



FEDERAL ENERGY REGULATORY COMMISSION

Docket No. RM11-26-000

Item No. E-3

November 15, 2012

Commissioner Cheryl A. LaFleur

STATEMENT

Statement of Commissioner Cheryl A. LaFleur on Promoting Transmission Investment Through Pricing Reform

"I am pleased to support today's policy statement clarifying the Commission's case-by-case evaluation of applications for transmission incentives pursuant to section 219 of the Federal Power Act and Order Nos. 679 and 679-A.

"Our nation is engaged in rebuilding and strengthening its transmission grid to promote reliability, make markets work better for customers, and connect new power sources. Section 219 of the Federal Power Act requires that the Commission encourage transmission investment through incentive regulation. I strongly support incentive regulation, because it works, and also because it is required in our enabling statute. However, I also recognize that the Commission must ensure that the incentives it awards are just and reasonable. As with many energy issues, the Commission must balance the benefits of transmission we are incentivizing with the costs to customers.

"There are a few aspects of the policy statement that I would particularly like to highlight.

"The policy statement makes clear that we will continue to apply the nexus test (requiring a nexus between incentives sought and the risks and challenges of the project), but will do so with greater rigor. In particular, the Commission will no longer use the "routine" or "non-routine" analysis set out in *Baltimore Gas & Electric Company*, but will consider carefully the specific risks and challenges of each application that requests incentive treatment.

"The Commission will also carefully apply the "total package of incentives" analysis called for in Order No. 679. In particular, the policy statement encourages the utilization of risk-reducing accounting incentives first, rewarding return on equity (ROE) incentives only when demonstrated risks remain after the application of risk-reducing incentives. While the policy statement gives examples of types of projects that may face risks beyond those addressed through risk-reducing incentives, it makes clear that all types of projects, including reliability projects, remain eligible for ROE incentives as long as they demonstrate a clear nexus between the residual risks of the project and the incentive sought. In addition, where a ROE incentive is awarded, it should be limited to a defined cost estimate, as further explained in the policy statement.

"I hope that today's policy statement provides helpful guidance to those who will be filing future applications for incentive rate treatment. I agree with the approach of issuing a policy statement to clarify the Commission's policy on incentives, rather than starting a rulemaking, because I believe Order 679 and 679A provide a sound basis for continued case-by-case application of our incentive policy. In addition, this docket has already been open for more than year, and proceeding by policy statement allows us to give guidance to the investment market more quickly than if we started a rulemaking proceeding.. I appreciate all the comments we received in response to our Notice of Inquiry that, in conjunction with our own experience applying section 219, informed this policy statement. I would also like to thank the Commission staff who worked hard to develop this policy statement and worked to find the common ground among the views of the Commissioners."