



November 18, 2010

News Media Contact

Mary O'Driscoll | 202-502-8680

Docket Nos. ER08-374-001 and EL08-38-001;
ER08-386-000 and -001; ER08-413-002; ER06-
278-007

FERC Clarifies ROE Policy for Electric Transmission Projects

The Federal Energy Regulatory Commission (FERC) acted to improve the investment climate for electric transmission projects today by clarifying an important aspect of its policy for determining what return on equity is available to developers of those projects.

When a developer of an electric transmission project applies to recover the costs of a project through a rate that requires FERC approval, the developer generally proposes a return on equity (ROE) that is intended to account for the risks facing that company. As part of that proposal, a developer generally presents a set of other companies, known as a proxy group, that it sees as facing comparable risks.

In today's action, FERC said it will not require that a proxy group be composed of companies in the same geographic region as the applicant. While geographic proximity may be relevant in determining whether that company has comparable risks, FERC said that geographic proximity is not the only, or the most important, determining factor.

Instead, proxy groups should be determined on a case-specific basis, FERC said. For instance, an applicant may rely solely on companies in its geographic region to form a proxy group and to perform the necessary financial analyses after demonstrating that these companies have comparable risk. Alternatively, an applicant may identify companies with comparable risk by looking beyond its geographic region. Each applicant must support its proposed proxy group, and other interested parties will have the opportunity to challenge the composition of that proxy group.

FERC acted today in response to questions that have arisen in recent years. Some companies have inquired whether several orders that FERC issued in 2008 require a proxy group to be composed only of companies in the same geographic region as the applicant. Many of those companies contend that such a requirement unnecessarily complicates their identification of a proxy group with comparable risk.

FERC took today's actions in the context of addressing requests for clarification or rehearing of four of those orders issued in 2008. One of those orders, involving transmission rate incentives requested by Potomac-Appalachian Transmission Highline LLC (PATH), also addresses a number of other rate-related issues. In the PATH case, FERC reaffirms that the project is worthy of receiving incentives, but sets several other issues for an evidentiary hearing.

R-11-06

(30)