each case, to apply through a section 205 proceeding for the recovery of the costs associated with both the incentives granted today.

For these reasons, I respectfully concur with this order.

Suedeem G. Kelly

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Pacific Gas and Electric Company

Docket No. EL08-24-000

(Issued April 21, 2008)

WELLINGHOFF, Commissioner, concurring:

In its petition for declaratory order, PG&E states that as the Project is still in its earliest stages, members of the Steering Committee have not yet evaluated technology options.¹ PG&E acknowledges, however, that further study is required to “optimize the capacities and technology that will be utilized” in the Project.² PG&E also states that it “will endeavor to utilize advanced transmission technologies in its effort to maximize the capacity, efficiency, or reliability with respect to the Project.” In addition, PG&E states that it will advise the Commission as it makes decisions with respect to the use of particular advanced transmission technologies in the Project.³

As I have stated on several previous occasions, I believe that in providing an incentive ROE adder for transmission construction, the Commission should focus on encouraging investment decisions beyond the upgrades required to meet a utility’s service obligations or the minimum standard for good utility practice. Targeting incentive ROE adders in this way appropriately promotes investments that provide incremental benefits (*e.g.*, those resulting from the deployment of best available technologies that increase efficiency, enhance grid operations, and result in greater grid flexibility) to all users of the grid and ultimate consumers.⁴ I have also noted that among the important requirements established in Order No. 679, the Commission stated that applicants for incentives must provide a “technology statement that describes what advanced technologies have been considered and, if those technologies are not to be employed or have not been employed, an explanation of why they were not deployed.”⁵

¹ Petition at 43.

² *Id.* at 13-14.

³ *Id.* at 43.

⁴ *See, e.g., Westar Energy, Inc.*, 122 FERC ¶ 61,268 (2008) (separate statement of Commissioner Wellinghoff)

⁵ Order No. 679 at P 302.

I write separately to highlight PG&E's commitment to "endeavor to utilize advanced transmission technologies in its effort to maximize the capacity, efficiency, or reliability with respect to the Project." I encourage PG&E to address this issue in detail if and when, in response to today's order, the company submits a request for additional incentives that it believes are appropriate for the Project under Order No. 679.

For this reason, I concur with today's order.

Jon Wellinghoff
Commissioner