NEWS RELEASE

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Docket No. RM20-10-000

FERC Proposes Reforms to Electric Transmission Incentives Policy

The Federal Energy Regulatory Commission (FERC) today proposed to revise its electric transmission incentive policy to stimulate the development of transmission infrastructure needed to support the nation's evolving generation resource mix, technological innovation and shifts in load patterns. The reforms will more closely align the Commission's policy with its statutory obligation to provide incentives that benefit consumers by ensuring reliability and reducing the cost of delivered power.

"I've been saying for a while now that our transmission incentives policy should focus on consumers and the benefits they will see," FERC Chairman Neil Chatterjee said. "This proposal would provide the Commission with a clear framework to grant incentives for the most beneficial transmission projects."

Section 219 of the Federal Power Act, added by the Energy Policy Act of 2005, directs FERC to develop incentive-based rates for electric transmission. FERC implemented incentives in Order No. 679, issued in July 2006, and provided additional guidance in a November 2012 policy statement. However, the ways in which transmission is planned, developed, operated and maintained has change considerably since then, and the current policy may not fully accomplish intent of FPA section 219.

Today's Notice of Proposed Rulemaking (NOPR) shifts the focus in granting transmission incentives from an approach based on the risks and challenges faced by a project to an approach based on the benefits to consumers. It would eliminate Order No. 679's "nexus test," which requires applicants to show a connection between the requested incentives and the risks and challenges associated with the project, and instead provide a series of incentives based on economic and reliability benefits.

Among the proposed reforms, the NOPR would:

- Increase the incentive for joining and remaining a member of a Regional Transmission Organization, an Independent System Operator or other Commission-approved transmission organization from 50 basis points to 100 basis points and make the incentive available regardless of whether that participation is voluntary.

- Provide 50 basis points transmission projects that meet a pre-construction benefit-to-cost ratio in the top 25 percent of projects examined over a sample period, and an additional 50 basis points for projects that meet a post-construction benefit-to-cost ratio in the top 10 percent of projects studied over the same sample period.

- Afford up to 50 basis points for projects that demonstrate reliability benefits by providing quantitative analysis, where possible, as well as qualitative analysis.

- Offer a 100-basis-point incentive for transmission technologies that enhance reliability, efficiency and capacity as well as improve the operation of new or existing transmission facilities.

The NOPR proposes to replace the current policy of limiting incentives to the base ROE zone of reasonableness with a 250-basis-point cap on total ROE incentives. This change recognizes that base ROE and transmission ROE incentives serve different functions. In addition to seeking comment on the level of a cap, the NOPR asks whether transmission providers should be allowed, on a case-by-case basis, to seek removal of the zone-of-reasonableness restrictions placed on previously granted incentives and replace them with the hard cap.

The NOPR also retains several existing incentives, including those related to construction work in progress and hypothetical capital structures, that remain vital in removing regulatory barriers and other impediments to transmission investment.

Comments on the NOPR are due 90 days after publication in the *Federal Register*.

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