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Docket Nos. EL11-66-001, EL14-12-000

## FERC Cuts New England ROE, Orders Hearing for MISO

The Federal Energy Regulatory Commission (FERC) today found the New England Transmission Owners' existing base return on equity (ROE) unjust and unreasonable, and in a separate order set for hearing a complaint alleging that the Midcontinent Independent System Operator, Inc. (MISO) Transmission Owners' 12.38 percent base ROE is unjust and unreasonable.

The Commission in June adopted a new discounted cash flow methodology for electric utility ROEs that is the same used for natural gas and oil pipeline ROEs: incorporating both short-term and long-term measures of growth in dividends. Opinion No. 531 applied the new methodology in a pending complaint involving the New England Transmission Owners' ROE, but it established a paper hearing on the appropriate long-term growth rate, noting that in natural gas and oil pipeline proceedings FERC uses projected growth in gross domestic product (GDP) as a measure of long-term growth.

Today's order finds that GDP is the appropriate long-term growth rate projection to use in determining the return for the New England Transmission Owners. It sets the base ROE at 10.57 percent; requires refunds, plus interest, for the period October 1, 2011 through December 31, 2012; and finds that the New England Transmission Owners' maximum ROE, including incentives, cannot exceed 11.74 percent, which is the top of the zone of reasonableness in this proceeding.

While setting the MISO Transmission Owners' base ROE for hearing, the Commission denied all other aspects of the complaint, finding that it failed to show that the use of actual or Commission-approved hypothetical capital structures that include more than 50 percent common equity was unjust and unreasonable.

FERC also denied the request that it terminate ITC Transmission's 50-basis-point incentive for participating in a Regional Transmission Organization, and ITC Transmission's and Michigan Electric Transmission Co.'s 100-basis-point incentive for being independent transmission companies. However, the order notes that because the total ROE is limited to a zone of reasonableness, the transmission owners' ability to implement the full amount of previously granted incentives may be affected by the outcome of the hearing.

R-15-01

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