

State of California

Public Utilities Commission
San Francisco

M E M O R A N D U M

Date : August 11, 2011

**To : The Commission
(Meeting of August 18, 2011)**

**From : Gregory Heiden, Legal Division
Mihai Cosman, Energy Division**

Subject : Staff Seeks Authority to File Comments in Response to FERC’s Notice of Inquiry, Promoting Transmission Investment Through Pricing Reform, FERC Docket No. RM11-26-000.

RECOMMENDATION: Staff recommends that the Commission authorize it to file Comments in FERC’s Notice of Inquiry (“NOI”) in Docket RM11-26-000

BACKGROUND: On May 19, 2011 the Federal Energy Regulatory Commission (“FERC”) issued an NOI seeking comment on the scope and implementation of its transmission incentives regulations and policies under Order 679. Order 679, enacted five years ago pursuant to the Energy Policy Act of 2005, provides for transmission incentive rates to eligible companies. These incentives include, but are not limited to, Return on Equity (“ROE”) adders for membership in an ISO or RTO, ROE adders for new investments, ROE adders for forming an independent transmission company, inclusion of 100 % Construction Work in Progress (“CWIP”) in rate base, and 100 percent recovery of abandoned plant.

In this NOI, FERC “seeks input from stakeholders on the scope and implementation of its transmission incentives policies” through Order 679 and what steps it could take on future requests for incentives.

DISCUSSION: The CPUC was active in the Order 679 proceeding and has been active in a number of individual Order 679 applications involving California transmission utilities. Staff requests authority to submit comments in this new proceeding, which will consider how FERC has applied transmission rate incentives in the past few years, and also to what extent those policies should change. In the Order 679 proceeding, the CPUC cautioned against granting ROE adders that would give companies higher returns than necessary to attract capital. The CPUC also recommended that FERC consider incentives which lower a company's risks, i.e., CWIP in rate base and 100 percent recovery of abandoned plant, before granting ROE basis point adders. In subsequent Order 679 applications, the CPUC has argued this same position. This NOI indicates that FERC wants to hear from stakeholders such as the CPUC about its decisions pursuant to Order 679. Staff still believes that ROE adders often will give a company a higher return than necessary to attract capital, particularly for projects with lower risks. In assessing whether or not to grant ROE and other incentives, FERC should consider both the need for companies to attract capital and also the ratepayer interest in paying just and reasonable rates.

CONCLUSION: For all the reasons discussed above, Staff requests the Commission's authorization to submit comments in the FERC NOI on incentive ratemaking.

Assigned Staff: **Gregory Heiden (GXH, 5-5539); Mihai Cosman (MR2, 5-5504)**

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