



Federal Energy Regulatory Commission

November 15, 2012

Open Commission Meeting

Staff Presentation

Item E-3

"Good morning Chairman Wellinghoff and Commissioners.

"The draft Policy Statement on the Commission's electric transmission incentives policies provides guidance regarding the evaluation of applications for electric transmission incentives under Section 219 of the Federal Power Act, enacted as part of the Energy Policy Act of 2005. Section 219 requires that the Commission, by rule, establish incentive-based rate treatments to encourage investment in transmission infrastructure. In 2006, the Commission implemented this statutory requirement by issuing Order No. 679 and 679-A, which established the Commission's current transmission incentives regulations and policies. I will refer to those rulemaking orders together as Order No. 679.

"After applying these policies for five years, the Commission issued a Notice of Inquiry in May 2011 to seek comment on the scope and implementation of our incentives policies. The Commission has now carefully considered approximately 1500 pages of comments received in response to the Notice of Inquiry. Based on these comments and the Commission's experience evaluating over 85 incentive applications in the past 6 years, the draft Policy Statement states that the Commission has now determined it is appropriate to provide additional guidance and clarity with respect to certain aspects of its Order No. 679 transmission incentives policies.

"The draft Policy Statement refines the Commission's incentives policies in five ways:

- First, the Commission would no longer rely on the distinction between routine and non-routine projects for determining eligibility for incentives, and instead would rely more directly on the requirements of Order No. 679. These requirements focus on a project's demonstrable risks and challenges.
- Second, the Commission would expect an applicant for incentives under Order No. 679 to take all reasonable steps to mitigate risks, including through the use of one or more risk-reducing incentives -- such as recovery of 100 percent of Construction Work in Progress, recovery of 100 percent of pre-commercial costs as an expense or as a regulatory asset, and recovery of 100 percent of prudently incurred costs of transmission facilities that are abandoned for reasons beyond the applicant's control -- before seeking an incentive return on equity for any remaining risks and challenges of a project.
- Third, the Commission expects that an applicant seeking an incentive return on equity based on a project's risks and challenges to support its application with showings of the project's remaining risks and challenges. The draft policy statement provides examples of the types of projects that the Commission believes may merit an incentive return on equity based on a project's risks and challenges.
- Fourth, the draft Policy Statement clarifies that the Commission would consider transmission projects that apply an advanced technology as indicative of the type of project facing risks and challenges that may merit an incentive return on equity. Thus, the Commission would consider deployment of advanced technologies as part of the overall nexus analysis established in Order No. 679, and would no longer consider requests under Order No. 679 for a stand-alone incentive return on equity based on an applicant's utilization of an advanced technology.
- Fifth, the draft Policy Statement states that the Commission expects an applicant for incentives under Order No. 679 to commit to limiting the application of an incentive return on equity based on a project's risks and challenges to a cost estimate. The draft Policy Statement also states that the Commission does not intend to be prescriptive as to how applicants might structure this commitment.

"In closing, the draft Policy Statement provides that the Commission would continue to review and assess its transmission incentives policies and take steps as needed to enhance the transparency of its incentives policies and their impacts on customers. This draft Policy Statement would apply to all incentives applications received after today."