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Agenda Items E-7, E-8, E-9, E-10, E-11, E-12, E-24;

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

FERC Adopts New ROE Methodology for Electric Utilities

The Federal Energy Regulatory Commission (FERC) today adopted a new methodology for determining the rate of return on equity (ROE) for Commission-jurisdictional electric utilities, and applied this new methodology in the pending complaint case involving the New England transmission owners.

FERC's new methodology for electric utility ROEs is the same used for natural gas and oil pipeline ROEs: incorporating both short-term and long-term measures of growth in dividends. However, FERC is instituting a paper hearing on the appropriate long-term growth rate to use, noting that in natural gas and oil pipeline proceedings it uses growth in GDP as a measure of long-term growth.

FERC has applied this new methodology to the New England transmission owners' ROEs, finding that based on the record, including the unusual capital market conditions, the just and reasonable base ROE for the NETOs should be set halfway between the midpoint of the zone of reasonableness and the top of the zone of reasonableness.

Thus, subject to the outcome of the paper hearing, the base ROE assuming a long term growth rate based on GDP would be 10.57 percent, the point halfway between the 9.39 percent midpoint of the zone of reasonableness and the 11.74 percent top of that zone.

The Commission also is halting its practice of adjusting the ROE at the time of the Commission's decision to account for developments after the close of the record of a given case. Now, FERC will determine a public utility's ROE based on the latest financial data available in the record developed in the hearing.

In related orders, FERC is instituting hearing and settlement judge procedures in five pending complaints involving challenges to electric utility ROEs, adding that it expects the evidence and analyses presented by the participants in those cases to be guided by the Commission's decision on the New England transmission owners' ROEs.

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