



# FERC Proposes Revised Incentive Rate Policies for Electric Transmission Investments

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On March 19, 2020, the Federal Energy Regulatory Commission (FERC or Commission) issued a [Notice of Proposed Rulemaking \(NOPR\)](#) proposing substantial revisions to its incentive rate policies for electric transmission. The proposal is more generous than current FERC policies. Key elements of the proposal include:

- An ROE adder of up to 100 basis points for transmission projects that have a high economic benefit-to-cost ratio;
- An ROE adder of up to 50 basis points for transmission projects that have significant and demonstrable reliability benefits;
- An ROE adder of 100 basis points for the costs of transmission technologies that enhance reliability, efficiency, capacity, and operation of new or existing transmission facilities;
- An increase in the ROE adder for RTO participation from 50 basis points to 100 basis points; and
- Establishment of a 250 basis point cap on total ROE incentives, in lieu of the current policy limiting total ROE based on the zone of reasonableness established in the base ROE analysis.

Comments are due 90 days from the date the NOPR is published in the Federal Register.

## Background

FERC's incentive transmission rate rules were initially established in Order No. 679, which implemented the requirements of section 219 of the Federal Power Act (FPA). This NOPR follows a March 21, 2019 Notice of Inquiry (NOI), summarized [here](#), in which FERC launched an expansive review of its incentive policies.

## Proposed Transmission Incentive Rate Policy Changes

### 1. Shifting Focus from "Risks and Challenges" to "Benefits to Consumers"

The Commission currently evaluates applications for rate incentives based on the risks and challenges of a transmission project. The NOPR proposes to instead focus on a project's benefits to consumers. The NOPR notes that the purpose for incentive rate treatments articulated in section 219 of the FPA is to benefit consumers by ensuring reliability and reducing the cost of delivered power by reducing transmission congestion. The proposed shift in focus from risks and challenges to consumer benefits is meant to more closely align the Commission's incentive rate regulations with the statutory directive of section 219.

### 2. Project Incentive of up to 100 Basis Points Based on Economic Benefits

The NOPR proposes an ROE incentive for transmission projects based on the degree to which project benefits exceed the project costs. Specifically, the Commission proposes: 1) a 50 basis point adder for transmission projects that have a *pre-construction* benefit-to-cost ratio in the top 75th percentile of studied transmission projects, and 2) an additional 50 basis point adder for transmission projects that demonstrate *post-construction* a benefit-to-cost ratio in the 90th percentile of studied transmission projects. The NOPR discusses threshold ratios based on a review of 41 economic transmission projects in MISO, CAISO and PJM from 2013 to 2019, as a first step in developing national benefit-to-cost ratio thresholds.

### **3. Project Incentives of up to 50 Basis Points Based on Reliability Benefits**

The NOPR proposes a reliability incentive of up to 50 basis points for transmission projects that provide one or more significant and demonstrable reliability benefits to address specific reliability needs. The NOPR states that incentive applicants should support their requests by providing a quantitative analysis of a transmission project's potential reliability benefits, where possible. Such analyses should include, for example, reduced loss of load probability, reduced unserved energy under various contingencies, reductions in reliability unit commitments, increases in import or export capability, and improvements in voltage stability.

### **4. Transmission Technology Incentives — 100 Basis Point Adder Plus Regulatory Asset Treatment**

The NOPR proposes a Transmission Technology Incentive of a 100 basis point adder for investments in transmission technologies that "enhance reliability, efficiency, capacity, and improve the operation of new or existing transmission facilities." Examples of such technologies include: (1) advanced line rating management; (2) transmission topology optimization; and (3) power flow control.

The NOPR also proposes a Deployment Incentive to allow applicants to seek regulatory asset treatment for installation and operation of eligible transmission technologies. In particular, the new rules would allow certain initial costs that are traditionally expensed in the year incurred to be deferred as a regulatory asset and included in rate base, and amortized over a five-year period. The NOPR also proposes that certain pilot projects would receive a rebuttable presumption of eligibility for these transmission technology incentives.

### **5. 100 Basis Point Adder for Participating in an RTO**

The NOPR proposes to increase the RTO/ISO participation adder to 100 basis points (it is currently 50 basis points). It would further clarify that the adder is available to RTO participants without regard to whether RTO participation is required by state law or otherwise. The NOPR seeks comment on what process should be used to implement a 100 basis point RTO participation adder for existing transmission owner rates.

### **6. 250 Basis Point Cap on Total ROE Incentives**

The NOPR proposes a cap of 250 basis points on total ROE adders. This approach would replace the Commission's existing policy requiring that the total ROE (base plus any incentives) remain within the zone of reasonableness used to determine the base ROE.

### **7. Non-ROE Incentives**

The Commission proposes to continue to make available certain non-ROE incentives including abandoned plant cost recovery, CWIP, hypothetical capital structure, accelerated depreciation for rate recovery, and regulatory assets for pre-commercial costs. The NOPR proposes to change the effective date for the Abandoned Plant Incentive from the date that the Commission issues an order granting 100 percent recovery of abandoned plant costs to the date that the transmission project was selected in a regional transmission planning process for the purposes of cost allocation.

### **8. Elimination of Incentives for Transcos**

The NOPR proposes to eliminate the current incentives for transmission only companies. The NOPR finds that the Transco business model has not enhanced the deployment of transmission infrastructure sufficiently to justify incentives based on this business model beyond those incentives available to all public utilities.

### FOR MORE INFORMATION

If you are interested in additional information on the proposed revisions to FERC's transmission rate incentive policies, please contact [Doug Smith](#), [Phil Mone](#), [Suzanne Keppeler](#), or any member of the firm's [Electric Practice](#) at (202) 298-1800 in Washington, D.C. or in Seattle at (206) 623-9732.

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