



June 19, 2014

Acting Chairman Cheryl A. LaFleur

FEDERAL ENERGY REGULATORY COMMISSION

STATEMENT

Docket Nos. EL11-66-001, EL13-33-000; EL12-39-000, EL13-63-000, EL12-59-000, EL13-78-000, and ER08-375-006

Item Nos. E-7, E-8, E-9, E-10, E-11, E-12, and E-24

## Statement of Acting Chairman Cheryl A. LaFleur on New ROE Methodology for Electric Utilities

"Today the Commission is voting out an important Order on Initial Decision concerning the New England Transmission Owners' base return on equity (ROE), along with several corresponding ROE complaint orders.

"At various times, each of my peers has publicly emphasized the importance of addressing the backlog of ROE cases at the Commission. When I became Acting Chairman, I stated that acting on the backlogged ROE orders was a high priority for me. I established specific goals for addressing the ROE cases, including that any resolution would be fair to customers and investors, principled and sustainable, and represent a consensus of my colleagues. While we did not achieve unanimous agreement on all points, I believe that we have met these goals.

"In order to address the pending backlog of cases, we assembled a team with a representative from each of the Commissioner's offices to work with a multi-office staff team over the past several months. I wish to thank the advisors from my colleagues' offices, Kurt Longo from my office, and the team for their enormous efforts, especially Martin Kirkwood, Nic Gladd, the three wise men -- Richard Howe, Larry Greenfield, and Dan Nowak -- Scott Everngam, and numerous other staff members who were extensively involved in the drafting of this order and the accompanying complaint orders.

"Today's Order on Initial Decision adopts a revised methodology for determining the ROE for Commission-jurisdictional electric utilities. The Commission does not take such a step lightly, without considering both consumer interests and the need for investment certainty to promote transmission infrastructure.

"For example, I believe that the revised DCF methodology adopted in the Order on Initial Decision appropriately narrows the zone of reasonableness in the DCF analysis. As applied in the Order on Initial Decision, that change effectively caps the existing ROEs (including incentives) at the top of the revised, narrower zone of reasonableness. In addition, our decision to eliminate the existing practice of post-hearing adjustments to ROEs based on the change in Treasury bond yields reflects our concern that there is not a direct correlation between bond yields and the changes in the ROE. This revision allows for the ROE to be reflective of the most recent financial data available at the time of the hearing, providing all parties the opportunity to present evidence and argument concerning the appropriate financial data.

"Last, as applied in the Order on Initial Decision, our finding that the record in the proceeding reflects unusual capital market conditions supports our decision that the just and reasonable base ROE should be set halfway between the midpoint of the zone of reasonableness and the top of the zone of reasonableness. Our support for this determination is reflected in the requirements of Hope and Bluefield that a just and reasonable ROE should be set at a level sufficient to attract investment in interstate electric transmission. I am hopeful that today's Order on Initial Decision provides appropriate guidance for the resolution of the related ROE complaint proceedings.

"I am mindful that the ongoing changes in the resource mix driven by changing fuel utilization, the increased use of location-constrained renewables, and new environmental rules, will require the construction of a significant amount of transmission in the coming years. I anticipate that this order, along with our recent compliance orders on Order No. 1000 will help provide some certainty to that process."