

**Sponsors: American Municipal Power; Ohio Municipal Electric Association; Illinois Municipal Electric Agency; Delaware Municipal Electric Corporation; Blue Ridge Power Agency; California Municipal Utilities Association; Oklahoma Municipal Power Authority**

**In Support of Controlling Transmission Cost Increases**

1 The American Public Power Association (APPA) supports prudent investment in our nation’s  
2 transmission infrastructure. We note, however, that transmission rates paid by consumers have been  
3 increasing substantially in some regions, and this trend is expected to continue. The Energy Information  
4 Administration’s *2019 Annual Energy Outlook* projects that rising transmission and distribution costs will  
5 offset much of the projected decrease in generation costs through 2050. Transmission cost increases can  
6 impose a significant burden on public power utilities and the customers they serve.

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8 These rising costs are primarily attributable to a steady increase in transmission investment across the  
9 United States. The Edison Electric Institute (EEI) projected that investor-owned utilities and stand-alone  
10 transmission companies would invest a record \$23.7 billion in transmission assets in 2018. That figure is  
11 nearly double the level of investment EEI reported for 2011 (\$11.9 billion). An analysis prepared by The  
12 Brattle Group and presented at the 2018 APPA Legal & Regulatory Conference confirmed this increase in  
13 transmission spending in recent years. The Brattle analysis calculated that investments by transmission  
14 owners from 2013 to 2017 exceeded \$70 billion in the regional transmission organization (RTO) and  
15 independent system operator (ISO) regions alone.

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17 There are a number of legitimate drivers for the increase in transmission investment, including  
18 replacement of aging infrastructure, system hardening and resilience, improvements to meet evolving  
19 reliability and security requirements, and the integration of renewable resources. It is imperative,  
20 however, that the Federal Energy Regulatory Commission (FERC) enforce planning procedures for this  
21 transmission investment that ensures facilities are beneficial to customers and cost-effective. Regional  
22 and inter-regional transmission planning processes must reflect the requirements of FERC Order Nos. 890  
23 and 1000 in a manner consistent with the purposes and goals of those orders. It is also essential that  
24 FERC implement and enforce transmission cost recovery and incentive policies that ensure customers do  
25 not pay excessive transmission rates.

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27 The return on equity (ROE) that FERC allows to be reflected in cost-based transmission rates is a  
28 significant component of the transmission costs paid by customers. FERC has proposed substantial  
29 modifications to its method for calculating the base (pre-incentive) ROE that may be included in cost-  
30 based transmission rates. The revised approach, if adopted, could result in higher allowed ROEs and  
31 could increase the level of incentive ROE that transmission owners are permitted to collect. FERC’s

32 proposed policy could also make it more difficult to challenge an existing ROE as unjust and  
33 unreasonable under section 206 of the Federal Power Act (FPA). FERC’s policies for setting  
34 transmission ROEs must reflect the consumer protection objectives of the FPA and must ensure that  
35 authorized ROEs do not exceed the market cost of equity for investments of similar risk.

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37 While section 219 of the FPA required FERC to develop appropriate rules for transmission rate  
38 incentives, such rules remain subject to the overarching requirement that all rates, charges, terms, and  
39 conditions be just and reasonable and not unduly discriminatory or preferential. Rate incentives may  
40 over-compensate for business and financial risk. FERC should adopt and enforce policies that encourage  
41 transmission development that benefits consumers or shifts risks to transmission developers, but not  
42 reward or encourage overbuilding or poor cost controls.

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44 When considering incentive rates, particularly ROE incentive adders, FERC should adhere to previously-  
45 recognized incentive rate principles that ensure consistency with just and reasonable rate requirements.  
46 Applicants for rate incentives must justify incentives on a case-by-case basis, and there must be a  
47 demonstrated connection between the incentive and the conduct the incentive is supposed to encourage.  
48 Requests for project-specific incentive ROEs must demonstrate that an incentive is justified by the risks  
49 and challenges of the project that are not already accounted-for in the base ROE or by other incentives.  
50 Applicants must demonstrate efforts to minimize project risk, including appropriate consideration of joint  
51 ownership arrangements. Incentive returns should not be applied to cost overruns. And, as the United  
52 States Courts of Appeals have recently reiterated, incentives should not be used to motivate past conduct  
53 or actions that utilities are otherwise legally compelled to undertake.

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55 FERC Order No. 1000 proposed an expanded role for competitive transmission development, but, to date,  
56 the number of projects selected through a regional competitive process has been very limited. The Brattle  
57 analysis referenced above found, for example, that only a single project was selected through competitive  
58 solicitations in RTOs and ISOs in 2017. There would be value in FERC renewing its efforts to evaluate  
59 the status of competitive transmission development under Order No. 1000, including an assessment of the  
60 potential for increased transmission competition to moderate transmission cost increases in some or all  
61 planning regions.

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63 **NOW, THEREFORE BE IT RESOLVED:** That the American Public Power Association (APPA) urges  
64 the Federal Energy Regulatory Commission (FERC), in the face of rising transmission costs, to

65 implement and enforce transmission planning, cost recovery, and incentive policies that ensure customers  
66 do not pay excessive transmission rates; and

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68 **BE IT FURTHER RESOLVED:** That APPA reiterates that FERC should enforce the transmission  
69 planning process requirements of FERC Order Nos. 890 and 1000 in a manner consistent with the  
70 purposes and goals of those orders; and

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72 **BE IT FURTHER RESOLVED:** That APPA urges FERC to adhere to recognized requirements for  
73 transmission incentives to ensure just and reasonable rates, including: (i) a demonstrated connection  
74 between the incentive and the conduct the incentive is supposed to encourage; (ii) a showing that project-  
75 specific incentives are justified by project risks and challenges; (iii) demonstrated efforts to minimize  
76 project risks, including appropriate consideration of joint ownership arrangements; (iv) incentive returns  
77 should not be applied to cost overruns; and (v) incentives should not be granted to motivate past conduct  
78 or actions that public utilities are otherwise legally compelled to undertake; and

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80 **BE IT FURTHER RESOLVED:** That APPA recommends that FERC renew its efforts to evaluate the  
81 status of competitive transmission development under Order No. 1000, including an assessment of the  
82 potential for increased transmission competition to moderate transmission cost increases in some or all  
83 planning regions.