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December 19, 2018

Chairman Neil Chatterjee  
Commissioner Cheryl LaFleur  
Commissioner Kevin McIntyre  
Commissioner Richard Glick  
Commissioner Bernard McNamee

Chairman Chatterjee and Commissioners,

The Organization of MISO States' Board of Directors and several associate members<sup>1</sup> ("Supporters") have been participating in cases before the Federal Energy Regulatory Commission ("Commission") on issues related to transmission owner return on equity ("ROE"), including incentive adders, since their inception. As groups that represent retail regulators and customers in RTO/ISO regions, we advocate for policies that balance the authorization of sufficient rates of return to encourage the investment on needed transmission against concerns about excessive costs to customers.

The Commission is currently evaluating a new policy for the establishment of the base ROE. The base ROE, as currently conceived, generally evaluates and incorporates industry-wide risk in its estimation process. As such, the granting of ROE incentives on top of the base ROE should be targeted and exceptional. Supporters have concerns that at least some incentive adders have become overly generous and do not change or incent the intended behavior on the part of the transmission owners, resulting in excessive costs to customers. Ineffective adders may also be an unintended disincentive to development of non-transmission alternative solutions for reliability and congestion concerns.

The RTO adder is of particular concern and warrants scrutiny by FERC. And the most concerning element is that this adder will last in perpetuity. However, the landscape has changed drastically since 2006 when these adders were first initiated. After more than 15 years of experience with RTOs, the resulting benefits to utility members are now better understood. RTOs are no longer a new policy experiment. Moreover, transmission owners may no longer need an additional incentive adder to simply join an RTO. FERC should assess whether it is just and reasonable to allow the collection of an additional 50 basis points on all existing and incremental rate base indefinitely for every transmission owner in every RTO.



Additionally, over the years, FERC has provided regulatory mechanisms such as formula rates, projected revenue requirements that are trued up to capture any under-recovery, abandoned plant and construction work in progress, all of which reduce transmission owners' risk and should be carefully examined in the context of this and other ROE incentives.

Supporters appreciate the statements of Commissioners Chatterjee, Glick, and LaFleur at the October 18, 2018 open meeting acknowledging that the time is ripe to review ROE incentive policy. Supporters are encouraged by the desire to re-evaluate use of ROE incentives, and urge the Commission to consider not only policy around the application of new incentive requests, but also existing incentives that do not or cannot incentivize the desired behavior and outcomes.

Supporters look forward to the opportunity to be part of the process to review ROE incentive policy to ensure that customers pay no more than is necessary to develop and to maintain a reliable and efficient transmission grid.

Sincerely,

Ted Thomas  
President  
Organization of MISO States

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<sup>1</sup> In addition to the OMS Board, the following associate members of OMS join this letter: the Office of Arkansas Attorney General, the Indiana Office of Utility Consumer Counselor, the Iowa Office of Consumer Advocate, Michigan-Citizens Against Rate Excess, the Office of the Minnesota Attorney General, the Minnesota Department of Commerce, the Mississippi Public Utilities Staff, the Missouri Office of the Public Counsel, and the Citizens Utility Board of Wisconsin.