



May 19, 2011

Commissioner John R. Norris

STATEMENT

FEDERAL ENERGY REGULATORY COMMISSION

Docket Nos. RM11-26-000

Item No. E-9

Statement of Commissioner John R. Norris on Notice of Inquiry on Promoting Transmission Investment Through Pricing Reform

"I believe that issuing this Notice of Inquiry (NOI) today is important for a number of reasons. First, I think the timing is significant because it encompasses many issues involved in a number of incentive rate cases we are ruling on today.

Second, I believe it is an appropriate response to concerns that have been raised regarding this Commission's incentive rate policies. In my concurring opinion in our PATH order last November, I expressed my own difficulty in assessing transmission rate incentives under the Commission's current policies. Today's NOI asks a number of questions that can help clarify the Commission's incentives policy going forward.

I want to note that some of the concerns and even criticisms that I have heard may have merit, but others may be misplaced or based on only partial information. The information and input shared through this NOI should enable the Commission and public to better assess the concerns raised.

Finally, and most importantly, I believe the need for investing in and rebuilding our nation's transmission grid to develop a more sustainable energy system that meets multiple goals for America - such as national security, energy independence, public health and safety and a cleaner environment - is even greater today than when Congress passed the Energy Policy Act of 2005 (EPAAct 2005).

My comments on this issue to date and here today are not meant to be critical of this Commission or the decisions that have been made on the many requests for incentives under Federal Power Act (FPA) section 219 and FERC Order No. 679. I think the Commission went to work after Congress directed it to do so and developed a rule and policies that got the train headed down the right track. We clearly have more transmission in service or being built today, and that transmission would most likely not have been built, or started, were it not for the work and decisions of this Commission to date.

But, it has been five years since Order No. 679 was issued and the Commission began implementing FPA section 219. While some may think we do things perfectly here and always get it right, I'm not one of them. This NOI gives us a chance to assess our successes and perhaps mistakes and request input on how we may be able to improve our policies and adapt them to any changes in need, or changes in circumstances, that have occurred over the past five years.

If we were even near-perfect and this were a near-perfect world we would be able to plan for the exact upgrades and new transmission to meet our needs in the most efficient manner possible. We would then have the perfect competitive model to achieve maximum efficiency in building the identified improvements, and we would know and be able to set the most effective and efficient return on equity necessary to attract the capital to fund all of this and enable it to be built in the most cost effective manner for consumers.

This would be followed by all the states and stakeholders coming to agreement on siting and cost allocation, and lines would go up and electricity would flow throughout a reliable system and congestion would vanish. Unfortunately, Moses is not around to part the seas and make all of this happen so smoothly.



Instead, we have to grind it out through the many phases of building and rebuilding transmission in this country. So, today, in this order, we are asking for input and feedback to help guide us going forward so we can continue the mission Congress set for us and get the transmission built that is needed for a reliable and economically efficient electric system.

I would like to highlight some of the issues and thoughts around incentives rates that are of particular interest to me.

I begin with the belief that, like nearly every element of our electric future, the cost for transmission is going to go up in this country. The biggest factor in my belief is that a large percentage of our transmission infrastructure is old and in need of replacement. It is also important that there is adequate transmission to achieve a competitive wholesale market so consumers can benefit from competitive electric prices. There have also been changes over time in flow patterns and demand that necessitate new transmission.

I believe the increase in transmission rates as a whole is often perceived to be caused by ROE incentive adders and costs for building transmission that exceed the estimates provided to and utilized in the planning process. I am hopeful the NOI will also better inform the Commission and the public on the relationship between the overall increase in transmission costs and the share of those cost increases represented by incentive rates and cost overruns.

Regarding incentive adders for RTO membership and independent transmission company status, I look forward to input that helps me assess whether circumstances in the industry and policy objectives five years ago are sufficiently present today to require these incentives, or whether there is some other form or amount of incentive that is more appropriate.

And then, there is the question that is perhaps most perplexing - what level of difficulty is needed to justify incentives for risk reducers and risk return adders? Let's face it, every transmission line is hard to build. If "hard" is a key factor, or even the key factor, then everything would get a risk incentive. How do we assess and implement a policy based on level of difficulty in today's environment for building transmission?

Finally, I want to stress I do not have any predetermined thoughts or agenda on incentive rate policy. I have looked forward to initiating a broad look at our policy for some time for the sole reason that it is important we get this right. Consumers can benefit greatly from key transmission investments and the development of new technologies to make our electricity system more efficient and environmentally responsible. This is our opportunity to impact the direction our transmission system takes us, by providing investors, developers, inventors and innovators the incentives necessary to meet our most difficult and hard to achieve objectives."