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June 30, 2015

Ms. Joan Conrad, Executive Secretary  
Iowa Utilities Board  
1375 East Court Avenue, Room 69  
Des Moines, IA 50319-0069

**FILED WITH  
Executive Secretary  
June 30, 2015**

**IOWA UTILITIES BOARD**

RE: Interstate Power and Light Company  
Docket No. RPU-2010-0001  
Compliance Filing – Transmission Report

Dear Ms. Conrad:

Pursuant to the Iowa Utilities Board's *Final Decision and Order* issued January 10, 2011, enclosed please find Interstate Power and Light Company's semi-annual report of its transmission-related activities in the above-referenced docket, as filed today on EFS.

Very truly yours,

/s/ Samantha C. Norris

Samantha C. Norris  
Senior Attorney

SCN/tab  
Enclosures

**STATE OF IOWA**  
**BEFORE THE IOWA UTILITIES BOARD**

**FILED WITH**  
**Executive Secretary**  
**June 30, 2015**  
**IOWA UTILITIES BOARD**

<b>IN RE:</b>  <b>INTERSTATE POWER AND LIGHT COMPANY</b>	<b>DOCKET NO. RPU-2010-0001</b>
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**COMPLIANCE FILING**

**COMES NOW**, Interstate Power and Light Company (IPL) and, pursuant to the Iowa Utilities Board (Board) Final Decision and Order of January 10, 2011, in Docket No. RPU-2010-0001, submits the following report detailing: (i) IPL's actions relating to the transmission planning process; and (ii) IPL's collaborations with other stakeholders on managing its relationship with ITC Midwest, LLC:

1. Pursuant to the Board's January 10, 2011, order in Docket No. RPU-2010-0001, page 142, IPL was required to provide the following:
  5. IPL will be required to file semi-annual reports, with the first report being due June 30, 2011, and subsequent reports every six months thereafter, detailing its review, suggestions, and input to such things as ITC Midwest's transmission planning and budgeting processes and any FERC interventions or proceedings, including an evaluation of the long-term impact of those transmission plans on IPL and its ratepayers, as detailed in the body of this order. The report shall include what impact, if any, IPL's input has had on the transmission planning process.
  6. IPL shall file a report of its semi-annual collaborations with other parties on how IPL can better manage its processes and relationships with ITC Midwest and FERC, with the first report being due June 30, 2011, and subsequent reports every six months thereafter.

As with its initial June 30, 2011, filing in response to these requirements, IPL has combined the content for each requirement into this filing.

2. IPL hereby provides to the Board in this instant filing its semi-annual updates, included as Attachment A, as required by Docket No. RPU-2010-0001.

3. IPL is willing to provide additional information or meet with Board staff to provide clarification or further discussion on this status report of its transmission-related activities.

**WHEREFORE**, IPL respectfully requests the Board accept the attached documents in compliance with the requirements of the aforementioned docket.

Dated this 30<sup>th</sup> day of June, 2015.

Respectfully submitted,

Interstate Power and Light Company

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**Interstate Power and Light Company**  
**Semi-annual Report to the Iowa Utilities Board Regarding**  
**Transmission-Related Activities**

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## **Executive Summary**

Interstate Power and Light Company (IPL) continues managing the processes and relationship with ITC Midwest, LLC (ITC-M) and influencing transmission benefits, service levels, and cost impacts to IPL customers. This Report focuses on the most significant new and continued issues, actions, and results since the last Report filed with the Iowa Utilities Board (Board) on December 26, 2014 (December 2014 Report).

This Executive Summary highlights the most notable activity and results since the December 2014 Report.

IPL's strategy continues to be customer-centric by influencing the balance between the cost and benefits of transmission service provided to IPL customers through advocacy with ITC-M, MISO and FERC and through engagement in and influence of regulatory policy at the local, regional and federal level.

### **ITC-M Relationship Management**

Numerous interactions occur at all levels within IPL and between IPL and ITC-M on daily and weekly frequencies to support activities such as planned transmission outage coordination, transmission and distribution construction and maintenance, planning for future work, outage investigation, and coordination and communication with IPL customers. In addition, IPL has access to and periodic contact with ITC-M executive leadership to discuss current and future operational performance and customer cost issues. The companies continue to coordinate well on operations and planning issues and view the relationship as a partnership.

### **FERC Transmission Activity, IPL Engagement**

#### **A. IPL's Complaint on ITC-M Attachment FF (Docket No. EL12-104-000)**

- As a result of IPL challenging the ITC-M Attachment FF policy, the ITC-M self-funding of \$39 million of network upgrades for the Wisconsin Power and Light Company (WPL) Bent Tree Wind Farm in Minnesota will be borne by WPL and its customers through a Facilities Service Agreement (FSA) between ITC-M and WPL. Under the prior ITC-M Attachment FF policy, those costs would have been borne by all customers of ITC-M, including IPL and its customers. WPL's Bent Tree Wind Farm is only one example—IPL customers will benefit from future interconnecting generators being responsible for network upgrade costs, not customers of ITC-M.

#### **B. MISO Industrial Customer Complaint against MISO TO ROE, Capital Structure and ROE Adders (Docket No. EL14-12-000)**

- In FERC orders issued for the MISO base ROE complaint in January and February 2015, FERC appointed a Presiding Administrative Law

Judge (ALJ) and established a pre-hearing conference and the hearing procedural schedule.

- The Commencement of Hearing is scheduled for August 17, 2015 with an Initial Decision to be issued by the ALJ by November 30, 2015.
- A final decision by the Commission is not expected until the middle of 2016.
- General industry indications are that the MISO base ROE will decrease as a result of the complaint.
  - IPL has estimated that each 1 percentage point (100 basis points) change in ROE changes the ITC-M Attachment O Transmission Rate by about 5-6%, which equates to roughly a 1% decrease in total IPL customer rates, based on testimony submitted thus far and other recent ROE orders.
  - IPL anticipates any refunds will flow through the ITC-M Attachment O True-Up and IPL Regional Transmission Service (RTS) Rider mechanisms. The amount and timing of any refunds is uncertain.
  - Alliant Energy Corporate Services, Inc. (AECS), on behalf of its affiliate utilities IPL and WPL, filed an intervention without comments in Docket No. EL14-12-000 on December 10, 2013 as an interested party. (Until December 20, 2014, IPL was prohibited from filing a challenge to the ITC-M initial rate or rate construct.)
  - IPL continues to monitor the proceedings and evaluate potential engagement as it deems appropriate.

#### **C. Second Complaint against MISO TO ROE (Docket No. EL15-45-000)**

On February 12, 2015, a group of cooperative and municipal utilities in MISO filed a second complaint at FERC seeking reduction of the base ROE (12.38%) used by the MISO TOs (including ITC-M) transmission rates to 8.67%.

- AECS filed an intervention without comments on February 20, 2015 on behalf of IPL and WPL. (On June 18, 2015, FERC issued an order established hearing procedures and leaving the requested consolidation with Docket No. EL14-12-000 to the discretion of the Chief Administrative Law Judge. A refund date of February 12, 2015 was set. On June 24, 2015, the Chief Administrative Law Judge denied consolidation with Docket No. EL14-12-000. A decision from the presiding judge is expected by June 30, 2016, with a final FERC decision by May 31, 2017.
- IPL continues to monitor the proceedings and evaluate potential engagement as it deems appropriate.

#### **D. MISO Transmission Owner Request to Implement a 50 Basis Point RTO Adder to Each TO's ROE for Participation in MISO (Docket No. ER15-358-000)**

- On January 5, 2015, FERC issued an order accepting the MISO TO request to implement a 50 basis point RTO incentive adder to each TOs ROE for participation in MISO. The RTO incentive adder is to become effective January 6, 2015, subject to refund, and subject to the outcome of the MISO base ROE proceeding, Docket No. EL14-12-000. Collection of the RTO incentive adder is also deferred pending the outcome of the MISO base ROE proceeding.
- On November 26, 2014, AECS filed comments highlighting certain information related to transmission development in MISO to aid FERC's decision making process; specifically that the historical transmission investment in the MISO footprint has been robust and that MISO currently employs a number of risk mitigation measures that affect the investment environment of the MISO TOs and should be considered by the Commission, such as forward-looking rates. AECS also noted general support for prudent transmission investment that balances reliability needs with customer cost impacts.

**E. ITC-M Request to Implement a 100 Basis Point Adder to its ROE for its status as a Transco. (Docket No. ER15-945-000)**

On January 30, 2015, ITC-M filed for a 100 basis point incentive adder for its status as a Transco, or independent transmission company. An effective date the same as the filing was requested, however, collection of the independence adder was requested to be deferred until after the issuance of a final order addressing the pending MISO base ROE complaint.

- On February 20, 2015, IPL filed comments on the ITC-M request for a 100 basis point independence incentive adder. IPL comments requested FERC to reevaluate its overall transmission ROE incentive policies to ensure the policies are meeting the intended goals, including consideration of cost impacts to customers, before considering the ITC-M request. In the alternative, IPL requested consolidation of the request with the broader evaluation of the MISO TO ROE in Docket No. EL14-12-000, as the most efficient, holistic, and expeditious means to resolve the ITC Midwest ROE matter.
- On March 31, 2015, FERC granted ITC-M's request for an adder, but found 50 basis points to be reasonable given current market conditions. The independence adder is to become effective April 1, 2015, subject to refund, and subject to the outcome of the MISO base ROE proceeding. Collection of the independence adder is also deferred pending the outcome of the MISO base ROE proceeding.
- Various rehearing requests have been filed, and on March 4, 2015, FERC issued a tolling order to allow further time for it to consider the rehearing requests. It is not known when or specifically how FERC will ultimately act on the RTO adder rehearing requests.
- IPL will continue to monitor the proceedings and evaluate potential further engagement as it deems appropriate.

#### **F. IPL Contemplation of Section 206 Complaint at FERC against ITC-M's use of a 60% Equity Capital Structure**

In early 2015, IPL conducted a review of the feasibility of initiating a Section 206 complaint at FERC against ITC-M and its use of a 60% equity capital structure in the determination of its return included in its MISO Attachment O rate.

- In earlier comments in November 2014 to the ITC-M Request to Implement a 100 Basis Point Adder to its ROE for its status as a Transco (Docket No. ER15-945-000), AECS emphasized the need for FERC to reconsider overall transmission investment incentives, including capital structure impacts on ROE and customer costs.
- A review of FERC precedent indicated that FERC has stood firm against repeated challenges. IPL continues to monitor more recent regulatory developments and continues to evaluate a potential complaint at FERC against ITC-M's capital structure.

#### **G. Alliant Energy Executive Meetings with FERC Commissioners and Staff**

In February 2015, Joel Schmidt, Vice President of Regulatory Affairs for AECS, met individually with FERC Commissioners LaFleur (at the time Chair), Moeller, Clark and Bay and their Staff at the FERC offices in Washington DC. Alliant Energy's objective was to discuss IPL's and WPL's operations, customer base and unique perspectives on transmission issues with transmission dependent utilities (TDU) in two states (Iowa and Wisconsin) as well as to stress the importance of considering retail customer cost impacts in decision-making.

### **MISO Activity, IPL Engagement**

#### **Planning Associated with Marshalltown Generation Station (MGS)**

Network Upgrades, Generator Interconnection Agreements (GIAs) and Capacity Accreditation

- IPL anticipates a significant cost decrease for the network upgrades associated with the interconnection of MGS. The interconnection cost is estimated to be decreased by over \$200 million from the \$255 million initially estimated in the 2011 MISO System Planning and Analysis (SPA) Study, to approximately \$21 million currently. This reduction of over \$200 million in capital cost was achieved in part as a result of IPL's direct and substantial involvement in the study process at MISO and with ITC-M.
- An executed provisional GIA for MGS between IPL, ITC-M and MISO was filed at FERC for approval on May 14, 2015. A conditional GIA is anticipated to be executed later in 2015.
- Planning associated with MGS also prompted additional engagement by Alliant Energy at MISO regarding MISO interconnection, capacity accreditation, resource adequacy and stakeholder processes. Alliant Energy continues to progress at MISO and with other stakeholders for changes to these processes, all of which have been communicated by MISO executives as priorities for 2015.

**IPL Analysis of ITC- M and MISO Rates**

- ITC-M posted the 2014 True-Up Adjustment on its MISO OASIS website at <http://www.oasis.oati.com/ITCM/>, item number 101. The posted True-Up information indicates customers of ITC-M will receive an approximately \$4.4 million refund to be applied to ITC-M's 2016 rates. IPL continues to evaluate the proposed True-Up information.

**Transmission Outage Performance and Operations Coordination**

- Transmission reliability and asset performance metrics have been updated with May 2015 year-to-date data in Figures 1, 2 and 3 below and illustrate a continued, significant and maintained trend of fewer sustained and momentary transmission outages, as well as shorter durations.

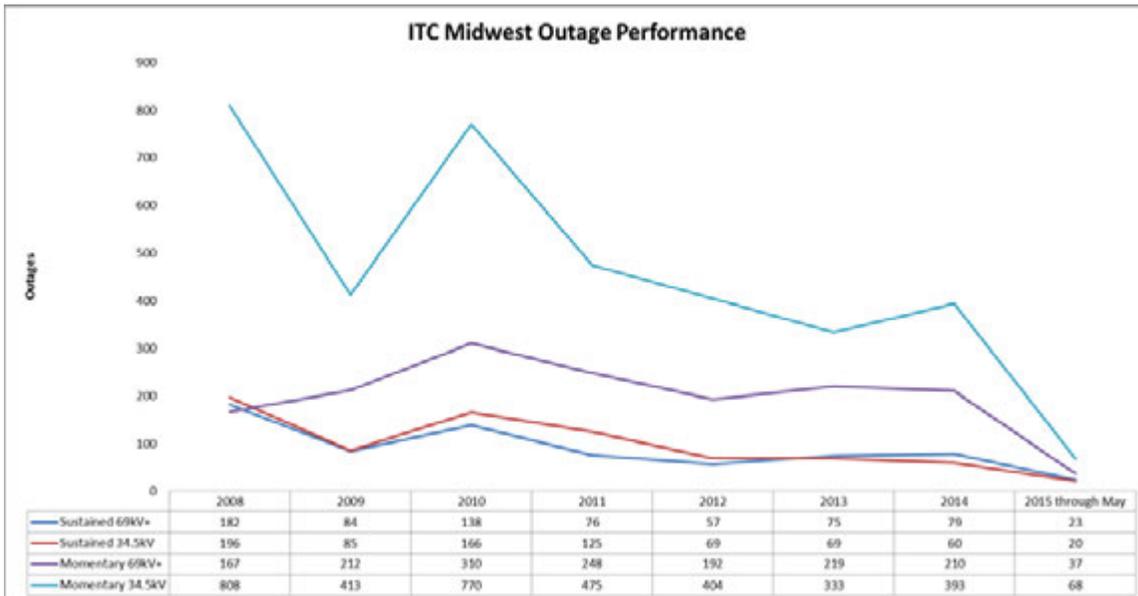


Figure 1 – ITC-M Outage Performance

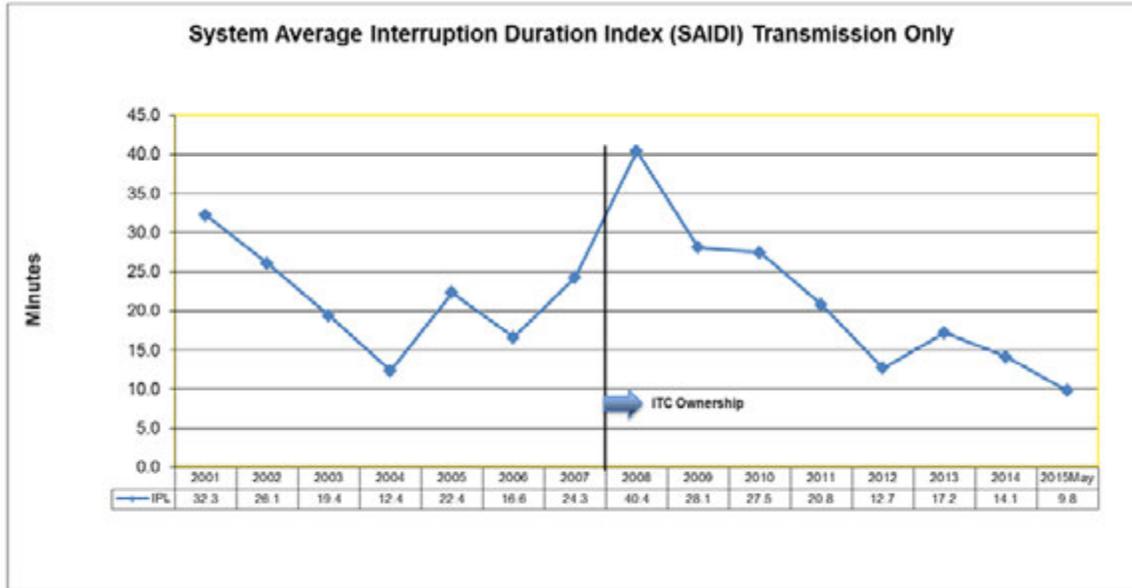


Figure 2 – Transmission Reliability, SAIDI (System Average Interruption Duration Index) - Average length in minutes of outages for all customers.

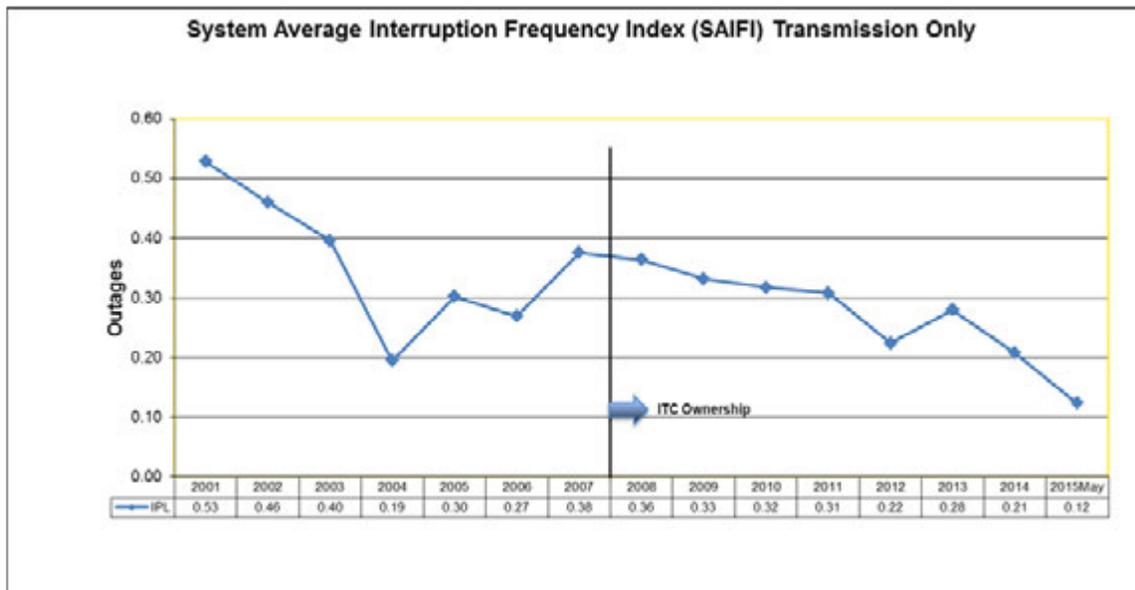


Figure 3 – Transmission Reliability, SAIFI (System Average Interruption Frequency Index) - Average number of outages experienced by all customers.

## **Transmission Stakeholder Meetings**

On June 3, 2015, IPL held its ninth semi-annual Transmission Stakeholder meeting in Cedar Rapids.

The overall duration of the meeting was lengthened to facilitate additional informal discussion time with transmission stakeholders.

During an Open Q&A Panel and Collaboration session a number of cost, efficiency and transmission rate comparison issues were discussed amongst transmission stakeholders and IPL representatives. Based on stakeholder feedback, this approach was well-received. IPL intends to repeat a similar format at future meetings.

## **Conclusions**

IPL believes the results detailed in this Report continue to demonstrate that its actions have a positive influence in managing the relationship with ITC-M and with IPL's customers to provide reliable and cost-effective service.

IPL and ITC-M continue to coordinate well on operations and planning issues and view their relationship as a partnership.

IPL recognizes and acknowledges that ITC-M is making needed investments in the transmission system. Considerable investment in transmission system rebuilds, conversion and new facility construction continues. Transmission system reliability has improved and is being maintained.

Aspects of customer savings noted in this and prior Reports from IPL advocacy and ITC-M investments include:

- As a result of IPL challenging the ITC-M Attachment FF policy, the ITC-M self-funding of \$39 million of network upgrades for the WPL Bent Tree Wind Farm in Minnesota will be borne by WPL and its customers rather than all customers of ITC-M, which would have included IPL and its customers. This is only one example—using ITC-M's historical and forecasted capital expenditures for generator interconnections at the time IPL initiated its complaint, IPL calculated a cost shift to IPL customers totaling \$170 million would have occurred over the period 2008-2016 under the then-current ITC-M Attachment FF implementation.
- An anticipated significant cost decrease for the network upgrades associated with the interconnection of MGS. The interconnection cost is estimated to be decreased by over \$200 million from the \$255 million initially estimated in the 2011 MISO System Planning and Analysis (SPA) Study, to approximately \$21 million currently. This reduction of over \$200 million in capital cost was achieved in part as a result of IPL's direct and substantial involvement in the study process at MISO and with ITC-M.
- An IPL study of the ITC-M Salem-Hazelton 345kV line that went in service in 2013 showed the line enables a lower market cost to serve IPL load. Looking at just the IPL load control area and using a 2019 MISO study case as a proxy, the line provides approximately \$8 million savings annually from

serving IPL load from MISO market resources and increasing IPL generation margins from selling its resources into the MISO market. ITC-M has previously indicated that prior studies estimated the Salem-Hazleton Project provided approximately \$108 million per year in lower regional energy costs across MISO due to lower congestion costs and removal of key transmission constraints.

- Customer outage reduction cost savings estimated in the range of \$168-498 million, over the life of the assets (in 2013 dollars), from a joint IPL and ITC-M study analyzing savings resulting from the improved reliability thus far from ITC-M's transmission ownership and investment in years 2008-2013.

With the results noted in this Report, IPL has demonstrated that it has and will continue to engage and influence regulatory policy, MISO processes and ITC-M directly through appropriate venues with the objective of reliable and cost-effective electric service to IPL customers.

## Detailed Report - Introduction

Interstate Power and Light Company (IPL) submits this semi-annual Report of its transmission-related activities, pursuant to the requirements of the Iowa Utilities Board's (Board) January 10, 2011, Final Decision and Order in Docket No. RPU-2010-0001, which conditionally allowed IPL to implement an automatic recovery mechanism for transmission costs. This Report provides details of IPL's activities in and results from managing its processes and relationship with ITC Midwest (ITC-M) and influencing the transmission service levels and cost impacts to IPL customers. This report focuses on the following areas, with particular emphasis on activities and results since IPL's last semi-annual transmission Report filed December 26, 2014 (December 2014 Report):

1. ITC-M Relationship Management;
2. Review, Analysis of and Response to ITC-M Dockets at the Board;
3. Federal Energy Regulatory Commission (FERC) Transmission Activity, IPL Engagement;
4. Midcontinent Independent System Operator, Inc. (MISO) Activity and IPL Engagement;
5. IPL and ITC-M's Joint Project Planning Process;
6. IPL Projections and Analysis of ITC-M and MISO Rates;
7. Transmission Outage Performance and Operations Coordination;
8. Stakeholder Informational Meeting; and
9. Timetable of Events Influencing Transmission Rates & Service.

With this and prior Reports, IPL is specifically responding to the Board expectations that IPL "...improve its processes and relationships with ITC Midwest..." and "...to provide semi-annual Reports detailing its review, analysis, suggestions, and input to such things as ITC Midwest's transmission planning and budgeting process and any FERC interventions or proceedings, and what impact IPL's input has had."

Further, the Board required "...IPL to collaborate with other interested parties on at least a semi-annual basis. The IUB envisions these collaborations to be an opportunity for other parties to offer suggestions to IPL on how it can better manage its processes and relationships with ITC Midwest..."

In this Report, IPL continues to emphasize results it has achieved on behalf of its customers. This Report addresses the most significant new and continued issues, actions and results affecting transmission service and cost since the December 2014 Report. The Report does not necessarily address *all* activity or previously reported items without new developments. **However, much of the background information from prior reports is retained in this Report in order to provide continuity and context. Updates and significant results are generally in bold text and/or preceded by "Updated Results" at the beginning of the major sections.**

IPL is continuing to include in this Report analysis on changes to ITC-M rates, their drivers and reasonableness in the context of value for IPL's customers.

IPL's strategy continues to be customer-centric by influencing the balance between the cost and benefits of transmission service provided to IPL customers through its advocacy for customer interests with ITC-M, MISO, and FERC including active

engagement with large customers, interveners, the Iowa Office of Consumer Advocate (OCA) and Board in stakeholder meetings and other forums.

**Updated Results discussed in this Report include:**

- **Developments on transmission owner (TO) return on equity issues:**
  - **Complaint at FERC against the MISO transmission owners (TOs) return on equity (ROE) currently in hearing procedures.**
  - **Request to FERC by the MISO TOs and subsequent FERC order granting an incentive adder to the MISO TOs ROE for regional transmission organization (RTO) participation.**
  - **Request by ITC-M and subsequent FERC order granting an ROE incentive adder to the ITC-M base ROE for being an independent transmission company.**
- **ROE issue engagement - Since the December Report, IPL filed comments on the ITC-M independent transmission company adder request. The ROE activities noted above could result in changes to MISO TO ROEs, including ITC-M's. IPL continues to monitor these and other activities and will continue to evaluate potential additional engagement as it deems appropriate.**
- **Network upgrade cost allocation - As a result of IPL challenging the ITC-M Attachment FF policy, the ITC-M self-funding of \$39 million of network upgrades for the Wisconsin Power and Light Company (WPL) Bent Tree Wind Farm in Minnesota will be borne by WPL and its customers through a Facilities Service Agreement (FSA) between ITC-M and WPL. Under the prior ITC-M Attachment FF policy, those costs would have been borne by all customers of ITC-M, of which IPL customers constitute 88% of the load and corresponding cost.**
- **Network upgrade cost reduction - IPL anticipates a significant cost decrease for the network upgrades associated with the interconnection of MGS. The interconnection cost is estimated to be decreased by over \$200 million from the \$255 million initially estimated in the 2011 MISO System Planning and Analysis (SPA) Study, to approximately \$21 million currently. This reduction of over \$200 million in capital cost was achieved in part as a result of IPL's direct and substantial involvement in the study process at MISO and with ITC-M.**
- **MISO process changes - IPL has triggered a number of changes within the MISO Interconnection Process Task Force (IPTF), and continues to collaborate with MISO stakeholders to further improve the overall processes associated with obtaining generator interconnections.**

**IPL Transmission Management Approach**

**Goal:** Provide access to a reliable, cost effective electric transmission system that creates long-term value for IPL customers

- Provide benefits to IPL customers through effective and purposeful planning of and investment in the transmission system
- Advocate for appropriate transmission costs to IPL customers that align with benefits provided

- Engage and inform stakeholders regarding transmission management approach and implementation
- Maintain effective management oversight of and engagement in transmission activities, including regional and federal regulatory and policy venues to address key transmission issues

Specifically in its advocacy for customer cost interests at FERC, IPL supports transmission investment that provides benefits to customers through effective and purposeful planning along with the proper alignment of costs and benefits.

IPL does not object to FERC's policy of providing transmission owners with incentives to encourage particular practices and to meet specific policy goals where and when needed. However, IPL in its FERC engagement has proffered that the most efficient and effective way to achieve such policy is for FERC to take a holistic approach to its transmission investment policy in general and ROE treatment in particular.

IPL has encouraged FERC to reevaluate its overall transmission ROE incentive policies to ensure they are meeting the intended goals in a manner that is efficient and which considers cost impacts to customers. Specifically, IPL has requested FERC to:

1. Evaluate the existing application and effectiveness of ROE incentive adders;
2. Require applicants to demonstrate the need for requested incentives;
3. Evaluate the specific requests based upon the situation of the applicant;
4. Require applicants to provide a cost-benefit analysis; and,
5. Consider the impact of the incentives on customer costs.

## **1. ITC-M Relationship Management**

IPL has an internal management structure with groups and individuals designated to interface with ITC-M and manage the overall relationship and coordination activities with ITC-M.

Numerous interactions occur at all levels within IPL and between IPL and ITC-M on daily and weekly frequencies to support activities such as planned transmission outage coordination, transmission and distribution construction and maintenance, planning for future work, outage investigation, and coordination and communication with IPL customers.

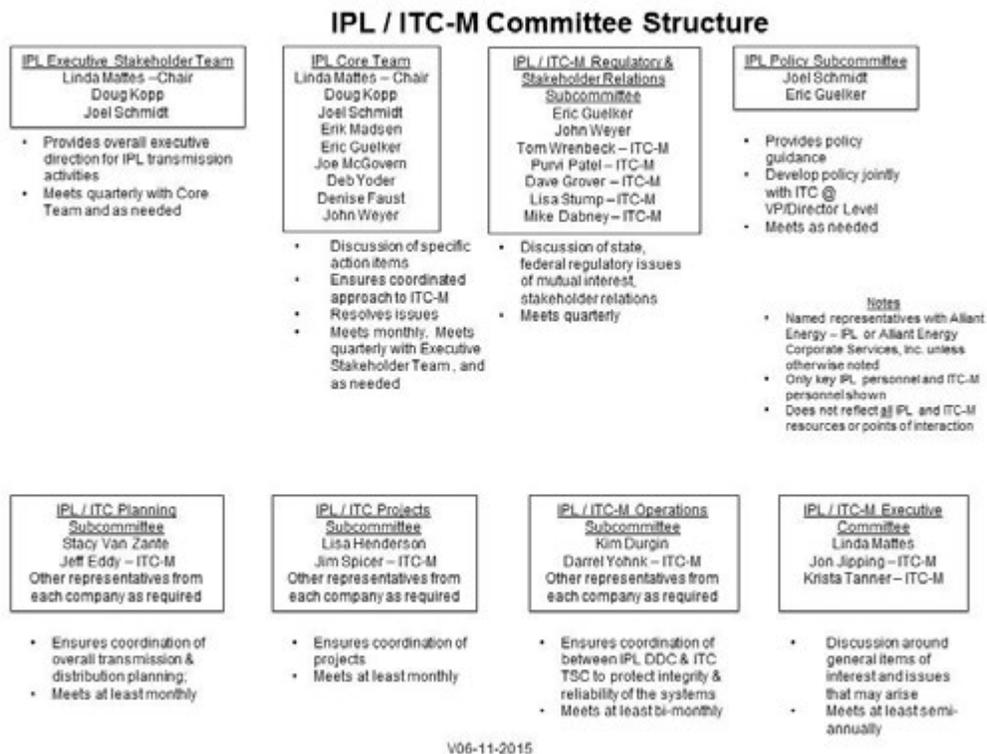
In addition, IPL has access to and periodic contacts with ITC-M executive leadership to discuss current and future operational performance and customer cost issues. The executive leadership teams of ITC Holdings and Alliant Energy most recently met in Novi, MI on October 29, 2014 and in Madison, WI on June 1, 2015. A variety of financial, planning, operational and regulatory topics were discussed, with additional support from appropriate representatives of each company. For example, these meetings have resulted closer coordination on distributed generation that connects to IPL distribution and can have transmission impacts, and closer coordination on ITC-M transmission planning associated with IPL generation resource planning.

The companies continue to coordinate well on operations and planning issues and view the relationship as a partnership.

The committee structure with ITC-M is represented in Figure 4. No notable changes in personnel assignments have occurred since the December 2014 Report.

The IPL Executive Stakeholder Team continued to meet internally monthly with staff to review status of various IPL-related transmission issues and provides oversight and direction to IPL’s overall transmission strategy and relationship management with ITC-M. This includes monitoring developments with, and directing responses to the following entities regarding events, issues, processes and regulatory policies that impact ITC-M rates and ultimately the cost to IPL customers:

- ITC-M;
- FERC;
- MISO;
- Board; and
- The Minnesota Public Utilities Commission (MPUC).



(While the committee structures appear very formal, they are in reality very flexible in the composition of members and meeting frequency in order to maximize efficiency and effectiveness in addressing issues in the interests of customer costs and service levels. )

Figure 4 – IPL / ITC-M Committee Structure

## **2. Review, Analysis of and Response to ITC-M Dockets at the Board**

IPL's strategy includes maintaining active and vocal engagement with ITC-M's regulatory activity that could potentially affect transmission related benefits as well as rates, and therefore, costs to IPL customers.

IPL continuously monitors filings made on a routine basis by ITC-M to the Board.

IPL makes a determination on a case-by-case basis regarding whether any response by IPL to an ITC-M filing is necessary and whether other filings in these venues could have an impact on IPL customer transmission costs or service.

Through its Delivery System Planning department and other resource areas, IPL performs a daily and weekly review of all new filings by ITC-M through the Board's Electronic Filing System. IPL's Delivery System Planning department, and others as appropriate, review any new docket related to ITC-M. IPL has developed criteria to determine what, if any, actions it should pursue. The criteria for participation, whether in support of or opposition to a particular project, are listed below. Please note these criteria are general in nature; IPL may decide to take different actions depending on the specifics of a particular docket.

IPL's response to an ITC-M docket can include one of the following actions, as supported by the corresponding *general* criteria for each action:

- Support:
  - ITC-M requests franchise renewals;
  - ITC-M proposes a conversion project related to IPL long-term plans;
  - ITC-M proposes new IPL substation connections;
  - ITC-M plans projects to satisfy North American Electric Reliability Corporation (NERC) compliance; or
  - ITC-M's proposal supports reliability and aging infrastructure projects identified by IPL.
  
- Oppose:
  - The proposed project does not materially improve reliability; or
  - The proposed project would make IPL customers responsible for a disproportionate amount of the costs.
  
- No Action:
  - ITC-M's project supports customers other than IPL;
  - ITC-M's filing is a routine reporting filing;
  - The docket is not related to a specific project;
  - The project is driven by regulatory policy, unless justification is not aligned with the needs of IPL's customers; or
  - A project identified at the time of the transmission system sale does not fall into the support criteria.

IPL reviews all projects, starting at the planning level with ITC-M and continues throughout the various MISO and regulatory processes. IPL takes advantage of multiple opportunities to provide input and feedback to influence the reliability, efficiency and/or cost impact of these projects. Ultimately, IPL has the ability to intervene in the

appropriate state regulatory process should it not be successful with influencing a project in the desired direction.

Since IPL's December 2014 Report, IPL has reviewed 14 new dockets filed by ITC-M with the Board, and has provided responses in 13. A summary of IPL's review of new ITC-M filings to the Board is provided in Table 1. For one of these ITC-M projects, no action was taken by IPL as it was unrelated to IPL. IPL submitted letters of support to the Board for the remainder of the projects.

Table 1 – New ITC-M Filings with Iowa Utilities Board Reviewed by IPL  
December 15, 2014 – June 12, 2015

Week Of	Docket No.	Short Description	IPL Action Taken	Reason
Jan 25 - Jan 31	E-21118	Boone to Fraser Sub 69kV	Support	Conversion
Jan 25 - Jan 31	E-21157	Fraser to Boone / Webster County Line 69kV	Support	Conversion
Jan 25 - Jan 31	E-22192	Grand Junction to Perry 161kV	Support	Conversion
Jan 25 - Jan 31	E-22193	Highway 17 East to Boone/Story County Line 69kV	Support	Conversion
Mar 22 - Mar 28	E-21933	Independence North Double Circuit 69kV	No Action	No Impact to IPL
Mar 29 - Apr 4	E-22202	Boone to Fernald 161kV	Support	Franchise Renewal
Mar 29 - Apr 4	E-22203	Boone/Story County Line to Gilbert 69kv	Support	Franchise Renewal
Apr 12 - Apr 18	E-22206	Manchester to Masonville 69kV	Support	Franchise Renewal
Apr 19 - Apr 25	E-22208	Emery to Hancock NNG 69kV	Support	Franchise Renewal
Apr 29 - May 2	E-22209	Anita to Exira REC Sub 69kV	Support	Conversion
May 10 - May 16	E-22213	Woodward Resource Center 69kv	Support	Franchise Renewal
May 24 - May 30	E-22217	Green Mountain to Gladbrook Tap	Support	Franchise Renewal
May 31 - Jun 6	E-22218	Story/Marshall County Line to Rhodes	Support	Franchise Renewal
May 31 - Jun 6	E-22218	Story/Marshall County Line to Rhodes	Support	Franchise Renewal

Supported generally means the filings are for projects IPL views in the best interests of IPL customers, such as franchise renewals, rebuilt facilities, certain new facilities, North American Electric Reliability Corporation (NERC) compliance, or the MISO Multi Value Portfolio.

No Action generally applies to filings of no consequence to IPL customers.

Objected to or With Comments generally applies to projects unnecessary for IPL customer reliability or inappropriate cost allocations to IPL customers.

### **3. FERC Transmission Activity, IPL Engagement**

IPL's strategy includes maintaining active and vocal engagement with ITC-M's regulatory activity that could potentially affect transmission related benefits as well as rates, and therefore, costs to IPL customers.

Since the December 2014 Report, IPL notes the following most significant FERC activity, and IPL's engagement.

**A. FERC Investigation into MISO Attachment O Formula Rates (Docket Nos. EL12-35-000, ER13-2379-000)**

**Updated Results:**

- **On January 22, 2015, FERC conditionally accepted MISO and the TO's May 2014 compliance filing subject to a further compliance filing, denied the Organization of MISO States (OMS) rehearing and clarification request, and affirmed the protocols to be effective January 1, 2014. The revised compliance filing required adjustments to the scope of participation in the challenge and review procedures, transparency of the information exchange process and the ability of customers to challenge transmission owners' implementation of the formula rate.**
- **MISO and the TOs filed a revised compliance filing on February 13, 2015.**
- **FERC has taken no further action thus far in the dockets.**
- **IPL has continued to engage in the processes through the updated protocols resulting from the proceeding, allowing additional review of Attachment O rates with ITC-M to gain clarity on projected rates.**

Background

Following complaints regarding MISO transmission formula rates, FERC initiated an investigation in 2012, noting that the current structure may be unjust, unreasonable, unduly discriminatory, preferential or otherwise unlawful. Areas of concern where FERC requested comments from interested parties included the scope of participation, transparency of the information and ability to challenge. Ability to engage the prudence and details of formula rates is essential to IPL's advocacy for customer cost interests.

**Results:**

- IPL submitted comments to FERC in June 2012. IPL suggested improvements in the above-noted areas of concern. A copy of IPL's comments was provided in the June 2012 Report. IPL comments noted that, with IPL's transmission service substantially delivered through the ITC-M system, 85 to 90 percent of IPL's total transmission costs are a direct result of ITC-M rates. Further, these costs are transparent to IPL end-use retail customers as a separate line item on their IPL bills. IPL sought greater detail and transparency from both ITC-M and MISO in the determination of Attachment O rates. Specifically, more information should be provided regarding the need for, quantifiable benefits of, priority of and reasonableness of each of the components, especially individual project capital cost. The need for such detail and transparency have been expressed and emphasized in feedback from IPL customers in view of the historical rapid rise in ITC-M rates.
- In May 2013, FERC issued an order which found that MISO's and individual company formula rate protocols are insufficient. FERC directed MISO and the impacted TOs, which includes ITC-M, to make certain

changes to their formula rate protocols. Changes were directed to assist in making certain interested parties have the information and processes in place to help ensure just and reasonable rates. The new protocols require TOs to provide more support for information included in formula rates as well as have a well-defined challenge process which places the burden of demonstrating the correctness of information on the TO. Parties seeking to challenge the prudence of a TO's expenditures will still need to first create a serious doubt as to the prudence of those expenditures before the burden of proof shifts to the transmission owner.

- IPL provided verbal suggestions to ITC-M in August 2013 regarding additional information IPL would find helpful in ITC-M's projected Attachment O rate presentations, including more detail on Administrative and General (A&G), Operations and Maintenance (O&M) costs, correlation of projects to the annual MISO Transmission Expansion Plan (MTEP) and more breakout of capital on multi-year projects. IPL suggested that these considerations might also factor into ITC-M's participation with other MISO TOs in the development of the formula rate protocol compliance filing with FERC. ITC-M indicated that it was not expected that the compliance filing would reflect much change to the existing Attachment O protocols for projected rates, but they indicated appreciation of the suggestions and that they would take them into consideration.
- MISO and the TOs, including ITC-M, collaborated on their compliance filing and filed at FERC on September 13, 2013. Among other provisions in their filing, MISO and the TOs highlighted:
  - Request that the revisions to the MISO tariff be effective January 1, 2014.
  - Have definitive timelines for interested parties and TOs to have Information Exchanges, Informal Challenges, and Formal Challenges to TOs' annual net revenue requirement and True-Up Adjustments.
  - Agree to comply with the requirement to provide additional information, including supporting documents and work papers for data that is not available in the FERC Form 1 or other applicable data source documents, that includes sufficient information to enable interested Parties to replicate the calculation of the formula results and identify any changes to the formula references.
  - Agree to make required annual informational filings to FERC that include:
    - Input data to formula rates are properly recorded in any underlying work papers;
    - that the Transmission Owner has properly applied the formula rate and the procedures in the protocols
    - the accuracy of data and the consistency with the formula rate of the actual revenue requirement and rates (including any True-Up adjustment) under review
    - the extent of accounting changes that affect formula rate inputs, and
    - the reasonableness of projected costs included in the projected capital addition expenditures

- Provided illustrative examples of the revised protocols and red-lined versions of the MISO Attachment O to comply with the FERC order.
  - Indicated that due to the expected time for FERC to act on the compliance filing, MISO and the TOs do not expect that the revised procedures and timelines will be applied until June 1, 2014.
- On October 18, 2013, AECS on behalf of its affiliate utilities IPL and WPL, filed comments at FERC on the compliance filing. AECS's comments explain that while the company is supportive of the steps being taken, the filing is deficient in that changes to protocols are being focused on True-Up procedures and are not being applied to projected rates such as those used by ITC-M and the American Transmission Company (ATC). AECS stressed the importance of thoroughly understanding projected rates and their basis, and the need for the new protocols to be applied to projected rates and not just True-Up procedures. Further, AECS noted that in order to be in a sufficient position to fully evaluate and influence projected rates on behalf of customers, greater understanding of the reasonableness, prudence, and anticipated benefits of the projected rates is needed.
- Various entities with MISO interests filed comments to the compliance filing regarding the details of the timing and specific information made available in the review of actual revenue requirements and the True-Up adjustments. A few, including the OMS made similar comments to AECS regarding the needed application of the protocols to projected rates.
- On March 20, 2014, FERC conditionally accepted the September 2013 compliance filing and denied a rehearing request on its 2013 order for changes in MISO's Attachment O tariff protocols. FERC has recognized the comments made by AECS, OMS and others that new protocols filed by the MISO and the TOs focused on the processes and timelines to review and challenge the after-the-fact rates. The new protocols did not clearly provide any additional mechanisms for review and challenge of the projected rates for the following year, such as those IPL is subject to from ITC-M. FERC indicated in the March 2014 order that the May 2013 order was meant to apply to projected revenue requirements as well. Along with other revisions, MISO and the TOs are required to revise the compliance filing to reflect the process and timelines for customers to review the reasonableness of projected rates.
- On April 18, 2014, OMS requested a rehearing and clarification of the March 20 order, asserting that FERC failed to make clear that the proposed protocols apply to the initial establishment of a formula rate revenue requirement by a MISO TO, and that FERC erred when it allowed the revised formula rate protocols to become effective on January 1, 2014, rather than the refund effective date of May 23, 2012, established in the May 2013 order.
- MISO and the TOs filed a revised compliance filing on May 19, 2014. The compliance filing does make the protocol changes to include application to the projected net revenue requirements as used by ITC-M. The timeline is clearer and tied to specific dates, rather than elapsed time as it was before. The timeline is also somewhat longer, allowing Interested Parties such as IPL more time to review the Annual True-Up,

projected revenue requirement, etc. and to initiate Information Exchanges, Informal Challenges or Formal Challenges. Also on May 19, FERC issued a tolling order on OMS' rehearing request.

- On June 9, 2014, a group of Arkansas and Mississippi cooperative and municipal utilities (Joint Customers) filed a Protest at FERC against the MISO and the TOs on procedural, timeline and calculation issues.
- On June 12, 2014, the OMS filed a Motion to File Comments Out of Time and Comments of OMS regarding procedural issues.

## **B. IPL's Complaint on ITC-M Attachment FF (Docket No. EL12-104-000)**

### **Updated Results:**

- **FERC has taken no further action in the docket.**
- **IPL will continue to monitor the proceedings.**
- **As a result of IPL challenging the ITC-M Attachment FF policy, the ITC-M self-funding of \$39 million of network upgrades for the WPL Bent Tree Wind Farm in Minnesota will be borne by WPL and its customers through a FSA between ITC-M and WPL. Under the prior ITC-M Attachment FF policy, those costs would have been borne by all customers of ITC-M, of which IPL customers constitute 88% of the load and corresponding cost. WPL's Bent Tree Wind Farm is only one example—IPL customers will benefit from future interconnecting generators being responsible for network upgrade costs, not customers of ITC-M.**
- **ITC-M's first use of the self-funding arrangement was exhibited in early 2015 with FSA submitted to FERC (Docket No. ER15-884-000) by MidAmerican Energy (MEC) and ITC-M for a wind farm project in Grundy County Iowa that will necessitate network upgrades. Specifically, the costs for the Wellsburg 161/69 kV transformer will be borne by MEC through the FSA instead of all customers of ITC-M, as would have been done through the prior Attachment FF policy. IPL expects ITC-M to handle the future cost allocation for generator interconnection network upgrades similarly as a result of the change in Attachment FF policy prompted by IPL through FERC.**
- **Likewise, as a result of the change in ITC-M Attachment FF policy, the ITC-M self-funding of network upgrades for MGS will be borne by IPL and its customers through a FSA between ITC-M and IPL. Although under the prior ITC-M Attachment FF policy those costs would have been borne by customers of ITC-M of which IPL constitutes only 88% of the load and corresponding cost, the self-fund arrangement is overall more fair and cost advantageous to IPL and IPL customers. In addition, the cost allocation is in keeping with IPL's policy objective that costs and benefits be aligned. As noted in the Follow-up Questions and Responses from the December 3, 2014 IPL Transmission Stakeholder Meeting and attached to the December 2014 Report, IPL's analysis concluded that ITC-M's election to use the self-fund option for the MGS network upgrades is in the best interest of IPL and IPL customers from the lower cost compared to IPL providing the up-front funding for those**

**upgrades to ITC-M. The analysis showed that the lower IPL weighted average cost of capital is more than offset by the impacts of the requirement to gross-up any up-front payment to ITC-M for the construction costs to account for the impact of taxes required to be paid for ITC-M.**

### Background

#### Results:

In ITC-M's implementation of the tariff, the costs of network upgrades related to generator interconnections were reimbursed to generators and thus passed on to IPL customers through ITC-M's rates. IPL had previously communicated its concerns to ITC-M regarding its implementation of the MISO Attachment FF. IPL contended that IPL customers are significantly and unfairly disadvantaged. IPL requested ITC-M to consider changing this policy to be consistent with the majority of MISO, where a generator interconnection customer pays for 100% of the cost of network upgrades rated below 345kV and 90% for those rated above 345kV needed to connect to the transmission system. ITC-M declined to make such a change, instead noting the professed benefits of the ITC-M policy to IPL and its customers through support of regional wind generation development and overall economic development, and stating that the reimbursement policy was consistent with FERC policy. IPL then engaged the MISO stakeholder process through its various committees. MISO ultimately advised IPL that MISO could not address the disputed issue between IPL and ITC-M, or provide relief through their tariff administration.

IPL developed a Section 206 complaint and filed at FERC on September 14, 2012, seeking change to ITC-M's Attachment FF generator interconnection cost allocation policy, indicating:

- IPL customers were significantly and unfairly disadvantaged by ITC-M's policy which inappropriately allocated generator interconnection cost to network customers, rather than the connecting generator itself;
- Using ITC-M's historical and forecasted capital expenditures for generator interconnections, IPL calculated a cost shift to IPL customers totaling \$170 million would have occurred over the period 2008-2016 under the then-current ITC-M Attachment FF implementation, versus an Attachment FF implementation consistent with the majority of MISO.
- Interconnection customers should fund 100% of upgrades rated below 345kV and 90% for those rated above 345kV
- Numerous supporting comments were filed from various stakeholders, other transmission dependent utilities, state commissions and others including the Board and OCA.
- ITC-M filed comments, defending their implementation of Attachment FF. IPL filed response comments. ITC-M filed an additional set of comments, defending its position.
- On July 18, 2013, FERC issued an order granting IPL's complaint and directed MISO on behalf of ITC-M to make revisions to Attachment FF so

that ITC-M's reimbursement policy is consistent with the other MISO zones. Changes were effective as of the date of the order. Customers who had Generator Interconnection Agreements (GIAs) executed or filed with the Commission prior to the date of the order use the former reimbursement policy. GIAs executed or filed with the Commission prior to the date of the order but that are amended to add additional network upgrades will be addressed on a case-by-case basis.

- On August 14, 2013, MISO filed at FERC a compliance filing with the applicable MISO tariff sections edited to reflect the July 18, 2013 FERC order.
- On August 16, 2013, ITC-M filed a rehearing request and in the alternative, a clarification. The rehearing request argued that FERC:
  - Neglected to articulate a rational connection between the facts and its decision
  - Failed to justify its departure from prior decisions
  - Erred by ignoring its own cost causation policies
  - Erred by agreeing with the complaint without holding a hearing and finding that IPL met its burden of proof without an adequate record evidence upon which to make such a finding
  - Deprived ITC Midwest of meaningful FPA Section 205 rights
  - Erred by instituting rates for the ITC-M zone that discourages new generation

As an alternative to a rehearing, ITC-M also asked for a clarification on the effective date of FERC's ordered changes and requested that customers with provisional GIAs as of July 18, 2013 will continue to be subject to the policy where ITC-M provided 100% reimbursement and that customers that have made M2 milestone payments as of July 18, 2013 will be subject to the 100% reimbursement policy formerly in place.

- On August 19, 2013, IPL also filed a request for clarification which sought to clarify that FERC's directed changes apply to existing GIAs that are amended after the date of the July 18, 2013 order. As stated above, the order indicated FERC would handle these situations on a case-by-case basis. NextEra Energy Resources, Inc. filed a response to IPL's clarification objecting and requesting that the new policy not apply to all amendments of GIAs following July 18, 2013, and in particular not to new network upgrades in such GIAs that are required because of the completion of interconnection studies required by the existing GIA.
- On September 16, 2013, FERC issued a tolling order related to the rehearing and clarification requests filed which gave FERC an open ended amount of time to consider the requests. In the meantime, the order of July 18, 2013 remained in effect as issued.
- On December 13, 2013, AEC and its subsidiary IPL filed a Form 8-K with the Securities and Exchange Commission (SEC). In this filing, AEC and IPL noted that IPL had expected to fund capital transmission upgrades for its planned MGS based on the July 18, 2013 FERC order on ITC-M's Attachment FF and assumed such upgrades in its capital expenditure guidance issued on November 7, 2013. IPL has been informally notified that ITC-M intends to pursue an option under the terms of the MISO Generator Interconnection Procedures to self-fund the transmission upgrades associated with MGS. This self-fund option is under

Attachment X of the MISO tariff, separate from Attachment FF. Under this option, IPL anticipates a direct assignment facility expense for the network upgrades after the upgrades are placed into service. IPL does not believe that the cost cap included in the Board's Proposed Decision and Order of November 9, 2013 would be affected if ITC-M were to ultimately self-fund the transmission upgrade.

- On February 20, 2014, FERC issued an order denying ITC-M's request for rehearing, granting in part and deny in part ITC-M and IPL's respective requests for clarification, and accepting MISO's compliance filing.
  - Denies ITC-M's request for rehearing – Among the points FERC noted:
    - A “fundamental flaw” in the prior ITC-M policy in that it did not provide adequate contribution to the costs of network upgrades required to interconnect a generator from either the generator or a transmission customer taking service when the generator exports to another MISO pricing zone;
    - The July 18, 2013 order is consistent with prior FERC precedent, which has sought to properly incentivize network upgrade benefits while protecting native load from improperly subsidizing generator interconnection;
    - In a prior order approving the existing MISO policy, FERC explicitly affirmed that the policy ‘remains just and reasonable,’ and still is;
    - The order does not create a subsidy in favor of existing transmission customers; and
    - The order does not discourage renewable generation.
  - Grants in part and denies in part ITC-M's request for clarification:
    - Upgrades identified in a provisional GIA that was executed or filed unexecuted prior to July 18, 2013, will be governed by the prior ITC-M policy. However, upgrades that are subsequently identified and incorporated into an amended and restated GIA, which may or may not be considered provisional at the time of amendment, and which were not included in a provisional GIA that was executed or filed unexecuted prior to July 18, 2013, will be governed by the new MISO policy in effect in the ITC-M zone after July 18, 2013.
    - Interconnection customers who had reached the MISO M2 milestone in the generator interconnection queue process prior to the July 18, 2013 order will not remain eligible for reimbursement under the ITC-M policy, consistent with the finding in the order that customers that have executed a GIA or filed an unexecuted GIA prior to July 18, 2013 remain eligible for reimbursement under the ITC-M Policy. If customers posted the M2 milestone and now wish to withdraw from the queue because of the changes ordered, and the MISO Tariff does not provide an opportunity for them to recoup their M2 milestone payment, those customers may file a request for waiver with FERC and present their case for recovery.

- Grants in part and denies in part IPL's requests for clarification:
  - As discussed above, upgrades that are subsequently identified and incorporated into an amended and restated GIA, which may or may not be considered provisional at the time of the amendment, and which were not included in the provisional GIA that was executed or filed unexecuted prior to July 18, 2013, will be governed by the MISO policy in effect in the ITC-M zone after July 18, 2013.
  - However, as stated in the July 18, 2013 order, FERC believes that amendments to non-provisional GIAs, i.e. permanent GIA's which may have additional upgrade responsibility due to re-study caused by projects dropping out of the queue, are more appropriately addressed on a case-by-case basis to give consideration to the situation giving rise to the amendments.
- The February 20, 2014 FERC order substantially affirmed the July 18, 2013 order where IPL prevailed in its complaint. Like the July 18, 2013 order, the February 20, 2014 order is overwhelmingly a positive for IPL and its customers.
- On March 24, 2014, NextEra Energy Resources, LLC (NextEra) filed at FERC a request for rehearing on the February 20 order. NextEra asked for rehearing because two of its wind projects (Crystal Lake II and III) have provisional, executed GIAs filed in 2008 and 2009. MISO did not complete the system impact studies for these projects until March 2013. MISO has not yet amended the GIAs to include any additional network upgrades. Therefore, as a result of the February 20, 2014 order, NextEra argues it will be responsible for any additional network upgrade costs since the GIAs will be amended after the date of the original July 18, 2013 order. NextEra argues that this is due to no fault of its own, but rather due to the delays of MISO studies and GIA amendments. NextEra had previously made a similar argument in a response to IPL's clarification request to the July 18, 2013 order.
- On April 23, 2014, FERC issued a Tolling Order on NextEra's rehearing request. The tolling order affords FERC additional time for consideration of the rehearing request and will address it in a future order. It is not currently known when or how FERC might respond to NextEra's rehearing request, or what future impacts there might be for IPL, if any.
- It is also not known if or how ITC-M's potential use of the self-fund option might impact any transmission upgrade costs for the NextEra projects. MISO continues to operate under the revised MISO Tariff filed as ordered and effective as of the date of the July 18, 2013 order.

**C. MISO Industrial Customer Complaint against MISO TO ROE, Capital Structure and ROE Adders (Docket No. EL14-12-000)**

**Updated Results:**

- In FERC orders issued for the MISO base ROE complaint (Docket No. EL14-12-000) in January and February 2015, FERC appointed a Presiding Administrative Law Judge (ALJ) and established a pre-hearing conference and the hearing procedural schedule. The FERC's order establishing the hearing procedural schedule is attached as Appendix 1.
  - To date, the Complainants, Interveners, Respondents and Commission Trial Staff have all submitted their direct and answering testimony and exhibits. (Due to their volume, those filed documents are not attached as Appendices to this Report. Further details on the documents can be found through a search of Docket No. EL14-12-000 at the FERC's eLibrary at <http://elibrary.ferc.gov/idmws/search/fercgensearch.asp>.
  - The Commencement of Hearing is scheduled for August 17, 2015 with an Initial Decision to be issued by the ALJ by November 30, 2015.
  - A final decision by the Commission is not expected until the middle of 2016.
- General industry indications based on submitted testimony in this docket and other ROE activity in other regions is that the MISO base ROE will decrease as a result of the complaint, and reflected in the analysis methodology FERC established in its Opinion No. 531.
  - IPL has estimated that each 1 percentage point (100 basis points) change in ROE changes the ITC-M Attachment O Transmission Rate by about 5-6% which equates to roughly a 1% decrease in total IPL customer rates, based on testimony submitted thus far and other recent ROE orders.
  - ITC Holdings, the parent company of ITC-M and other operating companies in MISO indicated in the SEC 2014 Form 10K Annual Report dated February 26, 2015 that they believe it is reasonably probable that the MISO base ROE proceedings will result in customer rate refunds. ITC Holdings has established a \$47.8 million regulatory liability for the period November 13, 2014 through December 31, 2015. (The ITC Holdings 2014 Form 10K Annual Report is not attached to this Report as an Appendix due to its volume. Rather, it can be found on the ITC Holdings Corp. website at <http://investor.itc-holdings.com/financials.cfm>.)
- IPL anticipates any refunds will flow through the ITC-M Attachment O True-Up and IPL Regional Transmission Service (RTS) Rider mechanisms. The amount and timing of any refunds is uncertain.

- **IPL continues to monitor the proceedings and evaluate potential engagement as it deems appropriate.**

### Background

On November 12, 2013, a group of industrial customer organizations in MISO filed a complaint at FERC seeking reduction of the base ROE (12.38%) used by the MISO TOs (including ITC-M) transmission rates to 9.15%, instituting a capital structure in which the assumed equity component does not exceed 50%, and eliminating the ROE adders currently approved for the other ITC Holdings operating companies in Michigan (ITC Transmission and METC) for being a member of a RTO and for being an independent transmission owner (Docket No. EL14-12-000).

A lower transmission ROE in the ITC-M Attachment O formula rates will result in lower transmission rates to customers of IPL.

The standard transmission ROE in MISO is 12.38%. ITC Midwest's rate is 12.38%, other ITC operating company rates range up to 13.88%.

Until the November 11, 2013 complaint against the MISO transmission owners, the primary ROE complaint of industry interest had been the 2011 complaint of the Massachusetts Attorney General and others against the ISO New England Inc. (ISO-NE) transmission owners' ROE (Docket No. EL11-66-000).

### Results:

- AECS filed an intervention without comments in Docket No. EL14-12-000 on December 10, 2013 on behalf of IPL and WPL as interested parties. (Until December 20, 2014, IPL was prohibited from filing a challenge to the ITC-M initial rate or rate construct.)
- On June 19, 2014, FERC issued an order (Opinion No. 531) in response to the 2011 complaint (Docket No. EL11-66-000) of the Massachusetts Attorney General and others against the ISO-NE transmission owners' ROE. FERC made the following determinations:
  - ISO-NE TOs' ROE are lowered from 11.14% to 10.57%. This is higher than the 9.7% recommended by the ALJ previously and the 8.7% sought in the complaint.
  - The methodology for determining ROE is revised using a 2-step discounted cash flow analysis that incorporates a long-term growth estimate. FERC indicated that this methodology is to be used going forward for ROE determinations.
  - Base ROEs are set at halfway point between the midpoint and top end of the zone of reasonableness. This is higher than the previous practice of using the midpoint of the zone of reasonable comparisons, but continues to provide needed incentives for transmission and effectively caps a narrower range for the zone of reasonableness.
  - The revised methodology is consistent with that used in natural gas and oil pipeline ROE determination.

- FERC will no longer make more current market adjustments to ROE after the close of record.
- A paper hearing was set to determine the long-term growth rate estimate to be used in the final ISO-NE ROE determination.
- On October 16, 2014, FERC issued an order on the MISO TO ROE complaint (Docket No. EL14-12-000):
  - Established hearing and settlement judge procedures on the ROE element of the complaint, and setting a refund date of November 12, 2013, the date of the complaint.
  - Denied the request to limit the capital structure of MISO TOs to 50% equity.
  - Denied the request to eliminate the ROE incentive adders of ITC Transmission and METC; ITC Holdings companies operating in Michigan.
  - Dismissed the portion of the complaint that includes MISO as a party.
- Also on October 16, 2014, FERC affirmed the June 19, 2014 order that the ROE for ISO-NE TOs be reduced to 10.57% (from 11.14%) using Gross Domestic Product (GDP) as the long-term growth rate projection in the two-step Discounted Cash Flow (DCF) methodology established in the same order's Opinion No. 531 ROE determination guidelines.
- FERC's October 16, 2014 action on the MISO TO ROE complaint did not establish a specific, lower ROE value for the MISO TOs, as the ISO-NE case did. The MISO base ROE will result from the settlement and/or hearing procedures, with FERC's expectation that the parties will use the Opinion No. 531 ROE determination guidelines.
- Settlement discussions on the MISO TO ROE complaint were initiated on November 13, 2014. The parties last met on December 16, 2014 but were not able to continue progress toward an appropriate base ROE. The settlement judge declared an impasse and filed a report on December 17, 2014 recommending the matter be scheduled for evidentiary hearing.

#### **D. Second Complaint against MISO TO ROE (Docket No. EL15-45-000)**

**On February 12, 2015, a group of cooperative and municipal utilities in MISO filed a second complaint at FERC seeking reduction of the base ROE (12.38%) used by the MISO TOs (including ITC-M) transmission rates to 8.67% (Docket No. EL15-45-000). The Complaint is attached as Appendix 2.**

#### **Results (new activity):**

- **AECS filed an intervention without comments in Docket No. EL15-45-000 on February 20, 2015 on behalf of IPL and WPL as interested parties.**

- On June 18, 2015, FERC issued an order on the Second MISO TO ROE complaint. FERC established hearing procedures, leaving the requested consolidation with Docket No. EL14-12-000 to the discretion of the Chief Administrative Law Judge. A refund date of February 12, 2015 was set, the date of the complaint. On June 24, 2015, the Chief Administrative Law Judge denied consolidation with Docket No. EL14-12-000. FERC indicated it expects the presiding judge should be able to render a decision within 12 months of the commencement of hearing procedures, or by June 30, 2016. Thus, absent any settlement, FERC estimates it would be able to issue a final decision by May 31, 2017. The FERC order is attached as Appendix 3.

**E. MISO Transmission Owner Request to Implement a 50 Basis Point RTO Adder to Each TO's ROE for Participation in MISO (Docket No. ER15-358-000)**

**Updated Results:**

- On January 5, 2015, FERC issued an order accepting the MISO TO request to implement a 50 basis point RTO incentive adder to each TOs ROE for participation in MISO. The Regional Transmission Organization (RTO) incentive adder is to become effective January 6, 2015, subject to refund, and subject to the outcome of the MISO base ROE proceeding in Docket No. EL14-12-000 which will establish the MISO base ROE and cap implementation of any ROE incentive adders to the upper end of the zone of reasonableness. Collection of the RTO incentive adder is also deferred pending the outcome of the MISO base ROE proceeding. The FERC order is attached as Appendix 4.
- Various rehearing requests were filed.
- On March 4, 2015, FERC issued a tolling order to allow further time for it to consider the rehearing requests.
- It is not known when or specifically how FERC will ultimately act on the RTO adder rehearing requests.
- IPL will continue to monitor the proceedings and evaluate potential further engagement as it deems appropriate.

Background

On November 6, 2014, a group of MISO TOs, including ITC-M, filed a request at FERC to implement a 50 basis point RTO incentive adder to each TOs ROE for participation in MISO.

An effective date of November 7, 2014 was requested, however, collection of the RTO adder was requested to be deferred until after the issuance of a final order addressing the pending MISO base ROE complaint (Docket No. EL14-12-000). The TOs acknowledge that the requested adder would be added to the base ROE for each TO only to the extent that the

addition of the adder results in a total ROE within the range of reasonable returns established by FERC.

A higher ROE in the ITC-M Attachment O formula rate resulting from any ROE incentive adders such as the RTO adders will result in higher transmission rates to customers of IPL.

Results:

- On November 26, 2014, AECS filed comments on the MISO TO request for a 50 basis point RTO incentive. AECS filed comments highlighting certain information related to transmission development in MISO to aid FERC's decision making process; specifically that the historical transmission investment in the MISO footprint has been robust and that MISO currently employs a number of risk mitigation measures that affect the investment environment of the MISO TOs and should be considered by the Commission, such as forward-looking rates. AECS also noted general support for prudent transmission investment that balances reliability needs with customer cost impacts.
- Numerous other parties filed protests and comments, including Resale Power Group of Iowa (RPGI), and the Joint Consumer Advocates of which the OCA is a member.

**F. ITC-M Request to Implement a 100 Basis Point Adder to its ROE for its status as a Transco. (Docket No. ER15-945-000)**

**On January 30, 2015, ITC-M filed for a 100 basis point incentive adder for its status as a Transco, or independent transmission company.**

**A higher ROE in the ITC-M Attachment O formula rate resulting from any ROE incentive adders such as the independence adder will result in higher transmission rates to customers of IPL.**

**An effective date of the same as the filing was requested, however, collection of the independence adder was requested to be deferred until after the issuance of a final order addressing the pending MISO base ROE complaint (Docket No. EL14-12-000). ITC-M acknowledges that the requested adder would be added to the base ROE only to the extent that the addition of the adder results in a total ROE within the range of reasonable returns established by FERC. ITC-M's request for a 100 basis point incentive adder to its ROE for independence is attached as Appendix 5.**

**Results (new activity):**

- **On February 20, 2015, IPL filed comments on the ITC-M request for a 100 basis point independence incentive adder. IPL discussions with Board, OCA, LEG and the Iowa Consumers Coalition (ICC) stakeholders helped shape IPL's comments. IPL comments**

requested FERC to reevaluate its overall transmission ROE incentive policies to ensure the policies are meeting the intended goals, including consideration of cost impacts to customers, before considering the ITC-M request. In the alternative, IPL requested consolidation of the request with the broader evaluation of the MISO TO ROE in Docket No. EL14-12-000, as the most efficient, holistic, and expeditious means to resolve the ITC Midwest ROE matter. IPL's comments are attached as Appendix 6.

- Numerous other parties filed protests and comments, including the Board together with the OCA, RPI, and ICC.
- On March 31, 2015, FERC granted ITC-M's request for an adder, but found 50 basis points to be reasonable given current market conditions. The independence adder is to become effective April 1, 2015, subject to refund, and subject to the outcome of the MISO base ROE proceeding in Docket No. EL14-12-000 which will establish the MISO base ROE and cap implementation of any ROE incentive adders to the upper end of the zone of reasonableness. Collection of the independence adder is also deferred pending the outcome of the MISO base ROE proceeding. The FERC order granting the 50 basis point independence adder is attached as Appendix 7.
- Notably, Commissioners Moeller and Clark dissented on the order, issuing a joint statement on March 31, 2015 stating that the Commission did not provide clear guidelines for what standards merit the full 100 basis points for the independence ROE incentive adder granted in previous orders, and the result sends the wrong message to the industry when FERC is promoting transmission investment through policies such as Order No. 1000. The Commissioners' Joint Statement is attached as Appendix 8.
- On April 29, 2015 MISO on behalf of ITC-M filed a compliance filing to reflect the ITC-M tariff changes for implementation of a 50 basis point independence ROE incentive adder upon determination of the MISO base ROE in Docket No. EL14-12-000.
- On April 30, 2015, ITC-M and RPI filed rehearing requests. ITC-M argued for the full 100 basis points adder originally requested, while RPI argued that granting of an independence adder is not justified.
- On June 1, 2015, FERC issued a tolling order to allow further time for it to consider the rehearing requests. It is not known when or specifically how FERC will ultimately act on the ITC-M independence ROE incentive adder rehearing requests.
- IPL will continue to monitor the proceedings and evaluate potential further engagement as it deems appropriate.

**G. IPL Contemplation of Section 206 Complaint at FERC against ITC-M's use of a 60% Equity Capital Structure**

The higher proportion of equity used in capital structure determination by ITC-M than other MISO TOs contributes to higher transmission rates to customers of IPL.

**Results (new activity):**

- In early 2015, IPL conducted a review of the feasibility of initiating a Section 206 complaint at FERC against ITC-M and its use of a 60% equity capital structure in the determination of its return included in its MISO Attachment O rate.
- A review of FERC precedent indicated that FERC has stood firm against repeated challenges. More recent orders upholding challenges to the 60% equity structure include Order No. 679 (Docket No. RM06-4-000), the IPL – ITC-M asset sale order (Docket No. ER07-887-000), ITC Holdings and Entergy Corporation order (Docket No. ER12-2681-000), and the MISO ROE complaint currently in the hearing process (Docket No. EL14-12-000). IPL continues to monitor more recent regulatory developments potentially influencing capital structures, and continues to evaluate on an on-going basis a potential complaint at FERC against ITC-M's capital structure.
- IPL has clearly indicated to ITC-M executive management that IPL has concerns over ITC-M's capital structure and IPL is investigating remedies that may be pursued. In addition, IPL has had preliminary discussions with other stakeholders to be prepared if in the future IPL believes activity at FERC is warranted.
- Lastly as noted in IPL's comments to the ITC-M request for a 100 basis point adder to its ROE for its status as an independent transmission company (Docket No. ER15-945-000), IPL requested FERC to reevaluate its overall transmission ROE incentive policies to ensure the policies are meeting the intended goals, including consideration of cost impacts to customers from the capital structure used.

**H. Alliant Energy Executive Meetings with FERC Commissioners and Staff**

**Results (new activity):**

In February 2015, Joel Schmidt, Vice President of Regulatory Affairs for AECS met with FERC Commissioners LaFleur (at the time Chair), Moeller, Clark and Bay and their Staff at the FERC offices in Washington DC. Alliant Energy's objective was to discuss its unique perspective on transmission issues with transmission dependent utilities (TDUs) in two states (Iowa and Wisconsin).

At these meetings with FERC Commissioners, Alliant Energy related:

- Unique aspects of its perspective, including its integrated regulatory environment, rural territory, significant renewable portfolio within footprint, high industrial load, price sensitive industrial customers and service from two different transmission companies (ITC-M and ATC).
- The need for transmission policy to balance customer costs and reliability, and consider policy from a more holistic perspective with respect to customer cost impacts rather than on a component basis.
- A comparison of ITC-M rates to ATC and other TOs in MISO, ITC-M's capital structure, and the rate of change of ITC-M rates that IPL customers have experienced.
- General concerns about the MISO interconnection, resource adequacy and seasonal construct processes.
- How it continues to manage these concerns through the MISO stakeholder processes and with the TOs, however, it may ultimately need to bring them to FERC since the consequences impact reliability, are detrimental to future development of resources and can be costly to ratepayers.
- Its attempts and desire to manage concerns and issues through the MISO stakeholder processes and directly with the TOs, noting that FERC may ultimately need to address some of them if they cannot be resolved in this manner

#### I. OCA and IPL Discussion, Correspondence

IPL conducted stakeholder outreach communications via conference calls with key transmission stakeholder organizations at various times February through May 2015, including IUB staff, OCA staff, ICC and Large Energy Group (LEG). These discussions were initiated by IPL to share various IPL transmission federal regulatory evaluations and positions with stakeholders and gather thoughts from stakeholders.

Results (new activity):

Additional discussions were held between the OCA and IPL staff, before and after letters exchanged between Mark Schuling, Iowa Consumer Advocate and Joel Schmidt, VP of Regulatory Affairs at Alliant Energy, relating to various OCA concerns about IPL engagement at FERC on transmission cost matters. OCA concerns about the cost allocation of network upgrades by ITC-M associated with the retirement of WPL's Nelson Dewey Generating Station, as noted in the December 2014 Report, were also discussed.

#### 4. MISO Activity, IPL Engagement

##### Updated Results:

##### A. MTEP14

- **MVP Triennial Review**
  - In late 2014, MISO completed a MISO Transmission Expansion Plan 2014 (MTEP14) Multi-Value Project (MVP) Triennial Review, as required in the MISO tariff. The review indicates increased MVP benefits over those identified in MTEP11 when the MVPs originated. The MTEP14 results demonstrate the MVP Portfolio:
    - Provides benefits in excess of its costs, with its benefit-to-cost ratio ranging from 2.6 to 3.9; an increase from the 1.8 to 3.0 range calculated in MTEP11
    - Creates \$13.1 to \$49.6 billion in net benefits over the next 20 to 40 years, an increase of approximately 50 percent from MTEP11
    - Enables 43 million MWh of wind energy to meet renewable energy mandates and goals through year 2028, an additional 2 million MWh from the MTEP11 year 2026 forecast
    - Provides additional benefits to each local resource zone relative to MTEP11
  - Benefit increases are primarily congestion and fuel savings largely driven by natural gas prices. The MVP Review has no impact on the existing MVP Portfolio cost allocation. MTEP14 Review analysis was performed solely for informational purposes. The intent of the MVP Review is to use the review process and results to identify potential modifications to the MVP methodology and its implementation for projects to be approved at a future date.
  - Alliant Energy reviewed the draft Triennial Review and submitted questions/comments regarding the consistency of economic forecast variables with other MISO studies and the natural gas price forecast in particular. The natural gas price forecast used was higher than a more recent forecast in development at MISO and those used internally at Alliant Energy; therefore IPL believes the MVP benefits in the Triennial Review are somewhat overstated.
  - MISO has not identified a new portfolio of Candidate MVP projects since MTEP 11, and IPL continues to monitor progress of the MTEP 11 MVPs.
- **IPL is continuing its review of the MTEP15 portfolio of projects and will submit comments and questions to ITC-M and MISO as needed.**

## B. Planning Associated with Marshalltown Generation Station (MGS)

MGS is a 650 MW natural gas / combined cycle generation station planned at Marshalltown, Iowa, adjacent to existing generation facilities. MGS is planned to be in-service in 2017. Planning the transmission interconnection for MGS requires very close and frequent coordination between IPL, ITC-M and MISO.

- **Network Upgrades, Generator Interconnection Agreements (GIAs) and Capacity Accreditation**
  - The original MISO System Planning and Analysis (SPA) Study for the MGS transmission interconnection and network upgrades in 2011 indicated a 345kV solution at a cost of approximately \$255 million. The most recent MISO Definitive Planning Phase (DPP) Restudy from May 2015 indicates a 161kV solution at approximately \$21 million. This reduction of over \$200 million in capital costs was achieved in part as a result of IPL's direct and substantial involvement in the study process at MISO and with ITC-M.
  - This progress has led to an executed provisional GIA for MGS between IPL, ITC-M and MISO that was filed at FERC for approval on May 14, 2015. The public version of the filing, Docket No. ER15-1713-000 is attached as Appendix 9. A conditional GIA is anticipated to be executed later in 2015.
  - IPL continues to closely coordinate with MISO and ITC-M on progress.
  - IPL's advocacy has triggered a number of changes within the MISO IPTF committee study processes, and IPL continues to collaborate with several MISO stakeholder groups to further improve the overall processes associated with obtaining generator interconnections.
  - IPL has also been working with MISO on MISO process changes to secure accredited capacity from MGS without an unconditional GIA during the interim period between completion of MGS and the in-service dates of all required network upgrades. MISO has identified and offered viable options to accredit part or all of the MGS capacity which IPL continues to evaluate.
- **Resource Adequacy Construct**
  - Alliant Energy and IPL have also been working with MISO on MISO process changes to move from an annual resource adequacy construct to a seasonal construct. A seasonal construct would better recognize seasonal capacity differences of various types of resource changes such as unit retirements and Purchased Power Agreements (PPAs) that expire at times other than the end of the MISO Planning Year. This would avoid potentially expensive replacement capacity and thus minimize costs to customers.

- **MISO Stakeholder Process**
  - **MISO has indicated a focus on revising the stakeholder process for 2015 – a position for which IPL and others have been advocating. IPL intends to be actively involved and has had preliminary discussions with other stakeholders regarding potential collaboration on the efficiency of MISO’s stakeholder process. In particular, such discussions have included senior executives of IPL, Alliant Energy and MISO on the need for improved MISO interconnection, capacity accreditation, resource adequacy and stakeholder processes.**

### Background

IPL’s strategy includes maintaining active and vocal engagement with the related MISO processes that impact transmission rate components, including those of ITC-M, which may ultimately impact the costs to IPL customers.

IPL participates in various committees and meetings at MISO pertaining to transmission topics. Specifically, IPL is an active participant of the Planning Advisory Committee (PAC) as a representative of the Transmission Dependent Utility (TDU) sector. Other groups where IPL has representation include the IPTF, Planning Subcommittee (PSC) and the West Sub-Regional Planning Meeting (West SPM). IPL has been an active participant and voting stakeholder in the Regional Expansion Criteria Benefits (RECB) Task Force that is charged with shaping cost allocation policy.

A summary chart of the various MISO committees IPL participates in is provided in Figure 5. A few minor changes to the individuals representing AEC, IPL and affiliates on the various committees have occurred and Figure 5 has been updated from the prior Report.

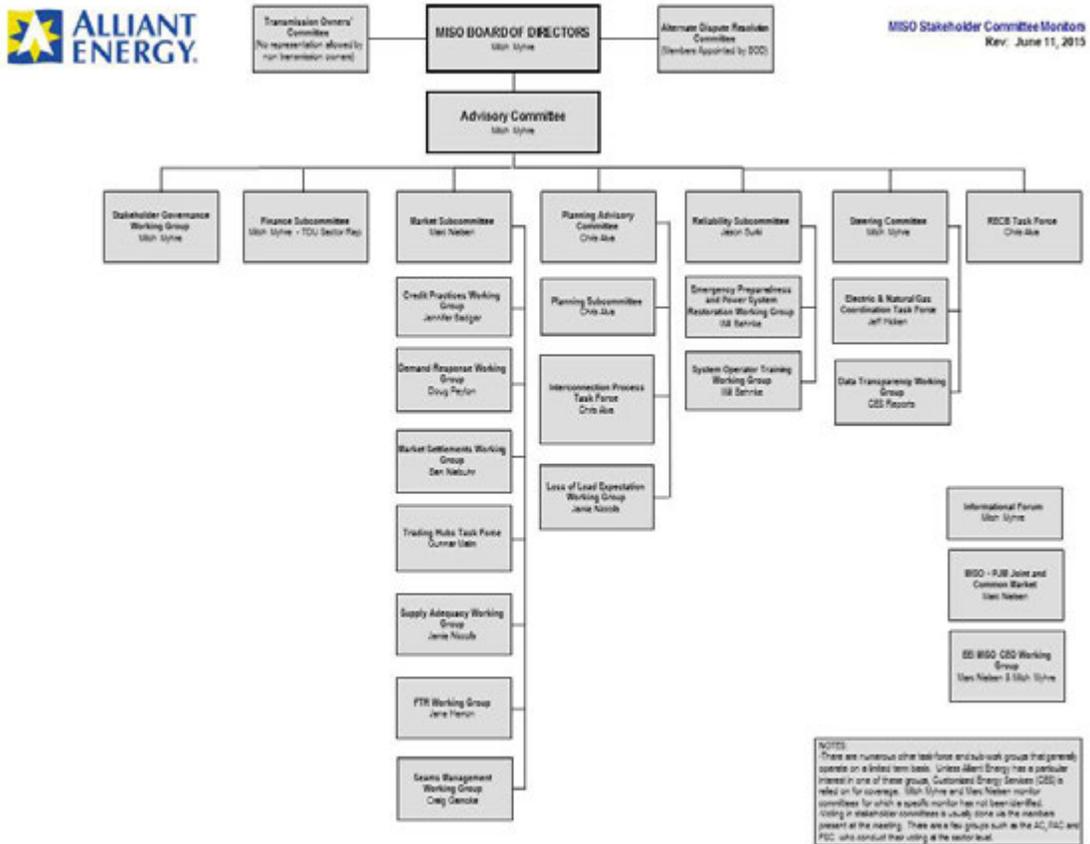


Figure 5 – AEC involvement at MISO

A significant annual activity that IPL participates in at MISO is the MTEP process, discussed above.

Due to the scope and complexity of regional transmission planning, IPL does not perform independent cost-benefit analysis of the MTEP project portfolio, MVPs or individual ITC-M projects. For the MVPs in particular, due to the large interdependencies of the projects MISO calculates the benefits on the portfolio as a whole consistent with FERC direction, rather than for individual projects. For all other non-MVP projects, such as market efficiency projects, MISO performs a cost-benefit analysis on a per-project basis that must meet certain cost-benefit criteria to be approved by MISO. This scale of planning and cost-benefit analysis is best done at the regional level through a collaborative process. Therefore, IPL actively participates in the MISO planning processes through the various participant and stakeholder committees it is represented on.

IPL reviews the projects resulting from the MISO planning process and provides feedback to MISO on projects potentially impacting the transmission service and cost to IPL customers, including those of ITC-M. IPL’s criterion for the review of these planned projects follows the same general guidelines as the IPL criteria for intervention on Board dockets.

In summary:

- IPL generally does not take a position on projects unrelated to IPL, including those of ITC-M. Such projects include those of other TOs whose costs are not passed on to IPL as well as those projects by ITC-M that support their other customers but do not necessarily provide a direct benefit to IPL or its customers.
- IPL generally supports projects that would improve reliability to IPL customers or the interconnected system, including those of ITC-M.
- IPL generally supports ITC-M projects related to the conversion of the 34.5kV and 115kV systems. These conversion plans were begun by IPL and ITC-M continues the efforts to complete that work, which IPL supports in the interests of improved system reliability for customers.

IPL continues to be supportive of MISO's current cost allocation methodologies to the extent that those cost allocation methodologies ensure that IPL customers only pay the share of costs that provide benefit, and that all transmission expansion plans impacting the MISO system should be fully vetted through a regional and an inter-regional planning process.

## **5. IPL and ITC-M's Joint Project Planning Process**

### **Updated Results:**

**In a planning-related activity, in early 2015 IPL conducted a study to evaluate energy market benefits from a recent large ITC-M project, the 81 mile long Salem-Hazelton 345kV line in northeast Iowa that went into service in April of 2013 at a total project cost of \$161.7 million.**

**The Salem-Hazelton line was built primarily for regional reliability benefits. To evaluate energy market economic benefits, a MISO "Business as Usual" 2019 base case was used as it most closely matches today's market. The model includes all market generation, load and transmission, and performs the same dispatch as the actual market. The total energy costs with and without the line in service were modeled—the difference represents the energy market benefit.**

**The study results showed the line enables a lower market cost to serve IPL load. Looking at just the IPL load control area, the line provides approximately \$4.5 million savings annually from serving IPL load from MISO market resources. The line also enables IPL to increase generation margins approximately \$3.5 million from selling its resources into the MISO market. Since those generation margins directly offset production (fuel) costs with the benefits flowing to IPL customers, the combined energy market benefits savings to IPL customers is approximately \$8 million annually.**

**ITC-M has previously indicated that prior studies showed "The Salem-Hazleton Project alone has been estimated to lower energy costs across MISO by approximately \$108 million per year due to lower congestion costs and removal of key transmission constraints" (ITCM, December 2011 presentation). IPL notes the \$108 million is a *regional* level benefit, compared to the \$8 million annual *IPL load area only* energy market benefit. In addition, the \$8 million annual IPL area energy**

**market benefit over the life of the project compares favorably to the original project cost.**

**ITC-M reviewed IPL's energy market benefit analysis and had no objections to the approach or results. IPL intends to continue working with ITC-M on future energy market benefit evaluations of ITC-M transmission investments to augment its earlier work to evaluate reliability benefits.**

### Background

IPL personnel from various levels of authority routinely meet with ITC-M, from the executive level to engineering and operations, to discuss issues pertaining to project planning. These projects involve large capital projects, capital maintenance and routine operations and maintenance (O&M) projects.

IPL's engagement with ITC-M's project planning efforts is intended to:

- Ensure improvement of system reliability for IPL's customers;
- Influence demonstrated need, scope, design, timing and cost effectiveness in providing transmission service to IPL's customers;
- Coordinate and plan the IPL distribution projects impacted by or needed to support ITC-M projects; and
- Facilitate "constructability" meetings to align project timing for budgeting purposes, but also from a reliability perspective so as to minimize impacts to IPL customers.

Operating as the Planning Subcommittee (Figure 4), IPL's System Planning department meets monthly with ITC-M's Planning department. The two companies meet to coordinate conceptual planning, studies and work scope development.

### Results:

- Support of ITC-M's 12-year rebuild plan continues to be a priority for IPL and ITC-M. Likewise, IPL desires to continue support of the 18-year conversion schedule for the reliability and operational benefits associated with conversion to 69kV. However, supporting the rebuild and conversion schedule continues to require close coordination on the need, priority and budget alignment. IPL continues to observe that it is on track or ahead to meet the 18-year conversion schedule and that ITC-M is on track or ahead to meet the 12-year rebuild schedule and the 18-year conversion schedule.
- In general, for those projects that IPL and ITC-M collaborate closely on due to joint facilities, direct impact to IPL customers, proximity of work to IPL facilities, etc., IPL does not perform independent cost-benefit analysis of individual ITC-M projects. Such analysis is typically not done because many projects at this level are needed to provide reliable service to IPL customers. Rather, when IPL, through its experience and judgment, has observed what it considers excessive ITC-M costs, IPL has voiced those concerns to ITC-M. This has at times resulted in a change in scope, project sequence or duration by ITC-M that yields more cost-effective transmission and distribution service and reliability to IPL customers. These instances of project challenges by IPL have most occurred in

- the joint planning process, particularly on 34.5 to 69kV rebuild and conversion, and substation projects where IPL distribution facilities are directly impacted.
- IPL continues:
    - Close coordination with ITC-M on planned projects and costs to influence the prudence, priority, expected benefits, cost efficiency and pace of new capital investment;
    - Active engagement with the MTEP process at MISO to influence project costs and justification as needed.

## 6. IPL Analysis of ITC- M and MISO Rates

### Updated Results:

- IPL has inquired of ITC-M if any new revenue requirements and capital expenditure projections are available since those last published in May 2014. ITC-M has indicated that no new updates are available.
- ITC-M posted the 2014 True-Up Adjustment on its MISO OASIS website at <http://www.oasis.oati.com/ITCM/>, item number 101. The posted True-Up information indicates customers of ITC-M will receive an approximately \$4.4 million refund to be applied to ITC-M's 2016 rates.
- IPL continues to evaluate the proposed True-Up information. ITC-M has scheduled a 2014 Attachment O True-Up Meeting review for July 8, 2015. IPL will attend.
- IPL will review any new information posted and/or made available through informational meetings and submits questions as needed to ITC-M under the updated MISO Formula Rate Protocols.
- IPL is currently preparing general questions for ITC-M regarding rates resulting from items discussed in the ITC-M Spring Partners in Business Meetings in May 2015 and subsequent items that have arisen. Additional questions may result from the July 8, 2015 ITC-M meeting to review the 2014 Attachment O True-Up. Questions will be submitted to ITC-M in accordance with the MISO Formula Rate Protocols process.

### Background

IPL has an internal process to project transmission expenses, using anticipated MISO billings (including those for MVPs), ITC-M revenue requirements projections and capital expense projections, ITC-M Attachment O True-Up for the prior year; the ITC-M projected Attachment O rate posted for the next year, among other variables. IPL's transmission expense projections then are used to determine the annual Regional Transmission Service (RTS) factors filed with the Board. IPL incorporates all these variables its transmission expense projections into the Energy Pricing Outlooks for overall industrial customer rates with customers, including transmission, through various customer communications and interactions. These Energy Pricing Outlooks are communicated through periodic webinars, presentations at customer forums such as the annual IPL Energy Summit and the semi-annual IPL Transmission Stakeholder meetings. These Energy Pricing Outlooks are updated as new information becomes available, such as the ITC-M Attachment O True-Up for the prior year posted in June and the ITC-M projected Attachment O rate for the next year posted by September and

IPL's determination of the annual Regional Transmission Service (RTS) factors filed with the Board each November.

Results:

- IPL reviews any additional information posted and/or made available through informational meetings and submits questions to ITC-M under the updated MISO Formula Rate Protocols.
- ITC-M last made available updated revenue requirements and capital expenditure projections in May 2014, as posted on their OASIS site at <http://www.oasis.oati.com/ITCM/>, item number 88.
- ITC-M posted its projected 2015 Attachment O Rate on its MISO OASIS website at <http://www.oasis.oati.com/ITCM/>, item number 93 and discussed it at their Fall 2014 Planning and Formula Rate Partners in Business Meeting on October 1, 2014, with the presentation posted as item number 95. ITC-M's projected rate for 2015 is \$9.265/kW-Month, up from \$8.795/kW-Month which had been projected for 2014. This is an approximate 5% increase from 2014 to 2015.
- The MISO transmission owners, including ITC-M, posted information at <https://www.misoenergy.org/Events/Pages/RCSP20141016.aspx> and held a Joint Informational Meeting on Regional Cost Shared Projects on October 16, 2014.
- IPL has reviewed information from the ITC-M:
  - Updated revenue requirements projections of May 2014
  - 2013 True-Up Adjustment posting
  - Projected 2015 Attachment O rate
  - And from MISO on Regional Cost Shared Projects
- In addition, IPL has participated in review meetings for:
  - ITC-M 2013 True-Up Adjustment
  - ITC-M Fall 2014 and Spring 2015 Partners in Business Meetings
  - October 2014 MISO transmission owners Joint Informational Meeting on Regional Cost Shared Projects
- IPL submitted questions to ITC-M on the updated revenue requirement projections of May 2014.
- IPL submitted questions under the MISO Formula Rate Protocols to ITC-M on ITC-M's 2013 True-Up Posting and 2015 Projected Attachment O Rate Posting.
- IPL reviewed the responses, found them satisfactory and had no additional questions.
- IPL has continued to incorporate this data and any other information as it becomes available into its Energy Pricing Outlooks for overall industrial customer rates that it communicates through periodic webinars and presentations at various customer forums.

IPL recognizes and acknowledges that ITC-M is making needed investments in the transmission system, and that transmission reliability is improving as a result. IPL further recognizes that some transmission investment cost is-- and will continue to be driven by-- an aging system, integration of renewable resources and evolving regulation on planning, cost allocation and environmental compliance.

## 7. Transmission Outage Performance and Operations Coordination

### Updated Results:

- **Reliability and asset performance metrics have been updated with May 2015 year-to-date data and are shown in Figures 6, 7, and 8 and illustrate a continued, significant and maintained trend of fewer sustained and momentary transmission outages, as well as shorter durations.**

### Background

As part of the joint IPL/ITC-M Operations Committee, representatives of IPL’s Distribution Dispatch Center meet periodically with their counterparts from ITC-M’s field operations and Operations Control Room to discuss outage history, reliability metrics and other operations-related topics.

From the asset performance data provided by ITC-M representing the number of transmission line outages, IPL has updated the graph shown in Figure 6. Through May 2015, the data illustrates a continued improvement and maintained trend of fewer sustained and momentary outages since the transmission asset sale by IPL and purchase by ITC-M. The years 2008 and 2010 data are considered abnormal due to the number and severity of weather events. Data for this particular metric is only available back to 2008 when ITC-M acquired the transmission system, since IPL tracked outage statistics in a different way prior to 2008.

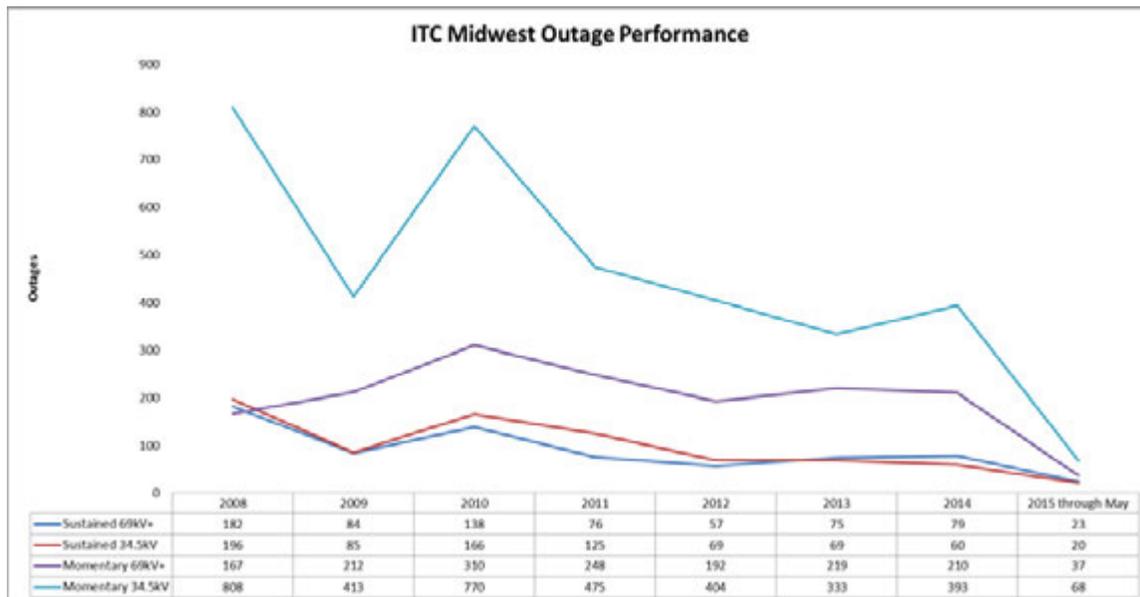


Figure 6 – ITC-M Outage Performance

Industry standard measures of the customer outage experience (SAIDI and SAIFI; transmission only) are shown again in Figures 7 and 8, updated by IPL through May 2015. These metrics provide a long term comparison of both reliability and restoration performance, since the data have been consistently collected by IPL before and after the transmission system sale to ITC-M. The data illustrates the customer reliability performance in terms of transmission only for the period 2001– May year-to-date 2015.

While weather events can also greatly impact these measures, “major” events such as the 2007 ice storm and 2008 floods have been excluded using Board criteria. Consistent with the ITC-M Outage Performance data, IPL’s transmission SAIDI and SAIFI data illustrates a continued improvement and maintained trend of fewer and shorter sustained outages since the transmission asset purchase by ITC-M.

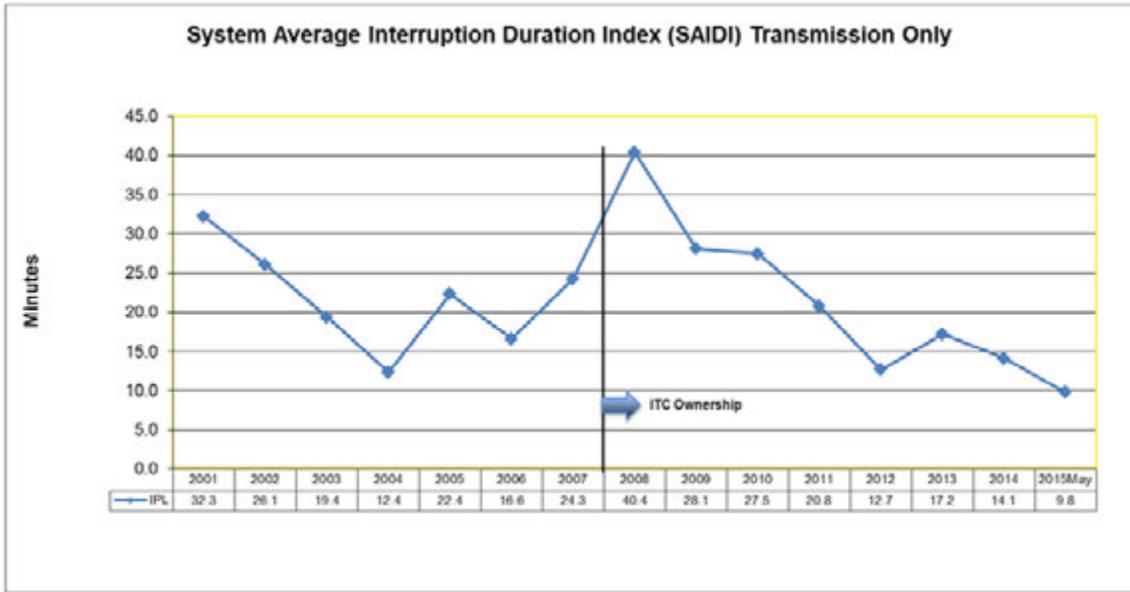


Figure 7 – Transmission Reliability, SAIDI (System Average Interruption Duration Index) - Average length in minutes of outages for all customers.

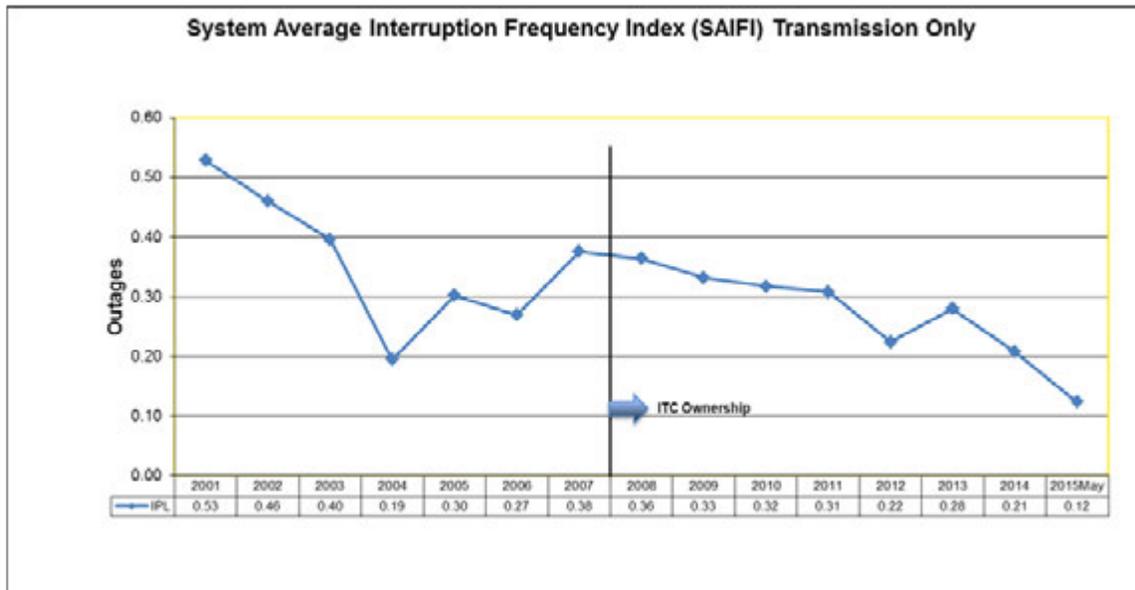


Figure 8 – Transmission Reliability, SAIFI (System Average Interruption Frequency Index) - Average number of outages experienced by all customers.

## Results:

- Transmission reliability continues to improve, in large part due to ITC-M maintenance, rebuilds, conversion, and new facility construction. A general improvement trend maintained level of the number and duration of customer outages is observed in the metrics illustrated in the Figures 6, 7 and 8 above since the transmission assets were acquired by ITC-M.
- IPL and ITC-M have continued the efforts described in prior Reports to:
  - Minimize impacts to large industrial customers from planned outages. Through experience, both IPL and ITC-M have become more aware of the circumstances under which the unplanned outage risk is increased associated with ITC-M work. This has led to better recognition of those circumstances farther in advance, improved coordination and contingency planning. The processes and resulting coordination continue to evolve and improve. As noted in prior reports, the position of Senior Transmission Specialist was created and staffed in May 2013. This position was created to facilitate coordination of details around planned ITC-M transmission outages needed to support ITC-M maintenance, rebuilds, conversion and new facility construction, farther in advance. In addition, the Specialist facilitates identifying and negotiating alternatives to proposed work that optimizes schedule, priority, scope; minimizes customer risk and assists in developing contingency plans. This position and the development of new and updated processes and procedures by IPL have been well received by ITC-M. IPL observes that the creation of this position and the development of new and updated processes and procedures have resulted in much more efficient joint outage planning and better ability to plan work farther in advance. Much less short term reactionary planning is occurring, resulting in more efficient use of IPL and ITC-M resources and better coordination involving key IPL industrial customers, farther in advance.
  - Collect IPL large customer plant planned outage and maintenance schedules. This helps optimize ITC-M system maintenance scheduling and minimize inconvenience and unplanned outage risk for IPL customers.
  - Improve communications with customers by IPL and ITC-M. IPL's Account Management and ITC-M's Stakeholder Relations groups continue to coordinate closely on communications, particularly with large, transmission-connected customers, improving service and minimize conflicting or confusing messaging.
  - Realize customer outage reduction cost savings. In 2013, IPL and ITC-M worked together using the US Department of Energy ICE (Interruption Cost Estimate) Calculator (ICE Calculator) to estimate the potential outage cost savings resulting from the improved reliability resulting thus far since ITC-M assumed ownership and operation of the transmission system. Based on ITC-M's transmission ownership, investment and improved reliability in years 2008-2013, the estimated outage cost savings to customers are likely in the range of \$168-498 million, over the life of the assets (in 2013 dollars).

## **8. Transmission Stakeholder Meetings**

On June 3, 2015, IPL held its ninth semi-annual Transmission Stakeholder meeting in Cedar Rapids.

Invitations were extended to IPL customers, customer consortium representatives, the Board staff, OCA staff and other stakeholders as has been done in the past. With similar attendance to prior meetings; participating in-person or by phone were 11 IPL industrial customers, 3 customer consortium representatives, 3 OCA representatives, 4 ITC-M staff and various IPL staff. The summary agenda included reviews of:

- December 2014 Meeting Follow-Ups
- Planning Update
- Transmission Policy & Regulatory Update
- Energy Price Outlook
- Open Q&A Panel, Collaboration w/ IPL
- Transmission Reliability Update
- ITC-M June 1 True-Up
- Benefits Analysis
- ITC-M Update

### **Results:**

The overall duration of the meeting was lengthened from past meetings to facilitate additional informal discussion time with transmission stakeholders.

The agenda also included an Open Q&A Panel and Collaboration session to facilitate more discussion. During the Open Q&A Panel and Collaboration session a number of cost, efficiency and transmission rate comparison issues were discussed amongst transmission stakeholders and IPL representatives. Based on stakeholder feedback, this approach was well-received. IPL intends to repeat a similar format at future meetings.

The agenda and meeting presentations are attached to this Report as Appendix 10.

In particular, topics of interest that generated the most interest and discussion with stakeholders during the overall meeting were:

- An anticipated significant cost decrease for the network upgrades associated with the interconnection of MGS. The interconnection cost is estimated to be decreased by over \$200 million from the \$255 million initially estimated in the 2011 MISO System Planning and Analysis (SPA) Study, to approximately \$21 million currently. This reduction of over \$200 million in capital cost was achieved in part as a result of IPL's direct and substantial involvement in the study process at MISO and with ITC-M. (see page 19 of presentation in Appendix 10)
- Potential ROE reduction and refunds resulting from the MISO base ROE docket currently in the hearing process at FERC. (see page 36 of presentation in Appendix 10)

- **Energy Price Outlook, especially transmission expense projections and if and when a reduction in transmission expense, including ITC-M rates may be realized. (see page 46 of presentation in Appendix 10)**

**9. Timetable of Events Influencing Transmission Rates & Service**

A timetable of upcoming selected events in 2015 and 2016 influencing transmission rates and project planning is listed in Table 2.

Table 2 – Timetable of events influencing transmission rates & service

2015 - 2016	Description
June – December 2015	<ul style="list-style-type: none"> <li>• On-going IPL review of ITC-M projects, including those proposed in MTEP 2015</li> </ul>
July 8, 2015	<ul style="list-style-type: none"> <li>• ITC-M True-Up Review Meeting</li> </ul>
September	<ul style="list-style-type: none"> <li>• ITC-M 2016 Attachment O rates posted by September 1.</li> </ul>
September – December	<ul style="list-style-type: none"> <li>• IPL analysis and evaluation of ITC-M Attachment O rate for 2016.</li> <li>• Initial IPL evaluation and feedback on ITC-M projects in MTEP 2016.</li> <li>• ITC-M and other TOs to hold Joint Transmission Owner meeting on regional projects such as MVPs by November 1.</li> </ul>
November	<ul style="list-style-type: none"> <li>• IPL 2016 Transmission Rider Factors submitted to the Board.</li> </ul>
December	<ul style="list-style-type: none"> <li>• IPL Transmission Stakeholder meeting in early December (date to be determined).</li> <li>• IPL 2016 Transmission Rider Factors approval by the Board normally anticipated.</li> <li>• MISO Board of Directors consideration for approval of MTEP 2015 projects.</li> </ul>
January 2016	<ul style="list-style-type: none"> <li>• IPL 2015 Transmission Rider Factors anticipated being in effect.</li> </ul>
January – December	<ul style="list-style-type: none"> <li>• On-going IPL / ITC-M Planning, Project, Operations, and Executive meetings.</li> <li>• On-going IPL evaluation and analysis of any new information that may impact ITC-M Attachment O rates.</li> <li>• IPL Transmission Stakeholders meeting to be scheduled for late May or early June.</li> </ul>
By June 1	<ul style="list-style-type: none"> <li>• ITC-M 2015 True-Up amount posted.</li> </ul>

## 10. Conclusions

Updated Results discussed in this Report include:

- **Developments on TO ROE issues:**
  - **Complaint at FERC against the MISO TOs ROE currently in hearing procedures.**
  - **Request to FERC by the MISO TOs and subsequent FERC order granting an incentive adder to the MISO TOs ROE for RTO participation.**
  - **Request by ITC-M and subsequent FERC order granting an ROE incentive adder to the ITC-M base ROE for being an independent transmission company.**
- **ROE issue engagement - Since the December 2014 Report, AECS and IPL filed comments on the MISO TOs RTO participation adder request and ITC-M independent transmission company adder requests, respectively. The ROE activities noted above could result in changes to MISO TO ROEs, including ITC-M's. IPL continues to monitor these and other activities and will continue to evaluate potential additional engagement as it deems appropriate.**
- **Network upgrade cost allocation - As a result of IPL challenging the ITC-M Attachment FF policy, the ITC-M self-funding of \$39 million of network upgrades for the WPL Bent Tree Wind Farm in Minnesota will be borne by WPL and its customers through a FSA between ITC-M and WPL. Under the prior ITC-M Attachment FF policy, those costs would have been borne by all customers of ITC-M, of which IPL customers constitute 88% of the load and corresponding cost.**
- **Network upgrade cost reduction - IPL anticipates a significant cost decrease for the network upgrades associated with the interconnection of MGS. The interconnection cost is estimated to be decreased by over \$200 million from the \$255 million initially estimated in the 2011 MISO System Planning and Analysis (SPA) Study, to approximately \$21 million currently. This reduction of over \$200 million in capital cost was achieved in part as a result of IPL's direct and substantial involvement in the study process at MISO and with ITC-M.**
- **MISO process changes - IPL has triggered a number of changes within the MISO IPTF, and continues to collaborate with MISO stakeholders to further improve the overall processes associated with obtaining generator interconnections.**

IPL believes the results detailed in this Report continue to demonstrate that its actions have a positive influence in managing the relationship with ITC-M and with IPL's customers to provide reliable and cost-effective service.

IPL and ITC-M continue to coordinate well on operations and planning issues and view their relationship as a partnership.

IPL recognizes and acknowledges that ITC-M is making needed investments in the transmission system. Considerable investment in transmission system rebuilds,

conversion and new facility construction continues. Transmission system reliability has improved and is being maintained.

IPL further recognizes that some transmission investment cost is-- and will continue to be driven by-- an aging system, integration of renewable resources and evolving regulation on planning, cost allocation and environmental compliance. IPL will continue:

- Close coordination with ITC-M on planned projects and costs to influence the prudence, priority, expected benefits, cost efficiency and pace of new capital investment;
- Active engagement with the MTEP process at MISO to influence project costs and justification as needed; and
- Active engagement at FERC on cost allocation and other transmission policy issues as it deems appropriate

Aspects of customer savings noted in this and prior Reports from IPL advocacy and ITC-M investments include:

- As a result of IPL challenging the ITC-M Attachment FF policy, the ITC-M self-funding of \$39 million of network upgrades for the WPL Bent Tree Wind Farm in Minnesota will be borne by WPL and its customers rather than all customers of ITC-M, which would have included IPL and its customers. This is only one example—using ITC-M's historical and forecasted capital expenditures for generator interconnections at the time IPL initiated its complaint, IPL calculated a cost shift to IPL customers totaling \$170 million would have occurred over the period 2008-2016 under the then-current ITC-M Attachment FF implementation.
- A significant cost decrease for the network upgrades associated with the interconnection of MGS, down over \$200 million from \$255 million initially estimated in the 2011 MISO System Planning and Analysis (SPA) Study, to approximately \$21 million currently. This reduction of over \$200 million in capital cost was achieved in part as a result of IPL's direct and substantial involvement in the study process at MISO and with ITC-M.
- An IPL study of the ITC-M Salem-Hazleton 345kV line that went in service in 2013 showed the line enables a lower market cost to serve IPL load. Looking at just the IPL load control area and using a 2019 MISO study case as a proxy, the line provides approximately \$8 million savings annually from serving IPL load from MISO market resources and increasing IPL generation margins from selling its resources into the MISO market. ITC-M has previously indicated that prior studies estimated the Salem-Hazleton Project provided approximately \$108 million per year in lower regional energy costs across MISO due to lower congestion costs and removal of key transmission constraints.
- Customer outage reduction cost savings estimated in the range of \$168-498 million, over the life of the assets (in 2013 dollars), from a joint IPL and ITC-M study analyzing savings resulting from the improved reliability thus far from ITC-M's transmission ownership and investment in years 2008-2013.

With the results noted in this Report, IPL has demonstrated that it has and will continue to engage and influence regulatory policy, MISO processes and ITC-M directly through appropriate venues with the objective of reliable and cost-effective electric service to IPL customers.

While the overall benefits of these collective efforts are sometimes difficult to quantify, IPL believes its efforts are in the right direction. IPL believes its advocacy on behalf of customers has helped ITC-M increase its sensitivity to cost concerns and the need to provide justification for, and articulation of the benefits from, ITC-M's transmission system investments.

**Appendix 1 – January 23, 2015 FERC Order Establishing Procedural Schedule on  
Complaint Against MISO TO ROE (Docket No. EL14-12-000)**

Appendix 1  
Page 1 of 5UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Association of Businesses Advocating Tariff Equity      Docket No. EL14-12-002  
Coalition of MISO Transmission Customers  
Illinois Industrial Energy Consumers  
Indiana Industrial Energy Consumers, Inc.  
Minnesota Large Industrial Group  
Wisconsin Industrial Energy Group

v.

Midcontinent Independent System Operator, Inc.  
ALLETE, Inc.  
Ameren Illinois Company  
Ameren Missouri  
Ameren Transmission Company of Illinois  
American Transmission Company LLC  
Cleco Power LLC  
Duke Energy Business Services, LLC  
Entergy Arkansas, Inc.  
Entergy Gulf States Louisiana, LLC  
Entergy Louisiana, LLC  
Entergy Mississippi, Inc.  
Entergy New Orleans, Inc.  
Entergy Texas, Inc.  
Indianapolis Power & Light Company  
International Transmission Company  
ITC Midwest LLC  
Michigan Electric Transmission Company, LLC  
MidAmerican Energy Company  
Montana-Dakota Utilities Co.  
Northern Indiana Public Service Company  
Northern States Power Company-Minnesota  
Northern States Power Company-Wisconsin  
Otter Tail Power Company  
Southern Indiana Gas & Electric Company

## ORDER ESTABLISHING PROCEDURAL SCHEDULE

(Issued January 23, 2015)

1. On January 5, 2015, the Chief Administrative Law Judge designated the undersigned as Presiding Administrative Law Judge in the above-captioned proceeding, and subjected the proceeding to Track II of the procedural time standards for hearing cases, which requires that the initial decision be issued within 47 weeks. By Order dated January 6, 2015, the undersigned scheduled a prehearing conference for January 22, 2015 and directed the participants to submit a joint proposed procedural schedule that conformed to the procedural time standards for a Track II hearing, using a starting date of January 5, 2015.
2. At the January 22, 2015 prehearing conference, the active participants<sup>1</sup> provided the undersigned with a joint proposed procedural schedule, to which no party objected.
3. Accordingly, the procedural schedule in this proceeding is established as follows:

January 23, 2015	Discovery commences <sup>2</sup>
February 23, 2015	Direct Testimony and Exhibits of Complainants and of Intervenors in Support of Complainants
April 6, 2015	Answering Testimony and Exhibits of Respondents and of Intervenors in Support of Respondents

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<sup>1</sup> The participants consist of Commission Trial Staff, the parties identified in the Order setting this matter for hearing, *see Association of Businesses Advocating Tariff Equity v. Midcontinent Indep. Sys. Operator, Inc.*, 148 FERC ¶ 61,049 at P 1 nn.3, 4 (2014), and the following additional parties, which have been permitted to intervene out-of-time: Conway Corporation; West Memphis Utilities Commission; City of Osceola, Arkansas; City of Benton, Arkansas; North Little Rock Electric Department; City of Prescott, Arkansas; and Minnesota Municipal Power Agency.

<sup>2</sup> Unless otherwise directed in this Order, the participants shall follow the Commission's discovery timelines set out at <http://www.ferc.gov/legal/admin-lit/time-dsp.asp>.

Docket No. EL14-12-002

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**Appendix 1**  
**Page 3 of 5**

May 15, 2015	Direct and Answering Testimony and Exhibits of Commission Trial Staff
June 15, 2015	Cross-Answering Testimony and Exhibits of Respondents and of Intervenors in Support of Respondents
July 13, 2015	Cut-Off Date for Data to Be Used by Any Party in Updates of Return-on-Equity (ROE) Studies
July 17, 2015	Rebuttal Testimony and Exhibits of Complainants and of Intervenors in Support of Complainants
July 27, 2015	Update of ROE Studies in Prior Testimony (Data Refreshed; Criteria and Methodology Remain Unchanged)
July 31, 2015	Last Date for Discovery Requests <sup>3</sup>
July 31, 2015	Joint Statement of Stipulated Issues and Facts; Joint Statement of Contested Issues and Facts; Index of Exhibits; Joint Witness List
August 10, 2015	Prehearing Briefs (body of brief limited to no more than twenty pages)
August 17, 2015	Commencement of Hearing (hearing estimated to continue for 3-4 days)

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<sup>3</sup> The participants shall use their best efforts to provide final discovery requests prior to July 31, 2015, and the recipients of final discovery requests shall use their best efforts to respond to such requests within ten business days.

Docket No. EL14-12-002

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**Appendix 1**  
**Page 4 of 5**

September 4, 2015

Joint Filing of Transcript  
Corrections

September 21, 2015

Initial Briefs

October 13, 2015

Reply Briefs

October 26, 2015

Oral Argument (if necessary)

November 30, 2015

Initial Decision

David H. Coffman  
Presiding Administrative Law Judge

Document Content(s)

EL14-12.doc.DOCX.....1-4

**Appendix 1**  
**Page 5 of 5**

**Appendix 2 – February 13, 2015 Second Complaint Against MISO TO ROE (Docket No. EL15-45-000)**

(The following is only the narrative portion of the Complaint. The full Complaint filing includes additional supporting data that is lengthy and not attached to this Report. The full version of the Complaint includes the supporting data and can be found on the FERC eLibrary General Search site at:

<http://elibrary.ferc.gov/idmws/search/fercgensearch.asp>, under Docket No. ER15-45-000.)

**UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION**

Arkansas Electric Cooperative Corporation  
Mississippi Delta Energy Agency  
Clarksdale Public Utilities Commission  
Public Service Commission of Yazoo City  
Hoosier Energy Rural Electric Cooperative, Inc.

Complainants,

v.

ALLETE, Inc. (for its operating division Minnesota  
Power, Inc., and its wholly-owned subsidiary,  
Superior Water, Light and Power Company)  
Ameren Illinois Company  
Ameren Missouri  
Ameren Transmission Company of Illinois  
American Transmission Company LLC  
Cleco Power LLC  
Duke Energy Business Services, LLC  
d/b/a Duke Energy Indiana  
Entergy Arkansas, Inc.  
Entergy Gulf States Louisiana, LLC  
Entergy Louisiana, LLC  
Entergy Mississippi, Inc.  
Entergy New Orleans, Inc.  
Entergy Texas, Inc.  
Indianapolis Power & Light Company  
International Transmission Company  
d/b/a ITC Transmission  
ITC Midwest LLC  
Michigan Electric Transmission Company, LLC  
MidAmerican Energy Company  
Montana-Dakota Utilities Co.  
Northern Indiana Public Service Company  
Northern States Power Company-Minnesota  
Northern States Power Company-Wisconsin  
Otter Tail Power Company  
Southern Indiana Gas & Electric Company

Respondents.

Docket No. EL15-\_\_-000

Association of Businesses Advocating Tariff  
Equity, *et. al.*

Complainants,

v.

Midcontinent Independent System Operator, Inc.,  
*et al.*

Respondents.

Docket No. EL14-12-000

(not consolidated)

## NOTICE OF COMPLAINT

(\_\_\_\_\_, 2015)

Take notice that on February 12, 2015, Arkansas Electric Cooperative Corporation (“AECC”); Mississippi Delta Energy Agency (“MDEA”) and its two members, Clarksdale Public Utilities Commission of the City of Clarksdale, Mississippi (“Clarksdale”) and Public Service Commission of Yazoo City of the City of Yazoo City, Mississippi (“Yazoo City”); and Hoosier Energy Rural Electric Cooperative, Inc. (“Hoosier”) (collectively, “Joint Customer Complainants”) filed a formal complaint against ALLETE, Inc. (for its operating division Minnesota Power, Inc. and its wholly-owned subsidiary Superior Water Light, and Power Company); Ameren Illinois Company; Ameren Missouri; Ameren Transmission Company of Illinois; American Transmission Company LLC (“ATC”); Cleco Power LLC; Duke Energy Business Services, LLC d/b/a Duke Energy Indiana, Inc.; Entergy Arkansas, Inc.; Entergy Gulf States Louisiana, LLC; Entergy Louisiana, LLC; Entergy Mississippi, Inc.; Entergy New Orleans, Inc.; Entergy Texas, Inc.; Indianapolis Power & Light Company; International Transmission Company d/b/a ITC Transmission; ITC Midwest LLC; Michigan Electric Transmission Company, LLC; MidAmerican Energy Company; Montana-Dakota Utilities Co.; Northern Indiana Public Service Company; Northern States Power Company-Minnesota; Northern States Power Company Wisconsin; Otter Tail Power Company; and Southern Indiana Gas & Electric Company (collectively, “Respondents”) pursuant to Sections 206 and 306 of the Federal Power Act and Rule 206 of the Federal Energy Regulatory Commission’s (“FERC” or “Commission”) Rules of Practice and Procedure, alleging that the current 12.38% return on equity applicable to transmission-owning members of the Midcontinent Independent System Operator, Inc. and the 12.2%

ROE applicable to ATC are excessive and should be reduced as of the date of the Complaint.

Joint Customer Complainants certify that copies of the complaint were served on contacts for the Respondents.

Any person desiring to intervene or to protest this filing must file in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 CFR 385.211 and 385.214). Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a notice of intervention or motion to intervene, as appropriate. The Respondents' answer and all interventions, or protests must be filed on or before the comment date. The Respondents' answer, motions to intervene, and protests must be served on the Complainants.

The Commission encourages electronic submission of protests and interventions in lieu of paper using the "eFiling" link at <http://www.ferc.gov>. Persons unable to file electronically should submit an original and 5 copies of the protest or intervention to the Federal Energy Regulatory Commission, 888 First Street, NE, Washington, DC 20426.

This filing is accessible on-line at <http://www.ferc.gov>, using the "eLibrary" link and is available for review in the Commission's Public Reference Room in Washington, DC. There is an "eSubscription" link on the web site that enables subscribers to receive email notification when a document is added to a subscribed docket(s). For assistance with any FERC Online service, please email [FERCOnlineSupport@ferc.gov](mailto:FERCOnlineSupport@ferc.gov), or call (866) 208-3676 (toll free). For TTY, call (202) 502-8659.

Comment Date: 5:00 pm Eastern Time on \_\_\_\_\_, 2015.

Kimberly D. Bose,  
Secretary.



Rebecca L. Shelton  
P 202.585.6911  
F 202.508.1006  
rshelton@thompsoncoburn.com

February 12, 2015

**VIA ELECTRONIC FILING**

Kimberly D. Bose, Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426

**Re: *Arkansas Electric Cooperative Corporation, et al. v. ALLETE, Inc., et al.,*  
Docket No. EL15-\_\_\_\_-000  
*Association of Businesses Advocating Tariff Equity, et al. v. Midcontinent Independent  
System Operator, Inc., et al.,* Docket No. EL14-12-000 (not consolidated)**

Dear Secretary Bose:

Pursuant to Rules 206 and 306 of the Federal Power Act, 16 U.S.C. §§ 824e and 825e, and Rules 206 and 212 of the Federal Energy Regulatory Commission's Rules of Practice and Procedure, 18 C.F.R. §§ 385.206 and 385.212 (2014), please find attached for filing the "Complaint Requesting Fast Track Processing and Motion to Consolidate" on behalf of Arkansas Electric Cooperative Corporation; Mississippi Delta Energy Agency and its two members, Clarksdale Public Utilities Commission of the City of Clarksdale, Mississippi and Public Service Commission of Yazoo City of the City of Yazoo City, Mississippi; and Hoosier Energy Rural Electric Cooperative, Inc. (collectively, "Joint Customer Complainants").

In support of Joint Customer Complainants Complaint and Motion to Consolidate, we have attached the following documents:

- Exhibit Nos. JCC-1 through JCC-3, containing the direct testimony, supporting exhibits, and workpapers of J. Bertram Solomon,
- A form of Notice of Complaint suitable for publication in the Federal Register,
- Certificate of Service reflecting that service of this filing has been made upon representatives of the Respondents and parties designated on the official service list for Docket No. EL14-12-000.

Appendix 2

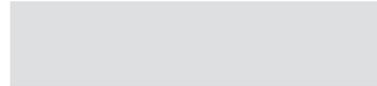
Page 5 of 102

Kimberly D. Bose, Secretary  
Federal Energy Regulatory Commission  
February 12, 2015  
Page 2

Should you have any questions regarding this filing, kindly contact me. Thank you for your assistance.

Respectfully submitted,

Thompson Coburn LLP



By

Rebecca L. Shelton

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

Arkansas Electric Cooperative Corporation  
Mississippi Delta Energy Agency  
Clarksdale Public Utilities Commission  
Public Service Commission of Yazoo City  
Hoosier Energy Rural Electric Cooperative, Inc.

Complainants,

v.

Docket No. EL15-\_\_-000

ALLETE, Inc. (for its operating division Minnesota  
Power, Inc., and its wholly-owned subsidiary,  
Superior Water, Light and Power Company)  
Ameren Illinois Company  
Ameren Missouri  
Ameren Transmission Company of Illinois  
American Transmission Company LLC  
Cleco Power LLC  
Duke Energy Business Services, LLC  
d/b/a Duke Energy Indiana  
Entergy Arkansas, Inc.  
Entergy Gulf States Louisiana, LLC  
Entergy Louisiana, LLC  
Entergy Mississippi, Inc.  
Entergy New Orleans, Inc.  
Entergy Texas, Inc.  
Indianapolis Power & Light Company  
International Transmission Company  
d/b/a ITC Transmission  
ITC Midwest LLC  
Michigan Electric Transmission Company, LLC  
MidAmerican Energy Company  
Montana-Dakota Utilities Co.  
Northern Indiana Public Service Company  
Northern States Power Company-Minnesota  
Northern States Power Company-Wisconsin  
Otter Tail Power Company  
Southern Indiana Gas & Electric Company

Respondents.

Association of Businesses Advocating Tariff  
Equity, *et. al.*

Complainants,

v.

Midcontinent Independent System Operator, Inc., *et al.*

Respondents.

Docket No. EL14-12-000

(not consolidated)

**COMPLAINT REQUESTING FAST TRACK PROCESSING AND  
MOTION TO CONSOLIDATE OF  
ARKANSAS ELECTRIC COOPERATIVE CORPORATION,  
MISSISSIPPI DELTA ENERGY AGENCY,  
CLARKSDALE PUBLIC UTILITIES COMMISSION,  
PUBLIC SERVICE COMMISSION OF YAZOO CITY, AND  
HOOSIER ENERGY RURAL ELECTRIC COOPERATIVE, INC.**

Pursuant to Sections 206, 306, and 309 of the Federal Power Act (“FPA”), 16 U.S.C. §§ 824e, 825e, and 825h, and Rules 206 and 212 of the Federal Energy Regulatory Commission’s (“FERC” or “Commission”) Rules of Practice and Procedure, 18 C.F.R. §§ 385.206 and 385.212 (2014), Arkansas Electric Cooperative Corporation (“AECC”); Mississippi Delta Energy Agency (“MDEA”) and its two members, Clarksdale Public Utilities Commission of the City of Clarksdale, Mississippi (“Clarksdale”) and Public Service Commission of Yazoo City of the City of Yazoo City, Mississippi (“Yazoo City”); and Hoosier Energy Rural Electric Cooperative, Inc. (“Hoosier”) (collectively, “Joint Customer Complainants”) hereby file this Complaint against ALLETE, Inc. (for its operating division Minnesota Power, Inc. and its wholly-owned subsidiary Superior Water Light, and Power Company); Ameren Illinois Company; Ameren Missouri; Ameren Transmission Company of

Illinois; American Transmission Company LLC (“ATC”); Cleco Power LLC; Duke Energy Business Services, LLC d/b/a Duke Energy Indiana, Inc.; Entergy Arkansas, Inc. (“Entergy Arkansas”); Entergy Gulf States Louisiana, LLC; Entergy Louisiana, LLC; Entergy Mississippi, Inc.; Entergy New Orleans, Inc.; Entergy Texas, Inc.; Indianapolis Power & Light Company; International Transmission Company (“ITC”) d/b/a ITC Transmission; ITC Midwest LLC (“ITC Midwest”); Michigan Electric Transmission Company, LLC (“METC”); MidAmerican Energy Company; Montana-Dakota Utilities Co.; Northern Indiana Public Service Company; Northern States Power Company-Minnesota; Northern States Power Company-Wisconsin; Otter Tail Power Company; and Southern Indiana Gas & Electric Company (collectively, “Respondents”).

This Complaint seeks to reduce the base return on equity (“ROE”) used in the Midcontinent Independent System Operator, Inc. (“MISO”) Transmission Owners’ (“MISO TOs”) and ATC’s formula transmission rates. As described more fully below, the current MISO-wide ROE and the ATC ROE are excessive and should be reduced as of the date of this Complaint. Therefore, Joint Customer Complainants request that the Commission (i) find that the 12.38% MISO-wide ROE and ATC’s 12.2% ROE are no longer just and reasonable and (ii) set the base MISO-wide ROE no higher than the 8.67% just and reasonable ROE proposed by Joint Customer Complainants. Further, Joint Customer Complainants request that the Commission set this Complaint for hearing and order refunds (with interest at Commission-approved rates) for the differences in revenue requirements that result from applying the ROE resulting from hearing procedures initiated in response to this Complaint rather than the current MISO-wide ROE. Joint Customer Complainants request that the Commission establish the filing date of this Complaint as the refund effective date for the relief to be afforded in this proceeding.

The issue of a just and reasonable MISO-wide ROE is pending in Docket No. EL14-12, which proceeding was initiated by a separate Complaint. Due to the overlap in issues, Joint Customer Complainants request that this Complaint be consolidated with the ongoing proceeding currently pending in Docket No. EL14-12. Lastly, because hearing procedures in Docket No. EL14-12 have already begun, Joint Customer Complainants request Fast Track Processing for the instant Complaint.

This Complaint is supported by the Direct Testimony and Exhibits of J. Bertram Solomon, Exhibit JCC-1 through JCC-3, which are appended to the Complaint.

## I. COMMUNICATIONS

Communications regarding this matter should be addressed to the following persons, who also should be designated for service on the Commission's official list:

### For AECC:

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Appendix 2  
Page 10 of 102For MDEA, Clarksdale, and Yazoo City:

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\* Electronic service requested.

Joint Customer Complainants request, to the extent necessary, that the Commission waive the requirements of Rule 203(b) to permit each person named above to be placed on the official service list in order to avoid delays in responding to official documents and communications.

## II. THE PARTIES

### A. Joint Customer Complainants

AECC is an electric generation and transmission cooperative incorporated under Arkansas law with its principal place of business in Little Rock, Arkansas. AECC provides wholesale electricity to its seventeen electric distribution cooperative members. These distribution cooperatives in turn provide electricity at retail to approximately 500,000 consumers, primarily in Arkansas. The certified service territories of AECC's member distribution cooperatives extend into 74 counties in Arkansas and cover approximately 60% of the state's geographic area.

The loads and resources of AECC and its members are located in the control areas operated by four entities, including Entergy Corporation's Entergy Arkansas. AECC relies on Entergy Arkansas' transmission system to serve its member loads in Entergy Arkansas' control area. AECC takes transmission services pursuant to the MISO Open Access Transmission, Energy, and Operating Reserve Markets Tariff ("MISO Tariff") to serve its member loads in Entergy Arkansas' control area. AECC is also a transmission-owning member of MISO and has transferred operational control over its transmission facilities to MISO.

MDEA is a joint action agency organized and existing under the laws of the State of Mississippi. Clarksdale and Yazoo City are the current members of MDEA. Clarksdale and Yazoo City own and operate municipal electric systems for the purpose of serving customers located in and near the Cities. In addition to facilities for the transmission and distribution of electricity, Clarksdale owns and operates approximately 361 MW of gas-fired generation capacity. Clarksdale utilizes portions of the output of its generating facilities to serve the needs of Clarksdale's native load customers and sells the remainder for resale in the power markets in

**Appendix 2**  
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the South-Central part of the country. In addition to facilities for the transmission and distribution of electricity, Yazoo City owns and operates approximately 34 MW of gas-fired generation capacity. MDEA also owns a 23-mile, 230 kV transmission line from the Clarksdale system interconnected with the Entergy transmission system on Entergy's Ritchie-Batesville 230 kV transmission line near Lula, Mississippi. MDEA, Clarksdale, and Yazoo City receive transmission service pursuant to the MISO Tariff.

Hoosier is a member-owned generation and transmission cooperative utility which provides electric energy to its 18 member distribution cooperatives, whose service territories cover a large portion of central and southern Indiana as well as part of southeastern Illinois. Hoosier is a transmission-owning member of MISO, and has transferred operational control over its transmission facilities to MISO. Hoosier purchases transmission service pursuant to the MISO Tariff as well as providing such service.<sup>1</sup>

**B. Respondents**

Ameren Illinois Company, Ameren Transmission Company of Illinois, and Ameren Missouri are affiliates of Ameren Services Company.

ATC owns and operates high-voltage electric transmission systems in Wisconsin, Michigan and portions of Illinois and Minnesota.

Cleco Power LLC is an investor-owned utility in Louisiana.

Duke Energy Services, LLC d/b/a Duke Energy Indiana, Inc. is a vertically-integrated electric utility that generates, transmits, distributes, and sells electricity in Central, North Central and Southern Indiana, and is a subsidiary of Duke Energy Corporation.

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<sup>1</sup> AECC and Hoosier are both non-jurisdictional transmission-owning members of MISO and commit to changing their ROEs to whatever the outcome of this proceeding is.

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Entergy Arkansas, Entergy Gulf States Louisiana, LLC, Entergy Louisiana, LLC, Entergy Mississippi, Inc., Entergy New Orleans, Inc., and Entergy Texas, Inc. (collectively, the “Entergy Operating Companies”) own and operate generation, transmission and distribution facilities in four states: Arkansas, Louisiana, Mississippi, and Texas. The Entergy Operating Companies provide electric service to retail customers subject to state and local regulation, and transmit and sell power at wholesale, subject to FERC regulation.

Indianapolis Power & Light Company is a public utility that owns and operates generating, transmission and distribution facilities in and around Indianapolis, Indiana.

ITC, ITC Midwest, and METC are subsidiaries of ITC Holdings, Corp., and are independent, stand-alone transmission companies engaged exclusively in the development, ownership and operation of facilities for the transmission of electric energy in interstate commerce.

MidAmerican Energy Company is an electric and natural gas utility serving customers in the states of Iowa, Illinois, South Dakota, and Nebraska.

Minnesota Power, Inc. is a subsidiary of ALLETE and provides retail and wholesale electric service to customers in Northeastern Minnesota.

Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc. , provides natural gas and/or electric service to parts of Montana, North Dakota, South Dakota, and Wyoming.

Northern Indiana Public Service Company is a subsidiary of NiSource, Inc., a vertically-integrated Indiana corporation engaged in the generation, transmission and distribution of energy at wholesale and retail in Northwest Indiana.

Northern States Power Company-Minnesota and Northern States Power Company-Wisconsin are subsidiaries of Xcel Energy and own and operate electric transmission facilities in Minnesota and Wisconsin, respectively.

Otter Tail Power Company owns transmission and generation facilities and serves loads in Western Minnesota, Eastern North Dakota and Northeastern South Dakota.

Southern Indiana Gas & Electric Company owns generation, transmission, and distribution facilities in the State of Indiana.

Superior Water, Light and Power Company is a subsidiary of ALLETE and provides electricity, water and natural gas in Superior, Wisconsin.

All Respondents are transmission-owning members of MISO.

### **III. BACKGROUND**

#### **A. Current MISO-Wide ROE**

On December 3, 2001, MISO and the MISO TOs filed a proposed revision to the MISO Tariff seeking a 13.0% return on the common equity component for the formula calculation of the transmission service rates for the MISO rate zones for the participating MISO TOs.<sup>2</sup> On January 30, 2002, the Commission accepted the 13.0% ROE proposal for filing, to be effective on February 1, 2002, subject to refund, and set the matter for an expedited hearing.<sup>3</sup> In their filing, MISO and the MISO TOs relied on base ROE results from a regional, MISO-only proxy group that was developed by the witness who testified on their behalf, Dr. William Avera.<sup>4</sup>

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<sup>2</sup> *Midwest Independent Transmission System Operator, Inc.*, Revisions to the MISO Open Access Transmission Tariff, Docket No. ER02-485-000 (Dec. 3, 2001) (“MISO ROE Filing”).

<sup>3</sup> *Midwest Independent Transmission System Operator, Inc.*, 98 FERC ¶ 61,064 (2002).

<sup>4</sup> See MISO ROE Filing.

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On September 23, 2002, the Commission issued an order adopting the Initial Decision approving a base ROE of 12.38% for the MISO TOs.<sup>5</sup> On March 26, 2004, and again on June 3, 2005, the 12.38% base ROE was affirmed by the Commission in Orders on Remand.<sup>6</sup> The 12.38% base ROE continues to be the applicable ROE under Attachment O of the MISO Tariff for general use by the MISO TOs, and all of the MISO TOs currently use this 12.38% base ROE, with the exception of ATC. The base ROE currently in effect for ATC is 12.2%, which was established as part of a settlement agreement filed with the Commission on March 26, 2004.<sup>7</sup>

The base ROEs for all of the MISO TOs are fixed and, unlike most other formula rate inputs, do not change from year to year. The fixed ROE may only be changed through a filing under Section 205 or Section 206 of the FPA or by the Commission acting *sua sponte* under FPA Section 206.

In addition to the general base ROE available to the MISO TOs, ITC and METC have in place ROE adders that increase their base ROEs by 150 and 100 basis points, respectively. The Commission also recently approved a request from the MISO TOs to implement a 50-basis point ROE adder based on the TOs' participation as members of MISO.<sup>8</sup> According to the Commission, the 50-basis point RTO adder is "available for use by any transmission-owning members of MISO that have turned operational control of their transmission system over to

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<sup>5</sup> *Midwest Independent Transmission System Operator, Inc.*, 100 FERC ¶ 61,292 (2002) ("MISO ROE Order"), *order denying reh'g*, 102 FERC ¶ 61,143 (2003).

<sup>6</sup> *Midwest Independent Transmission System Operator, Inc.*, 106 FERC ¶ 61,302 (2004) ("MISO Remand Order"); *see also Midwest Independent Transmission System Operator, Inc.*, 111 FERC ¶ 61,355 (2005) (affirming 12.38% ROE, vacating the 50-basis point adder included in the base ROE for turning over operational control of transmission facilities, and ordering MISO and the TOs to make refunds with interest for the 50 basis point adder).

<sup>7</sup> *See American Transmission Co. LLC and Midwest Independent Transmission System Operator, Inc.*, Offer of Settlement and Settlement Agreement, Docket No. ER04-108-000 (Mar. 26, 2004).

<sup>8</sup> *See Midcontinent Independent System Operator, Inc.*, 150 FERC ¶ 61,004, at P 2 (2015), *reh'g pending*.

MISO and use the generally applicable MISO ROE.”<sup>9</sup> While there are outstanding rehearing requests challenging the Commission’s order accepting the 50-basis point ROE adder, the ROE adder currently is in effect as of January 6, 2015, subject to refund, and will be applied to the ROE established as the outcome of the prior Complaint proceeding in Docket No. EL14-12.<sup>10</sup>

### **B. Complaint Proceeding in Docket No. EL14-12**

The issue of a just and reasonable MISO-wide ROE is currently pending in FERC Docket No. EL14-12, which was initiated by a complaint filed by the Association of Businesses Advocating Tariff Equity, Coalition of MISO Transmission Customers, Illinois Industrial Energy Consumers, Indiana Industrial Energy Consumers, Inc., Minnesota Large Industrial Group, and Wisconsin Industrial Energy Group (collectively, “EL14-12 Joint Complainants”) on November 12, 2013.<sup>11</sup> The EL14-12 Complaint sought a Commission order reducing the MISO-wide base ROE and ATC’s base ROE as used in their formula transmission rates to 9.15%, or finding the existing base ROEs unjust and unreasonable and setting them for hearing and settlement procedures. The EL14-12 Joint Complainants calculated the proposed 9.15% ROE using the Commission’s one-step discounted cash flow (“DCF”) analysis, which was the preferred method for establishing a just and reasonable ROE in use at the time of the EL14-12 Complaint.

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<sup>9</sup> *Id.* at P 48.

<sup>10</sup> *See id.* at P 45.

<sup>11</sup> *See Ass’n of Businesses Advocating Tariff Equity, et al. v. Midcontinent Indep. Sys. Operator, Inc., et al.*, “Complaint of the Association of Businesses Advocating Tariff Equity, Coalition of MISO Transmission Customers, Illinois Industrial Energy Consumers, Indiana Industrial Energy Consumers, Inc., Minnesota Large Industrial Group, and Wisconsin Industrial Energy Group,” Docket No. EL14-12-000 (filed Nov. 12, 2013) (“EL14-12 Complaint”).

On October 16, 2014, the Commission issued an order on the EL14-12 Complaint, establishing settlement and hearing judge procedures, and establishing a refund effective date.<sup>12</sup> Specifically, the Commission set for hearing the issue of whether the MISO TOs' existing 12.38% base ROE is unjust and unreasonable. Further, the Commission required "the participants' evidence and DCF analyses to be guided by [the Commission's] decision in Opinion No. 531,"<sup>13</sup> which was issued contemporaneously with the Commission's EL14-12 Complaint Order and established the two-step DCF analysis as the preferred method for determining just and reasonable ROEs for electric utilities.<sup>14</sup>

### C. Prior Efforts to Resolve the Controversy

On October 22, 2014, the Chief Administrative Law Judge appointed a Settlement Judge for the EL14-12 Complaint Proceeding. The parties participated in an initial settlement conference on October 13, 2014, after which the Settlement Judge reported that the parties were making progress toward settlement and recommended that settlement procedures be continued.<sup>15</sup> However, after a second settlement conference held on December 16, 2014, settlement discussions broke down, and the Settlement Judge declared an impasse and recommended that settlement procedures be terminated.<sup>16</sup> Thereafter, the Chief Judge issued an order terminating

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<sup>12</sup> *Ass'n of Businesses Advocating Tariff Equity, et al., v. Midcontinent Indep. Sys. Operator, Inc., et al.*, 149 FERC ¶ 61,049 (2014) ("EL14-12 Complaint Order").

<sup>13</sup> *Id.* at P 186.

<sup>14</sup> *See Martha Coakley, Mass. Attorney Gen., et al. v. Bangor Hydro-Elec. Co., et al.*, Opinion No. 531, 147 FERC ¶ 61,234 (2014) ("Opinion No. 531"), *reh'g pending*, *Order on Paper Hearing*, Opinion No. 531-A, 149 FERC ¶ 61,032 (2014) ("Opinion No. 531-A").

<sup>15</sup> *Ass'n of Businesses Advocating Tariff Equity, et al. v. Midcontinent Indep. Sys. Operator, Inc., et al.*, "Report of the Settlement Judge," Docket No. EL14-12-000 (issued Nov. 20, 2014).

<sup>16</sup> *Ass'n of Businesses Advocating Tariff Equity et al. v. Midcontinent Indep. Sys. Operator, Inc., et al.*, "Status Report Recommending Termination of Settlement Judge Procedures," Docket No. EL14-12-000 (issued Dec. 17, 2014).

the settlement judge procedures and designating a Judge to preside over the evidentiary hearing to be held in the EL14-12 Complaint proceeding.<sup>17</sup>

#### IV. DISCUSSION

##### A. The Current Base ROE Is Unjust and Unreasonable and Should Be Adjusted to a Just and Reasonable ROE of 8.67 Percent.

###### 1. The MISO TOs' ROEs Have Become Unjust and Unreasonable.

All rates for jurisdictional service under the FPA must be just and reasonable.<sup>18</sup> Where a complainant challenges a previously-approved rate under Section 206 of the FPA and proposes a new one, the Commission must find that: (1) the existing rate is unjust and unreasonable; and (2) a proposed replacement rate is just and reasonable.<sup>19</sup> However, as the United States Court of Appeals for the District of Columbia Circuit has explained, a complainant need not propose a new just and reasonable rate.<sup>20</sup> Under FPA Section 206, a complainant need only demonstrate that the existing rate is unjust and unreasonable; it is up to the Commission to determine the new just and reasonable rate.<sup>21</sup> The instant Complaint provides compelling evidence that the existing base ROEs for the MISO TOs are no longer just and reasonable, and that the 8.67% ROE proposed in this Complaint is just and reasonable.

A just and reasonable rate of return for a utility is one that does not exceed the level required to assure confidence in the financial integrity of the enterprise, so as to maintain its

<sup>17</sup> See *Assoc'n of Businesses Advocating Tariff Equity, et. al. v. Midcontinent Indep. Sys. Operator, Inc.*, "Order of Chief Judge Terminating Settlement Judge Procedures, Designating Presiding Administrative Law Judge and Establishing Track II Procedural Time Standards," Docket Nos. EL14-12-000, -002 (issued Jan. 5, 2015).

<sup>18</sup> 16 U.S.C. §§ 824d and 824e.

<sup>19</sup> See, e.g., *Louisiana Pub. Serv. Comm'n v. Entergy Corp.*, 132 FERC ¶ 61,003, at P 28 (2010); *Atl. City Elec. Co. v. FERC*, 295 F.3d 1, 10 (D.C. Cir. 2002), accord, *Cities of Bethany v. FERC*, 727 F.2d 1131, 1143-44 (D.C. Cir. 1984); see also *FPC v. Sierra Pac. Power Co.*, 350 U.S. 348, 353 (1956).

<sup>20</sup> *Maryland Public Serv. Comm'n v. FERC*, 632 F.3d 1283, 1285, n. 1 (D.C. Cir. 2011).

<sup>21</sup> *Id.*

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credit and attract capital, and it must be commensurate with returns on investments in enterprises with comparable risks.<sup>22</sup> In establishing a base ROE, the Commission must reach a balance between ensuring that customers pay a just and reasonable rate and allowing regulated utilities to earn returns that are sufficient to continue their operations and attract capital.

Joint Customer Complainants have met their burden under FPA Section 206 with the submission of the attached testimony and exhibits of Mr. J. Bertram Solomon, which show that, based on the Commission's preferred two-step, constant growth DCF method in accordance with the Commission's guidance for electric utilities in Opinion Nos. 531 and 531-A, as well as other FERC precedent, a just and reasonable base ROE for the MISO TOs is 8.67%. The existing 12.38% ROE is, therefore, 371 basis points above what comports with the FPA's just and reasonable standard.<sup>23</sup> The impact of the MISO TOs' continued reliance on the 13-year-old 12.38% ROE is substantial, resulting in ratepayers overpaying for transmission service in the millions of dollars.

As stated above, the base ROE currently applicable under Attachment O of the MISO Tariff, which is used by all MISO TOs except ATC, is 12.38%. That base ROE, which was determined by the Commission approximately 13 years ago, became effective for service on and after February 1, 2002.<sup>24</sup> ATC's current base ROE of 12.2% was established as part of a

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<sup>22</sup> See *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944); *Bluefield Water Works & Improvement Co. v. Public Serv. Comm'n of W. Va.*, 262 U.S. 679, 692-93 (1923).

<sup>23</sup> The fact that an existing ROE falls somewhere in a broader range of proxy returns does not insulate the ROE from Commission review under FPA Section 206. See, e.g., *Bangor Hydro-Electric Co.*, 120 FERC ¶ 61,093, at P 21 (2007), *order on reh'g*, 122 FERC ¶ 61,038, at PP 9-14 (2008); *Pioneer Transmission LLC*, 130 FERC ¶ 61,044, at P 49 (2010).

<sup>24</sup> *Midwest Independent Transmission System Operator, Inc.*, Initial Decision, 99 FERC ¶ 63,011 (2002); Order Affirming Initial Decision, With Modification, 100 FERC ¶ 61,292 (2002); Order Denying Requests for Rehearing, 102 FERC ¶ 61,143 (2003); Order on Remand, 106 FERC ¶ 61,302 (2004); and Order on Remand, 111 FERC ¶ 61,355 (2005).

settlement agreement that was filed with the Commission on March 26, 2004,<sup>25</sup> which continued the 12.2% ROE that originally became effective on January 1, 2001 pursuant to an August 29, 2001 settlement agreement that was approved by the Commission on November 7, 2001.<sup>26</sup>

Mr. Solomon's testimony explains that the ROEs that became effective 13 years ago are no longer just and reasonable for the MISO TOs' use in their formula rates because the economic conditions in the country and capital markets have changed greatly since those ROEs were determined. In particular, capital costs for electric utilities have declined significantly since 2002. To put this in perspective, Mr. Solomon examined the six-month period ending January 2002 that was used to calculate the dividend yields in the Commission's approved MISO DCF analysis and found that the average Moody's A and Baa Public Utility Bond yields were 7.67% and 8.07%, respectively, for an average of 7.87%. By comparison, for the six-month period ending January 2015 that Mr. Solomon used in his DCF analyses, the comparable average bond yields were 4.01% and 4.66%, respectively, for an average of 4.33%. Public utility long-term debt costs have therefore dropped by approximately 350 basis points on average. *See* Exh. No. JCC-1 at 10:9 – 11:2.

The MISO TOs' ROEs also need to be reexamined in light of changes to the application of the Commission's DCF method. In 2014, the Commission announced changes in the application of its DCF method used in determining the ROE for a group of electric utilities.<sup>27</sup> In determining the existing 12.38% ROE more than 13 years ago, the Commission applied its DCF method to a proxy group that was a regional group comprising the MISO TOs with publicly

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<sup>25</sup> *Am. Transmission Co. LLC and Midwest Indep. Transmission Sys. Operator, Inc.*, 107 FERC ¶ 61,117 (2004) (approving the uncontested Settlement).

<sup>26</sup> *See* 97 FERC ¶ 61,139 (2001).

<sup>27</sup> *See* Opinion No. 531 at PP 7-8, and EL14-12 Complaint Order, 148 FERC ¶ 61,049 at P 184.

traded common stock or their publicly traded parent companies.<sup>28</sup> Mr. Solomon's analysis, by contrast, relies on the guidance recently provided in Opinion No. 531, in which the Commission held that in determining the ROE for a group of utilities, it is appropriate to select a nation-wide proxy group. *See* Exh. No. JCC-1 at 11:18-21. Additionally, it was only in Opinion No. 531 that the Commission determined that the two-step DCF method it has long used for natural gas and oil pipelines should also be used for electric utilities, and Mr. Solomon's analysis utilizes the two-step DCF method. *See id.*

The Commission has recognized that the MISO TOs' existing ROEs determined more than a dozen years ago may no longer be just and reasonable. In October 2014, the Commission set the MISO TOs' ROEs for hearing and settlement judge procedures.<sup>29</sup> In that proceeding, the complainants provided single-stage DCF and other analyses supporting a just and reasonable ROE of 9.15%. In setting the 12.38% and 12.2% base ROEs for hearing, the Commission concluded that "the analysis provided in the Complaint constitutes substantial evidence that the challenged rates may be unjust and unreasonable, as required by section 206 of the FPA."<sup>30</sup> Although the evidence in that docket related to a different time period and was not based on the Commission's updated DCF method announced in Opinion No. 531, it is a good indicator that the 12.38% and 12.2% MISO TOs' ROEs have become unjust and unreasonable.

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<sup>28</sup> *MISO Initial Decision*, 99 FERC ¶ 63,011 at P 12; summarily affirmed in the *MISO Order on Initial Decision*, 100 FERC ¶ 61,292 at P 12.

<sup>29</sup> *See* EL14-12 Complaint Order, 148 FERC ¶ 61,049 at P 1..

<sup>30</sup> *Id.* at P 184.

2. A Just and Reasonable ROE for the MISO TOs Using the Commission's Two-Step DCF Method and Guidance from Opinion No. 531 Is 8.67%.

Mr. Solomon's application of the Commission's two-step DCF method shows that the range of results for an appropriately selected national proxy group of electric utilities with risks comparable to those of the MISO TOs is 5.81% to 11.40%. *See* Exh. Nos. JCC-1 at 11:18-21 and JCC-2. Accordingly, Mr. Solomon recommends that the 8.67% median of his proxy group ROEs be adopted as the base ROE in the MISO TOs' transmission formula rates at issue in this proceeding.

To develop his recommendation on the just and reasonable ROE for the MISO TOs of 8.67%, Mr. Solomon applied the Commission's Opinion No. 531 two-step DCF method to current market data, *i.e.*, data for the six months ended January 2015. Consistent with the Commission's guidance in Opinion No. 531, Mr. Solomon applied a two-step DCF method to a national proxy group of electric utility companies that reflects, as closely as possible, the risk characteristics associated with the transmission service of the MISO TOs. *See* Exh. No. JCC-1 at 14:23-27.

Given the Commission's stated preference in Opinion No. 531 for the use of the latest six-month average dividend yield for each proxy company, Mr. Solomon used dividend yields for the six months ending January 2015, which were the most recent available at the time his analyses were prepared, to evaluate the MISO TOs' current cost of common equity capital. *See id.* at 15:10-13.

Applying the guidance provided by the Commission in Opinion No. 531, Mr. Solomon selected a national electric utility proxy group using the following criteria:

- (1) companies that are included in the Value Line electric utility industry universe;

- (2) electric utilities that have an S&P corporate credit rating (“CCR”) of BBB- to AA+ and a Moody’s long-term issuer or senior unsecured credit rating of Baa3 to Aa2;<sup>31</sup>
- (3) electric utilities having an IBES published analysts’ consensus “five-year” earnings per share growth rate;
- (4) electric utilities that are not engaged in major merger or acquisition (“M&A”) activity currently or during the six-month dividend yield analysis period;
- (5) electric utilities that paid dividends throughout the six-month dividend yield analysis period, did not cut dividends during that period, and have not subsequently announced a dividend cut; and
- (6) electric utilities whose DCF results pass threshold tests of economic logic and are not outliers.

*See* Exh. No. JCC-1 at 16:16 – 17:22. Because the ROE at issue is applicable to a group of utilities, Mr. Solomon expanded the normal three-notch credit ratings range to encompass electric utilities with ratings within one notch of the lowest and highest ratings of all MISO TOs that are within the investment grade ratings spectrum. Using such a wide range of credit ratings encompasses all but one<sup>32</sup> of the 46 companies included in the Value Line electric utility universe. *See id.* at 17:23 – 18:3.

Mr. Solomon eliminated nine companies from the proxy group due to major M&A activity during the dividend yield analysis period and/or ongoing major M&A activity (item 4, above). *See* Exh. No. JCC-1 at 18:7-22. Having determined that none of the other factors were

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<sup>31</sup> Pursuant to Opinion No. 531 (at P 107), both the S&P and Moody’s ratings are used when both are available, but if a rating is only available from one of the two rating agencies, that single rating is used to apply this criterion. These ratings ranges encompass one credit rating notch above and below the MISO TOs’ S&P rating range of BB- to AA and one notch above and below the MISO TOs’ Moody’s rating range of Ba2 to Aa3, but limited to the investment grade ratings scales. Because the S&P and Moody’s ratings diverge for the majority of the Value Line electric utilities that are rated by both firms, using both S&P and Moody’s ratings for proxy group selection purposes results in a group that is more truly comparable in risk to the MISO TOs than using S&P ratings only and conforms to the Commission’s findings in Opinion No. 531.

<sup>32</sup> MGE Energy does not have an S&P or Moody’s rating.

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implicated, Mr. Solomon did not eliminate any other companies from the proxy group. *Id.* at 18:21-23. This left a proxy group of 36 electric utilities to which Mr. Solomon applied the Commission's two-step constant growth DCF method, as set forth in Opinion No. 531. *See Id.*

To apply the two-step DCF method to the 36-member proxy group, Mr. Solomon first developed a single six-month average dividend yield for each proxy company for the six-month period ended January 2015, which were the most recent data available to him at the time he prepared his analysis. Mr. Solomon then calculated a single average growth rate for each proxy group company using analysts' "short-term" forecasted five-year earnings per share growth rate weighted at two-thirds and a "long-term" forecasted GDP growth rate with a one-third weighting. For the short-term growth rate, Mr. Solomon used the average of the analysts' consensus five-year earnings per share growth rate projections for each proxy group company as reported by Yahoo! Finance from the Thomson Reuters/IBES data base on January 30, 2015, the last trading day of the six-month period. While the Commission used a long-term GDP growth rate of 4.39% in Opinion No. 531, Mr. Solomon used the updated 4.37% rate presented in the recent Direct Testimony of Commission Staff Witness Douglas M. Green in *Entergy Arkansas, Inc., et al.*, Docket No. ER13-1508-001, *et al.*<sup>33</sup> The development of these growth rates and dividend yields is shown in the Solomon Testimony at Exhibit No. JCC-2.

The result of Mr. Solomon's analysis, prior to applying outlier tests to the data, was a range of investor-required ROEs of 2.84% to 11.40%, with a median of the full array of results of 8.61% and a midpoint of 7.12%. *See Id.* at 20:6-9; Exh. No. JCC-2 at 1:38-41.

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<sup>33</sup> *See Entergy Arkansas, Inc., et al.*, Docket Nos. ER13-1508-001, *et al.*, Prepared Direct and Answering Testimony of Douglas M. Green, Witness for the Staff of the Federal Energy Regulatory Commission, Exhibit No. S-4 at 31 (Oct. 9, 2014), eLibrary No. 20141009-5166.

Mr. Solomon found no high-end outliers and did not eliminate any high-end DCF results. *See* Exh. No. JCC-1 at 23:10-11. With respect to low-end outliers, Mr. Solomon eliminated two companies, relying on the Commission's precedent that it is "reasonable to exclude any company whose low-end ROE fails to exceed the average bond yield by about 100 basis points or more, taking into account the extent to which the excluded low-end ROEs are outliers from the low-end ROEs of other proxy group companies."<sup>34</sup> The Commission reaffirmed this practice in Opinion No. 531, at PP 122-23. The averages of the Moody's A and Baa Public Utility Bond Index yields for the six months ending January 2015 are 4.01% and 4.66%, respectively; thus, adding 100 basis points to these average yields creates thresholds of 5.01% and 5.66%, respectively, for A and Baa rated companies. Mr. Solomon explains that the 2.84% ROE for FirstEnergy Corporation and 4.30% for PPL Corporation, the lowest two ROEs in the proxy group results, are well below the 5.66% Baa low-end threshold; therefore, he eliminated them from his proxy group results. The next highest 5.81% ROE for Entergy Corporation is well above the 5.66% Baa threshold; therefore, Mr. Solomon retained Entergy Corporation in his proxy group. *See* Exh. No. JCC-1 at 21:17 – 22:10.

The effect of removing the two low-end outliers from the group left 34 proxy companies, which produced a range of low-end and high-end ROEs of 5.81% to 11.40%, which Mr. Solomon explains brackets investors' required rates of return for investing in companies with risk characteristics similar to the MISO TOs. From that range, Mr. Solomon recommended the median value of 8.67% as the just and reasonable ROE for the MISO TOs. Exh. No. JCC-1 at 23:17 – 24:1. Recognizing that, in Opinion No. 531, the Commission set the ROE for the ISO-

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<sup>34</sup> *S. Cal. Edison Co.*, 131 FERC ¶ 61,020, at P 55 (2010).

New England Transmission Owners (“NETOs”) based on the midpoint of the upper half of the ROE range, Mr. Solomon explains in detail why that would not be an appropriate approach in this case. *See id.* at 25:7 – 31:8.

In Opinion No. 531, the Commission stated (at P 151) (footnotes omitted):

The Commission has traditionally looked to the central tendency to identify the appropriate return within the zone of reasonableness. Similarly, we believe that here in selecting the appropriate return we likewise should look to the central tendency to identify the appropriate return but, in light of the record in this proceeding, we should look to the central tendency for the top half of the zone of reasonableness, thus identifying an appropriate return reflective of capital market conditions in the record and the need to meet the capital attraction standards of *Hope* and *Bluefield*. And, thus, we will set the NETO’s ROE at the point that is halfway between the midpoint of the zone of reasonableness and the top of the zone.

The Commission did not mandate in Opinion No. 531 that it was requiring that in all cases the ROEs be increased automatically to the midpoint of the upper half of proxy group ROEs. To the contrary; the Commission made clear that it took this unprecedented step based on the record in the Opinion No. 531 proceeding. To the extent that the Commission determines based on the record in this case that some increase above the median of the proxy group ROEs is justified, it has not dictated that the increase must be to the midpoint of the upper half of the zone of reasonableness or that there is any one method for finding the “central tendency” of the upper half that must be used.

In Opinion No. 531, the Commission cited several factors from the record in that case as contributing to its determination that reliance on the central tendency of the zone of reasonableness did not appropriately reflect the NETOs’ risks. First, the Commission expressed a concern “that capital market conditions in the record are anomalous,” citing as the basis for adopting an ROE above the median historically low bond yields and pointing to the fact that the yield on 10-year U.S. Treasury bonds during the six-month study period ended March 2013 was

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below 2%.<sup>35</sup> However, as Mr. Solomon explains, such anomalous conditions are not present at this time. The six-month average 10-year Treasury bond yield for the period ended January 2015 was 2.28% (Exh. No. JC-1 at 26:23 – 27:3), above the level noted by the Commission in Opinion No. 531. In addition, the unemployment rate has dropped substantially, the stock market is strong, the Federal Reserve has substantially wound down its quantitative easing initiative, and inflation remains low and well below the Federal Reserve Open Market Committee's 2.0% target level. *Id.* at 27:3-8.

Additionally, Mr. Solomon examined the 42-month period ending January 2015 and determined that A-rated public utility bond yields settled into a range of approximately 3.6% to 4.8% and have averaged 4.30% over that period, which is very near the 4.01% average yield for his six-month DCF analysis period. During that same extended time period, Baa-rated utility bond yields have fluctuated from approximately 4.4% to 5.3% with an average of 4.90%, which is also relatively near the 4.66% average yield for his DCF analysis period. This review demonstrates that the most recent period is not anomalous, but rather is consistent with average yields over the past three and one-half years. Exh. No. JCC-1 at 28:6 – 29:6.

In a nutshell, as Mr. Solomon observes, lower bond yields are a reflection of lower capital costs, and the Commission's DCF method reflects the reality of these lower capital costs. As Mr. Solomon points out, the Commission has understood and accommodated this reality in pipeline rate cases by continuing to use the median of the proxy group DCF results unless there is a clear showing that the subject pipeline is substantially more or less risky than the proxy group average. Exh. No. JCC-1 at 30:3 – 31:4. Mr. Solomon's testimony demonstrates that the

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<sup>35</sup> Opinion No. 531 at P 145, n. 285.

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average risk for the MISO TOs is near to or less than the average for the proxy group; therefore, the allowed ROE should be no higher than the DCF median or midpoint for the entire array of results. *Id.* at 31:4-8.

A second factor noted by the Commission in Opinion No. 531 as justifying its deviation from the standard practice of relying on the central tendency in the zone of reasonableness was the level of the ROEs being allowed by state regulatory commissions. Specifically, the Commission stated that “other record evidence of state commission-approved ROEs supports adjusting the ROE to a point halfway up the upper half of the zone of reasonableness in this case.”<sup>36</sup> Mr. Solomon explains in his testimony that as bond yields have fallen, state commission-allowed ROEs have decreased, although with a regulatory lag, and it is expected that such ROEs will fall even further. *See* Exh. No. JCC-1 at 31:13-15. The latest reports from Regulatory Research Associates (“RRA”) show that excluding the extraordinary Virginia surcharge/rider generation cases,<sup>37</sup> the average state commission-authorized electric ROE was 10.01% in 2012, which dropped to 9.8% in 2013, and to 9.76% in 2014.<sup>38</sup>

Further, as Mr. Solomon explains, retail service regulated by the state commissions covers not only the distribution function, but also the generation function, and is more risky than FERC-regulated transmission service, especially where the FERC-regulated utilities have

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<sup>36</sup> Opinion No. 531 at P 148.

<sup>37</sup> As described by Mr. Solomon, the RRA reports specifically note that the reported ROE data includes several surcharge/rider generation cases in Virginia that incorporate plant-specific ROE premiums based on Virginia statutes authorizing the State Corporation Commission to approve ROE premiums of up to 200 basis points for certain generation projects. Therefore, present summary statistics exclude the ROEs from those cases. It would be especially inappropriate to include reference to those cases in determining the base ROE for transmission services. *See* Exh. JCC-1 at 31 n.16.

<sup>38</sup> Exh. No. JCC-1 at 31:15 – 32:2 (*citing* RRA Regulatory Focus, Major Rate Case Decisions – Calendar 2013 (Jan. 15, 2014), Ex. No. JCC-3 at 248; RRA Regulatory Focus, Major Rate Case Decisions – Calendar 2014 (Jan. 15, 2015), Ex. No. JCC-3 at 257, 261, 262.)

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transmission formula rates, as do the MISO TOs. In contrast to the situation in states where there is often regulatory lag resulting in utilities earning less than their authorized ROEs, the transmission formula rates of the MISO TOs provide for timely recovery of their actual costs of providing service. This includes recovery of their authorized ROEs, despite unexpected fluctuations in sales volumes and cost changes, through automatic annual rate changes and actual cost true-up provisions. Accordingly, FERC-approved transmission ROEs – especially where there are formula rates that eliminate regulatory lag – should actually be *lower* than those allowed by state commissions. *See* Exh. No. JCC-1 at 32:3 – 33:25.

The third factor cited by the Commission in Opinion No. 531 as justifying its deviation from past practice as to the use of the central tendency of the range of reasonableness is that other benchmark methods supported by the NETOs’ witness result in higher ROEs than the median of the DCF results. However, the Commission noted its reservations about these alternative approaches, which are regularly used by utility-sponsored witnesses to try to justify higher ROEs than can be justified by using market-driven DCF data, observing that such approaches have been rejected in the past and indicating that it was giving weight to the alternative analyses only because of what the Commission considered, “based on the record in this case,” “unusual capital market conditions.”<sup>39</sup> Mr. Solomon testifies that these discredited alternative benchmark methodologies do not provide a basis for moving the ROE above the median of the zone of reasonableness. Exh. No. JCC-1 at 33:26-31.

Even assuming, *arguendo*, that the record in this case were to justify setting the ROE at the central tendency of the upper half of the calculated ROEs, the record will show, and past

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<sup>39</sup> Opinion No. 531 at P 142.

precedent supports, the propriety of using the median, rather than the midpoint, of the upper half of the array of ROEs. The Commission routinely uses the median of the DCF array of ROE results for the proxy group as the point of central tendency to set the ROE for natural gas and oil pipelines. The Commission has provided many good reasons for use of the median as the most accurate measure of central tendency, not the least of which are that it better considers all the ROEs within the array than does the midpoint, and that it helps to minimize the impact of the extreme values on the results. Thus, for this case, the appropriate point of central tendency of the top half of the proxy group ROEs would be the 75th percentile value, which is effectively the median – not the midpoint – of those ROEs.

**B. This Complaint Is Permitted by the FPA and Commission Precedent, Notwithstanding the EL14-12 Complaint Proceeding.**

As described above, on November 12, 2013, the EL14-12 Complainants filed their complaint pursuant to FPA Section 206, which initiated Docket No. EL14-12. The EL14-12 Complaint, like the instant Complaint, alleges that the Respondents' base ROE is unjust and unreasonable. On October 16, 2014, the Commission set the EL14-12 Complaint for hearing and settlement judge procedures and established a refund effective date of November 12, 2013.<sup>40</sup>

This Complaint is a permissible challenge to the Respondents' ROE. First, Joint Customer Complainants were not among the complainants in the EL14-12 Complaint. Second, the Commission has determined that successive complaints are allowed when they present a new analysis.<sup>41</sup> Specifically, "a new DCF analysis with new, more current data in support of a

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<sup>40</sup> EL12-14 Complaint Order, 148 FERC ¶ 61,049 at P 1.

<sup>41</sup> See *Environment Northeast v. Bangor Hydro-Elec. Co.*, 147 FERC ¶ 61,235, at P 27 (2014) (citing *Consumer Advocate Div. of the Pub. Serv. Comm'n of W.V., et al. v. Allegheny Generating Co.*, 67 FERC ¶ 61,288, at 62,000 (1994), *order on reh'g*, 68 FERC ¶ 61,207 (1994); *Southern Co. Services, Inc.*, 68 FERC ¶ 61,231

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proposed lower ROE” is sufficient to meet the standard for filing a new complaint.<sup>42</sup> The Commission reaffirmed this precedent as recently as February 9, 2015.<sup>43</sup>

Joint Customer Complainants’ Complaint presents analyses that differ in several respects from those presented by the EL14-12 Complainants. This Complaint is based on new data for the six-month period ending January 2015, a period that occurred well after the filing of the EL14-12 Complaint. This alone is sufficient to meet the Commission’s “new analysis” standard. Additionally, Mr. Solomon’s analysis supporting this Complaint is a two-stage DCF analysis, which was performed in accordance with the new method prescribed by the Commission in Opinion No. 531. Opinion No. 531 was issued after the filing of the EL14-12 Complaint, and thus was not considered therein.

Section 206 of the FPA generally limits refunds to a 15-month period. When a complainant has alleged identical violations of the FPA based on identical facts in serial complaints solely in order to extend the refund-effective date, the Commission has rejected such “end runs” around the FPA.<sup>44</sup> However, when a complainant has submitted new facts and sought a new refund-effective date, the Commission has allowed multiple complaints.<sup>45</sup> In particular, the Commission has permitted multiple complaints as to a utility’s ROE because the ROE is

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(1994), *order on reh’g*, 83 FERC ¶ 61,079 (1998); *San Diego Gas & Elec. Co. v. Pub. Serv. Co. of New Mexico*, 85 FERC ¶ 61,414 (1998), *reh’g denied*, 86 FERC ¶ 61,253 (1999), *reh’g denied*, 65 FERC ¶ 61,073 (2001)).

<sup>42</sup> *Id.*

<sup>43</sup> *Delaware Division of the Public Advocate, et al. v. Baltimore Gas and Electric Co., et al.*, “Order on Complaint and Establishing Hearing Procedures,” 150 FERC ¶ 61,081, at P 19 (2015) (citations omitted).

<sup>44</sup> *See, e.g., EPIC Merchant Energy NJ/PA, L.P. v. PJM Interconnection, LLC*, 131 FERC ¶ 61,130, at P 20 (2010), *reh’g denied*, 136 FERC ¶ 61,041 (2011).

<sup>45</sup> *See, e.g., Southern Co. Servs., Inc.*, 83 FERC ¶ 61,079, at 61,385-86 (1998) (“*Southern Co.*”).

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“‘particularly volatile’ in comparison to other cost of service components.”<sup>46</sup> The Commission has made very clear that concerns that multiple ROE complaints were an end run around Section 206 were unfounded:<sup>47</sup>

The Commission also rearticulated its belief that it has the legal authority to establish a new section 206 proceeding, including a new refund effective date, before completing the pending proceeding. Contrary to Allegheny Generating’s claim that the [Regulatory Fairness Act] prohibits the institution of a new section 206 proceeding if an existing proceeding is still pending, the Commission stated that:

The RFA contains no such prohibition, however. Indeed, there was no such prohibition in section 206 before the passage of the RFA, and there is no indication in the language of the RFA or the legislative history that Congress intended to create such a prohibition. In fact, the legislative history clearly indicates an intent to expand the protection afforded consumers, not to contract it.

68 FERC at p. 61,999 (footnotes omitted).

Thus, the Commission’s precedent permits new ROE complaints when the facts change.

The Commission has repeatedly acknowledged that its “statutory mandate under the FPA entails protecting consumer interests.”<sup>48</sup> This duty, which is continuing in nature, requires that the Commission protect consumers from excess charges.<sup>49</sup> As the Commission found in setting the EL14-12 Complaint for hearing, consumers in MISO may have been paying unjust and unreasonable charges for years. Because no final decision has yet been reached in Docket No. EL14-12, consumers continue to pay unjust and unreasonable rates. The Commission’s duty to

<sup>46</sup> *Id.*, quoting *Consumer Advocate Div. of the Pub. Serv. Comm’n of W.V. et al. v. Allegheny Generating Co.*, 67 FERC ¶ 61,288, at 61,998 (1994) .

<sup>47</sup> *Southern Co.*, 83 FERC at 61,386.

<sup>48</sup> *New England Power Generators Ass’n, Inc. v. ISO New England Inc.*, 146 FERC ¶ 61,038, at P 26, n.33 (2014) (citing *FPC v. Sierra Pacific Power Co.*, 350 U.S. 348, 353 (1956); *New York Indep. System Operator, Inc.*, 122 FERC ¶ 61,064, at P 54, *order on reh’g*, 125 FERC ¶ 61,299 (2008); *FPC v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944); *North Carolina v. FERC*, 584 F.2d 1003, 1012 (D.C. Cir. 1978); *Algonquin Gas Transmission Co. v. FERC*, 948 F.2d 1305, 1315 (D.C. Cir. 1991)).

<sup>49</sup> *Id.*

protect consumers from these unjust and unreasonable rates requires that the Commission allow this Complaint, supported by an independent evidentiary analysis, to prevent Respondents from continuing to receive excess returns.

## V. MOTION TO CONSOLIDATE

The Commission will consolidate proceedings where there are common issues of law and fact or if “greater administrative efficiency” will result from consolidation.<sup>50</sup> Although based on analyses performed at separate times, the instant Complaint and the EL14-12 Complaint address the same issue – *i.e.*, establishing a just and reasonable MISO-wide ROE. Consolidating the instant Complaint with the proceeding in Docket No. EL14-12 is the most efficient way for the Commission to proceed with resolving both this Complaint and the prior EL14-12 Complaint. Consolidating the two dockets will avoid the potential for duplicative discovery and will allow the parties to the two proceedings (and the Commission) to more effectively utilize their resources in addressing issues common to both dockets. The Commission has recently consolidated complaints filed under similar circumstances to the instant Complaint “[b]ecause of the existence of common issues of law and fact.”<sup>51</sup>

Therefore, pursuant to Rule 212 (a)(1) and (c) of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §§ 385.212 (a)(1) and (c), Joint Customer Complainants respectfully request that the Commission consolidate the Complaint proceeding in this docket with the ongoing proceeding in Docket No. EL14-12 so that all issues related to the MISO-wide ROE may be addressed in a single proceeding.

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<sup>50</sup> See, e.g., *Southern California Edison Co.*, 129 FERC ¶ 61,304, at P 26 (2009); *ISO New England, Inc.*, 124 FERC ¶ 61,013, at P 36 (2008); and *Ameren Servs. Co.*, 121 FERC ¶ 61,205, at P 22-23 (2007).

<sup>51</sup> See, e.g., *Seminole Elec. Coop., Inc., et. al v. Duke Energy Florida, Inc.*, 149 FERC ¶ 61,210, at P 29 (2014); *Golden Spread Elec. Coop., Inc. v. Southwestern Public Service Co.*, 147 FERC ¶ 61,239, at P 25 (2014).

## VI. REQUEST FOR FAST TRACK PROCESSING

Pursuant to Rule 206 (b)(11) of the Commission's Rules of Practice and Procedure, Joint Customer Complainants respectfully request that the Commission initiate Fast Track Processing procedures in response to this Complaint. As described above, the Complaint proceeding in Docket No. EL14-12 has moved into a hearing phase, with the hearing scheduled for August 2015. Therefore, if the Commission were to grant Joint Customer Complainants' motion to consolidate, Fast Track Processing would be necessary to consider both complaints simultaneously and avoid duplicative litigation.

To further facilitate consolidation and expedite progress to hearing, Joint Customer Complainants also request that the Commission forego its standard practice of ordering an evidentiary hearing, but holding the hearing in abeyance to provide time for settlement judge procedures. As described above, the parties very recently engaged in settlement discussions in Docket No. EL14-12 and were unable to come to an agreement as to the appropriate MISO-wide base ROE. Given that those settlement discussions were terminated only last month,<sup>52</sup> Joint Customer Complainants have no reason to believe that additional discussions would be productive at this time and instead would serve only to delay a final resolution in this proceeding. Therefore, in the interest of expediting this proceeding and aligning scheduling as closely as possible with the procedural schedule in Docket No. EL14-12, Joint Customer Complainants request that the Commission forego holding the evidentiary hearing in abeyance pending settlement procedures and instead allow the parties to proceed directly to hearing.

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<sup>52</sup> See *Assoc'n of Businesses Advocating Tariff Equity, et. al. v. Midcontinent Indep. Sys. Operator, Inc., et al.*, "Order of Chief Judge Terminating Settlement Judge Procedures, Designating Presiding Administrative Law Judge and Establishing Track II Procedural Time Standards," Docket Nos. EL14-12-000, -002 (issued Jan. 5, 2015).

## VII. RULE 206 REQUIREMENTS

To the extent not already provided herein, Joint Customer Complainants provide the following additional information required by Rule 206 of the Commission's Rules of Practice and Procedure:

- Good Faith Estimate of Financial Impact or Harm (Rule 206 (b)(4)): Reducing the MISO-wide ROE from the current 12.38% ROE to Joint Customer Complainants' proposed 9.17% ROE (inclusive of the 50-basis point adder for MISO participation) results in a total collective reduction of the Respondents' annual transmission revenue requirements in the amount of \$496,724,345. (*See* Exh. No. JCC-1 at 24:8-11.)
- Operational or Nonfinancial Impacts (Rule 206 (b)(5)): Joint Customer Complainants have not identified any operational or nonfinancial impacts resulting from the current MISO-wide ROE.
- Other Pending Matters (Rule 206 (b)(6)): As explained above, issues presented herein are pending before the Commission in Docket No. EL14-12, the hearing proceeding addressing a previous complaint challenging the current MISO-wide ROE. Timely resolution cannot be achieved in that forum because this Complaint covers a different time period for purposes of calculating an appropriate ROE using the Commission's DCF analysis.
- Specific Relief or Remedy Request (Rule 206 (b)(7)): The specific relief sought by Joint Customer Complainants is set forth in detail in the Complaint.

- Documents Supporting the Complaint (Rule 206 (b)(8)): Documents supporting the facts in the Complaint include the testimony attached hereto as Exhibit No. JCC-1, and supporting workpapers and exhibits, Exhibit Nos. JCC-2 and JCC-3.
- Alternative Dispute Resolution (Rule 206 (b)(9)): Joint Customer Complainants have not used the Commission's Enforcement Hotline or Dispute Resolution Services and do not believe at this time that alternative dispute resolution could successfully resolve this complaint. As described above, the appropriate MISO-wide ROE was the subject of a previous complaint filed in Docket No. EL12-14 that was set for hearing and settlement procedures. Parties engaged in settlement negotiations, but were unable to come to an agreement as to a just and reasonable MISO-wide ROE,<sup>53</sup> and Joint Customer Complainants expect that further settlement talks likewise would fail. Nevertheless, on February 10, 2015, Joint Customer Complainants notified lead counsel for the MISO TOs that this Complaint would be filed and indicated a willingness to engage in settlement negotiations if the MISO TOs have any reason to believe that circumstances have changed since settlement procedures in Docket No. EL14-12 were terminated.
- Form of Notice (Rule 206 (b)(10)): A form of notice of Complaint suitable for publication in the Federal Register is attached hereto.
- Fast Track Processing (Rule 206 (b)(11)): As described above, Joint Customer Complainants request Fast Track Processing of the Complaint.

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<sup>53</sup> See *Assoc'n of Businesses Advocating Tariff Equity, et. al. v. Midcontinent Indep. Sys. Operator, Inc.*, "Status Report Recommending Termination of Settlement Judge Procedures," Docket No. EL14-12-000 (issued Dec. 17, 2014).

- Service (Rule 206 (c)): Joint Customer Complainants have served a copy of this Complaint upon representatives for the Respondents via electronic mail, simultaneous with the filing of this Complaint, and also have served this Complaint on the Docket No. EL14-12 service list maintained by the Secretary.

### VIII. CONCLUSION

Wherefore, for the foregoing reasons, Joint Customer Complainants respectfully request that the Commission: (1) find that the MISO-wide base ROE is unjust and unreasonable and should be reduced to the just and reasonable level determined by Joint Customer Complainants' testimony, effective as of the date of this Complaint; (2) establish the date of the filing of the Complaint as the refund effective date for this Complaint; (3) order refunds (with interest at Commission-approved rates) for amounts reflecting the difference in the MISO TOs' and ATC's transmission revenue requirements based on applying the ROE that is established following hearing proceedings rather than the current MISO-wide ROE, commencing with the refund effective date established for this Complaint; (4) consolidate the Complaint with the ongoing proceeding in Docket No. EL14-12, so the issue of a just and reasonable MISO-wide ROE may be addressed in a single proceeding; (5) initiate Fast Track Processing procedures in response to this Complaint; and (6) grant such other and further relief as the Commission may deem appropriate.

Respectfully Submitted,

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Dated: February 12, 2015

# **Exhibit No. JCC-1**

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

Arkansas Electric Cooperative Corporation  
Mississippi Delta Energy Agency  
Clarksdale Public Utilities Commission  
Public Service Commission of Yazoo City  
Hoosier Energy Rural Electric Cooperative, Inc.

Complainants,

v.

Docket No. EL15-\_\_-000

ALLETE, Inc. (for its operating division Minnesota  
Power, Inc., and its wholly-owned subsidiary,  
Superior Water, Light and Power Company)  
Ameren Illinois Company  
Ameren Missouri  
Ameren Transmission Company of Illinois  
American Transmission Company LLC  
Cleco Power LLC  
Duke Energy Business Services, LLC  
d/b/a Duke Energy Indiana  
Entergy Arkansas, Inc.  
Entergy Gulf States Louisiana, LLC  
Entergy Louisiana, LLC  
Entergy Mississippi, Inc.  
Entergy New Orleans, Inc.  
Entergy Texas, Inc.  
Indianapolis Power & Light Company  
International Transmission Company  
d/b/a ITC Transmission  
ITC Midwest LLC  
Michigan Electric Transmission Company, LLC  
MidAmerican Energy Company  
Montana-Dakota Utilities Co.  
Northern Indiana Public Service Company  
Northern States Power Company-Minnesota  
Northern States Power Company-Wisconsin  
Otter Tail Power Company  
Southern Indiana Gas & Electric Company

Respondents.

Association of Businesses Advocating Tariff  
Equity, *et al.*

Complainants,

v.

Midcontinent Independent System Operator, Inc., *et al.*

Respondents.

Docket No. EL14-12-000

(not consolidated)

**DIRECT TESTIMONY AND EXHIBITS  
OF J. BERTRAM SOLOMON**

**On Behalf Of**

**ARKANSAS ELECTRIC COOPERATIVE CORPORATION,  
MISSISSIPPI DELTA ENERGY AGENCY,  
CLARKSDALE PUBLIC UTILITIES COMMISSION,  
PUBLIC SERVICE COMMISSION OF YAZOO CITY, AND  
HOOSIER ENERGY RURAL ELECTRIC COOPERATIVE, INC.**

**February 11, 2015**

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<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
JCC-1	Direct Testimony of J. Bertram Solomon
JCC-2	Two-Step DCF Analysis Using Data for Six Months Ending January 2015
JCC-3	Workpapers of J. Bertram Solomon

**SUMMARY**

J. Bertram Solomon, Executive Consultant of GDS Associates, Inc., an engineering and consulting firm, presents Direct Testimony and Exhibits on behalf of Complainants Arkansas Electric Cooperative Corporation, Hoosier Energy Rural Electric Cooperative, Inc., Mississippi Delta Energy Agency and its two members, the Clarksdale Public Utilities Commission and the Public Service Commission of Yazoo City (collectively referred to as “Joint Customer Complainants” or “Complainants”). Mr. Solomon presents the results of his cost of common equity analyses and provides a recommendation for the appropriate rate of return on common equity (“ROE”) that should be reflected in the transmission formula rates of the Midcontinent Independent System Operator, Inc. (“MISO”) Transmission Owners (“TOs”) at issue in this proceeding.

Mr. Solomon selects a national proxy group of Value Line electric utilities with average risk comparable to that of the MISO TOs and applies the Commission’s preferred two-step, constant growth Discounted Cash Flow (“DCF”) methodology in accordance with the Commission’s guidance for electric utilities in Opinion Nos. 531 and 531-A and other opinions and orders. According to Mr. Solomon’s analysis, which is based on financial data for the recent six month period of August 2014 through January 2015, a just and reasonable base ROE for the MISO TOs is 8.67%. This recommended ROE is based upon the median of Mr. Solomon’s DCF-calculated array of investor-required ROEs for his national electric utility proxy group of thirty-six electric utilities. Mr. Solomon also recognizes that, in the past, the Commission has used the midpoint as the point of central tendency it prefers for determining the ROE for a group of electric utilities such as the MISO TOs, and therefore also provides the 8.60% midpoint of his

proxy group DCF results. The range of returns for this proxy group is 5.81% to 11.40%. (See generally Solomon Testimony, Ex. No. JCC-1 at 7-34.) Mr. Solomon's proxy group was selected using several screening criteria that have been used by the Commission in past cases, including both Standard & Poor's Financial Services LLC ("S&P") and Moody's Investors Service, Inc. ("Moody's") credit ratings screens.

Mr. Solomon explains why the median of the proxy group ROEs is the most appropriate measure of central tendency, but recognizes that for a Regional Transmission Organization ("RTO") wide base ROE like that determined in Opinion No. 531, the Commission chose to use the midpoint as the preferred measure of central tendency. Mr. Solomon uses metrics, including a review of the credit ratings and Value Line Safety Rankings for the proxy companies, to confirm that the MISO TOs are perceived to be of approximately the same risk as or slightly lower than the average for the group. Mr. Solomon explains that, consistent with Opinion No. 531, he used credit rating risk bands of BBB- to AA+ for S&P ratings and Baa3 to Aa2 for Moody's ratings in selecting his proxy group to include electric utilities with ratings one notch above and below the ratings ranges of the MISO TOs within the investment grade spectrum.

Mr. Solomon specifically addresses the Commission's determination in Opinion No. 531 to set the base ROE for the ISO-New England Transmission Owners at the midpoint of the upper half of the ROE range based on the specific record in that case. The same result is not warranted here. Mr. Solomon explains that increases and decreases in the six-month average ten-year Treasury bond yields over the last three and one-half years confirm that we are experiencing a new normal level of capital costs rather than a short-lived aberration. Additionally, he identifies lower unemployment rates, low inflation rates, an expanding economy, the winding down of the Quantitative Easing

program by the Federal Reserve, and a strong stock market as additional factors that are different from the record underlying Opinion No. 531. He demonstrates that during the last forty-two months, from August 2011 – January 2015, Baa-rated public utility bond yields have settled into a range that averages 4.90% and that is near the 4.66% average yield for the six-month analysis period for the DCF analyses he performed. Finally, Mr. Solomon discusses the use of state commission-allowed ROEs and certain other alternative benchmarks referred to in Opinion No. 531 that justified placing the base ROE above the median in that case. He uses published reports to demonstrate that no such adjustment is warranted in this case and explains that, as bond yields have fallen over the last several years, state commission-allowed ROEs have come down (and are expected to continue to decline). Mr. Solomon explains that even if the Commission finds it necessary to use the upper half of the ROE range, using the midpoint as the point of central tendency can cause inappropriate impacts on the result by overweighting extreme values of the proxy group, and that the 75<sup>th</sup> percentile, or effectively the median, of the upper half of the range is a more appropriate measure of central tendency for the upper half of the range.

Mr. Solomon recommends a base ROE of 8.67% for the MISO TOs' transmission formula rates at issue in this proceeding. If the 50 basis point RTO participation incentive adder is included, the resulting ROE becomes 9.17%.

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

Arkansas Electric Cooperative Corporation, <i>et al.</i>	)	
Complainants	)	
	)	
v.	)	Docket No. EL15-____-000
	)	
ALLETE, Inc., <i>et al.</i>	)	
Respondents	)	

**DIRECT TESTIMONY AND EXHIBITS  
OF J. BERTRAM SOLOMON**

**On Behalf Of**

**ARKANSAS ELECTRIC COOPERATIVE CORPORATION  
HOOSIER ENERGY RURAL ELECTRIC COOPERATIVE, INC.  
MISSISSIPPI DELTA ENERGY AGENCY  
CLARKSDALE PUBLIC UTILITIES COMMISSION  
THE PUBLIC SERVICE COMMISSION OF YAZOO CITY**

**February 12, 2015**

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**I.  
INTRODUCTION**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is J. Bertram Solomon. My business address is 1850 Parkway Place,  
Suite 800 Marietta, Georgia 30067.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am an Executive Consultant for GDS Associates, Inc. (“GDS”), a multi-  
disciplinary engineering and consulting firm primarily serving electric, gas and  
water utilities. I specialize in public utility economics, energy supply, and rates.

1   **Q.   PLEASE OUTLINE YOUR FORMAL EDUCATION AND WORK**  
2   **EXPERIENCE.**

3   A.   I received the degree of Master of Business Administration from Georgia State  
4   University in 1973. My area of concentration was Finance. I also received the  
5   degree of Bachelor of Science in Industrial Management from the Georgia  
6   Institute of Technology in 1972.

7           As a cooperative student at Georgia Tech, I gained approximately two  
8   years' work experience as an assistant engineer in an industrial production setting.  
9   After graduation from Georgia Tech in 1972, I worked approximately one and  
10   one-half years as a program manager for a management consulting firm and for  
11   another one and one-half years as a project analyst for a resort development firm.  
12   I was employed by Southern Engineering Company from January 1975 until  
13   February 1986. During that time, I had assignments in both the retail and  
14   wholesale rate departments of Southern Engineering, working primarily in the  
15   area of electric utility rates. In February 1986, I participated in the founding of  
16   GDS Associates, Inc., a public utility engineering and consulting firm providing  
17   integrated resource planning services, energy efficiency services, generation  
18   support services, financial and statistical services, and regulatory services.

19           I have provided expert ratemaking testimony before the public utility  
20   commissions of Alaska, Arkansas, Florida, Georgia, Indiana, Kansas, Kentucky,  
21   Maine, Michigan, Minnesota, Nevada, New Jersey, North Carolina, Ohio,  
22   Oklahoma, Pennsylvania, Rhode Island, Texas (Public Utility and Railroad), and  
23   Virginia, and before the Federal Energy Regulatory Commission ("FERC" or  
24   "Commission"). The areas of my expert testimony include: required rates of

1 return including return on common equity (“ROE”) for investor-owned utilities  
2 and required margin levels for non-profit utilities; proper methods of measuring  
3 working capital requirements; the effects of alternative accounting methods on  
4 expenses, income taxes, revenues, rate base and cost of capital and their proper  
5 treatment for ratemaking purposes; proper methods of cost allocation; rate design;  
6 integrated resource planning; the proper unbundling of rates by service function;  
7 transmission service rates and terms and conditions of service; electric utility  
8 industry restructuring issues; various regulatory policy issues; and economic  
9 feasibility analyses. I have also been involved in stakeholder processes for  
10 designing, developing and implementing Independent System Operators (“ISOs”)  
11 and Regional Transmission Organizations (“RTOs”), and associated regulatory  
12 proceedings including the pre- and post-filing stages and subsequent operations.

13 I have presented testimony in water, natural gas and electric cases. I also  
14 have prepared and filed comments before FERC in several generic rulemaking  
15 proceedings, and I have testified before the U.S. Senate Committee on Energy and  
16 Natural Resources, Subcommittee on Energy Regulation, and before the Utilities  
17 Committee of the Mississippi House of Representatives. In addition, I have  
18 participated in the preparation of retail and wholesale allocated cost of service  
19 studies, power cost projections, and generating plant joint venture feasibility  
20 analyses, and I have been responsible for competitive power supply solicitations,  
21 contract negotiations, transmission service arrangements, scheduling of  
22 generation and other resources to meet service requirements, and related litigation  
23 efforts. In addition, I have participated in the successful negotiation of  
24 settlements in many other rate cases filed before public utility regulatory

1 commissions, thus eliminating the necessity of filing testimony in those  
2 proceedings.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE REGULATORY**  
4 **COMMISSIONS?**

5 A. Yes. A list of proceedings in which I have filed testimony is included in  
6 Appendix A to my testimony here.

7 **Q. HAS ANY OF YOUR TESTIMONY BEFORE REGULATORY**  
8 **COMMISSIONS INVOLVED ISSUES SIMILAR TO THOSE YOU**  
9 **ADDRESS IN THIS CASE?**

10 A. Yes. Since about 1980, I have presented testimony addressing cost of capital and  
11 rate of return in numerous cases before both state public utility commissions and  
12 FERC. I have prepared cost of capital analyses involving numerous FERC-  
13 regulated utilities, including the following: Allegheny Power System; American  
14 Electric Power Company; American Transmission Systems, Inc.; Appalachian  
15 Power Company; Boston Edison Company; Carolina Power & Light Company;  
16 CenterPoint Energy Houston Electric, LLC; Cleco Power LLC; Delmarva Power  
17 and Light Company; Duke Energy Florida, Inc.; Duke Energy Kentucky, Inc;  
18 Duke Energy Ohio, Inc.; Duke Power Company; Empire District Electric  
19 Company; Entergy Corporation; FirstEnergy Corporation; Florida Power and  
20 Light Company; Florida Power Corporation; Georgia Power Company; Gulf  
21 States Utilities Company; Idaho Power Company; Kansas Gas and Electric  
22 Company; Kentucky Utilities Company; Maine Yankee Atomic Power Company;  
23 Midwest ISO Transmission Owners; Midcontinent Independent System Operator,  
24 Inc. ("MISO") Transmission Owners ("TOs"); Mississippi Power Company;

1 Montana Power Company; New York State Electric and Gas Corporation;  
2 Niagara Mohawk Power Company; Ohio Edison Company; Oklahoma Gas and  
3 Electric Company; PacifiCorp; Pacific Gas & Electric Company; Potomac-  
4 Appalachian Transmission Highline, LLC; Potomac Edison Company; PPL  
5 Corporation; Public Service Company of Colorado; Public Service Company of  
6 New Mexico; Public Service Electric & Gas Company; San Diego Gas & Electric  
7 Company; Sierra Pacific Power Company; South Carolina Electric & Gas  
8 Company; Southern California Edison Company; Southern Company;  
9 Southwestern Public Service Company; Tampa Electric Company; Virginia  
10 Electric & Power Company; Westar Energy, Inc.; Wisconsin Electric Power  
11 Company; and Wisconsin Power & Light Company. In addition, I testified in the  
12 *Midwest Independent Transmission System Operator, Inc.* ROE single-issue  
13 proceeding, Docket No. ER02-485-000; *Golden Spread Electric Cooperative,*  
14 *Inc., et al., v. Southwestern Public Service Company,* Docket No. EL05-19-000,  
15 which ultimately was adjudicated by the Commission in Opinion Nos. 501 and  
16 501-A; and *Composition of Proxy Groups for Determining Gas and Oil Pipeline*  
17 *Return on Equity,* Docket No. PL07-2-000, among others.

18 **Q. DO YOU REGULARLY FOLLOW DEVELOPMENTS IN THE CAPITAL**  
19 **MARKETS THAT HAVE A BEARING ON RATE OF RETURN ISSUES?**

20 A. Yes. In connection with my frequent consulting assignments in this field, I  
21 regularly follow the capital markets and especially factors influencing the cost of  
22 capital for electric utilities.

1   **Q.   PLEASE DESCRIBE GENERALLY THE TYPES OF MATERIALS YOU**  
2       **REVIEWED IN PREPARING YOUR TESTIMONY IN THIS**  
3       **PROCEEDING.**

4   A.   In addition to my routine review of economic and financial market information  
5       and Commission orders and opinions on electric utility ROEs, I have reviewed  
6       publicly available reports on the credit ratings of the MISO TOs and other  
7       investment risks of their securities. I have also reviewed the Commission's recent  
8       Opinion No. 531, *Martha Coakley, Massachusetts Attorney General, et al. v.*  
9       *Bangor Hydro-Electric Co., et al.*, 147 FERC ¶ 61,234 (June 19, 2014) ("Opinion  
10      No. 531"), *reh'g pending* and Opinion No. 531-A, Order on Paper Hearing, 149  
11      FERC ¶ 61,032 (October 16, 2014)("Opinion No. 531-A"), as well as the  
12      Commission's orders approving the current 12.38% MISO-wide base ROE.<sup>1</sup>

13   **Q.   ARE YOU SPONSORING ANY EXHIBITS TO YOUR TESTIMONY?**

14   A.   Yes. In addition to my prepared direct testimony (Exhibit No. JCC-1), I am  
15      sponsoring the following supporting exhibits:

16                JCC-2: Two-Step DCF Analysis Using Data for Six Months Ending  
17                January 2015; and

18                JCC-3: Workpapers of J. Bertram Solomon

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<sup>1</sup> *Midwest Independent Transmission System Operator, Inc.*, 99 FERC ¶ 63,011 (2002) ("Initial Decision"); Order Affirming Initial Decision, With Modification, 100 FERC ¶ 61,292 (2002) ("Order on Initial Decision"); Order Denying Requests for Rehearing, 102 FERC ¶ 61,143 (2003) ("Order Denying Rehearing"); Order on Remand, 106 FERC ¶ 61,302 (2004) ("March 26 Order on Remand"); and Order on Remand, 111 FERC ¶ 61,355 (2005) ("June 3 Order on Remand").

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**II.**  
**SPONSORSHIP OF TESTIMONY**

3 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

4 A. I am presenting this testimony on behalf of Arkansas Electric Cooperative  
5 Corporation; Hoosier Energy Rural Electric Cooperative, Inc.; Mississippi Delta  
6 Energy Agency and its two members, the Clarksdale Public Utilities Commission  
7 and the Public Service Commission of Yazoo City (collectively referred to as the  
8 “Joint Customer Complainants” or “Complainants”).

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**III.**  
**PURPOSE AND OVERVIEW OF TESTIMONY**

12 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**  
13 **PROCEEDING?**

14 A. My direct testimony presents the results of my analyses of the current cost of  
15 common equity capital for the MISO TOs, based on the FERC guidelines in  
16 Opinion Nos. 531 and 531-A and other relevant precedent. The purpose of my  
17 testimony is two-fold: first, to explain the basis for my determination that the  
18 ROEs currently included in the transmission formula rates of the MISO TOs are  
19 excessive and, therefore, unjust and unreasonable; and, second, to provide a  
20 recommendation for the just and reasonable base ROE that should be used in the  
21 MISO TOs’ formula rates.

22 **Q. PLEASE PROVIDE AN OVERVIEW OF THE REMAINDER OF YOUR**  
23 **TESTIMONY.**

1 A. In Part IV below, I present my evaluation of the justness and reasonableness of  
2 the rate of return on common equity currently included in the wholesale formula  
3 transmission rates of the MISO TOs. I explain in Part IV the basis for my  
4 conclusion that the rates of return on common equity currently included in the  
5 MISO TO formula rates are substantially excessive, and therefore unjust and  
6 unreasonable.

7 In Part V below, I discuss my application of the Commission's recently  
8 adopted two-step DCF methodology for determining the cost of common equity  
9 capital for electric utility companies to financial data for the most recent six-  
10 month period at the time my analyses were conducted (the six months ending  
11 January 31, 2015).

12 In Part VI below, I set forth my recommendation regarding the just and  
13 reasonable base rate of return on common equity for inclusion in the formula  
14 transmission rates of the MISO TOs at issue in this proceeding. I also discuss  
15 whether or how certain case-specific determinations referred to in Opinion No.  
16 531 should have a bearing on the Commission's determination in this case.

17 Finally, in Part VII below, I summarize the conclusions I believe are  
18 supported by the analyses described in the preceding sections of my testimony.

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**IV.**  
**EVALUATION OF THE RATES OF RETURN ON COMMON EQUITY**  
**CURRENTLY INCLUDED IN THE MISO TOS' WHOLESALE**  
**FORMULA TRANSMISSION RATES.**

5 **Q. PLEASE DESCRIBE MISO AND THE MISO TOS.**

6 A. MISO is a Delaware Non-Stock Corporation and RTO that exercises authority  
7 over the operation and control of the transmission facilities that have been  
8 subjected to such authority by the TOs in order to provide open access regional  
9 transmission service. MISO serves as the administrator of its Open Access  
10 Transmission, Energy and Operating Reserve Markets Tariff (“Tariff”) and acts  
11 as the billing agent for the TOs.

12 According to its website, MISO currently has fifty participating TOs.  
13 Those TOs include investor-owned utilities (“IOUs”) as well as not-for-profit  
14 municipal and cooperative and other entities. A list of the MISO TOs and their  
15 S&P and Moody’s long-term credit ratings is included in my workpapers Ex. No.  
16 JCC-3at 175. The TOs’ credit ratings range from BB- to AA by S&P and from  
17 Ba2 to Aa3 by Moody’s.

18 **Q. WHAT BASE ROES ARE CURRENTLY INCLUDED IN THE MISO TOS’**  
19 **FORMULA TRANSMISSION RATES AT ISSUE?**

20 A. The base ROE currently applicable under Attachment O of the MISO Tariff used  
21 by all MISO TOs except American Transmission Company LLC (“ATC”) is  
22 12.38%.<sup>2</sup> That base ROE was determined by the Commission more than a dozen  
23 years ago in 2002, and it became effective for service on and after February 1,

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<sup>2</sup> *Id.*

1 2002. ATC's current base ROE of 12.2% was established as part of a settlement  
2 agreement that was filed with the Commission on March 26, 2004,<sup>3</sup> which  
3 continued the 12.2% ROE that originally became effective on January 1, 2001  
4 pursuant to an August 29, 2001 settlement agreement that was approved by the  
5 Commission on November 7, 2001.<sup>4</sup>

6 **Q. ARE THE 12.38% AND 12.2% ROES DETERMINED OR AGREED TO**  
7 **OVER A DECADE AGO JUST AND REASONABLE FOR USE IN THE**  
8 **MISO TOS' CURRENT FORMULA RATES?**

9 A. No. Those ROEs that were determined more than a decade ago are no longer just  
10 and reasonable for the MISO TOs' use in their formula rates because the  
11 economic environment and capital markets have changed greatly since those  
12 ROEs were determined. Capital costs in general, and capital costs for electric  
13 utilities specifically, have declined significantly over the ensuing years. For  
14 example, for the six-month period ending January 2002 that was used to calculate  
15 the dividend yields in the Commission's approved MISO DCF analysis, the  
16 average Moody's A and Baa Public Utility Bond yields were 7.67% and 8.07%,  
17 respectively, for an average of 7.87%. For the six-month period ending January  
18 2015 used in my DCF analyses, the comparable average bond yields were 4.01%  
19 and 4.66%, respectively, for an average of 4.33%. Thus, public utility long-term  
20 debt costs have dropped by approximately 350 basis points on average, and the

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<sup>3</sup> In Docket No. ER04-108-000, the Commission approved the uncontested Settlement. *Am. Transmission Co. LLC and Midwest Indep. Transmission Sys. Operator, Inc.*, 107 FERC ¶ 61,117 (2004).

<sup>4</sup> See 97 FERC ¶ 61,139 (2001).

1 MISO-wide ROE of 12.38% and ATC ROE of 12.2% are much higher than the  
2 MISO TOs' current cost of common equity capital. As I will discuss in more  
3 detail below, this fact is borne out by my analyses applying the Commission's  
4 favored two-step DCF methodology as explained in its Opinion No. 531.

5 That brings me to another reason the existing 12.38% and 12.2% ROEs  
6 should be reevaluated. In addition to economic and capital cost changes over  
7 time, the Commission has since changed the way it applies the DCF methodology  
8 in determining the ROE for a group of electric utilities. In establishing the current  
9 MISO-wide ROE, the Commission determined that the proxy group to which its  
10 preferred DCF methodology should be applied was a regional group comprising  
11 the MISO TOs with publicly traded common stock or their publicly traded parent  
12 companies.<sup>5</sup> Subsequently, in Opinion No. 531, the Commission found that in  
13 determining the ROE for a group of utilities, it is appropriate to select a nation-  
14 wide proxy group. Additionally, the Commission determined that the two-step  
15 DCF methodology it has long used for natural gas and oil pipelines should also be  
16 used for electric utilities. Thus, the MISO TOs' ROE should be reexamined  
17 based on the Commission's current DCF application methodology.

18 My application of the Commission's preferred two-step DCF methodology  
19 shows that the range of results for a properly selected national proxy group of  
20 electric utilities with risks comparable to those of the MISO TOs is 5.81% to  
21 11.40%. *See* Ex. No. JCC-2. Based on that analysis, I recommend that the 8.67%

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<sup>5</sup> *MISO Initial Decision*, 99 FERC ¶ 63,011 at P 12; summarily affirmed in the *MISO Order on Initial Decision*, 100 FERC ¶ 61,292 at P 12.

1 median of my proxy group ROEs be adopted as the base ROE in the MISO TOs’  
2 formula transmission rates at issue in this proceeding. If the Commission finds on  
3 the basis of the record in this proceeding that conditions warrant awarding the  
4 central tendency of the upper half of the proxy group DCF results, as it did in  
5 Opinion No. 531, the 9.31% true 75<sup>th</sup> percentile value is the appropriate measure  
6 of the central tendency for the upper half of the range.

7 The Commission has already recognized that the MISO TOs’ existing  
8 ROEs that were determined more than a dozen years ago should be reevaluated.  
9 In its “Order on Complaint, Establishing Settlement and Hearing Judge  
10 Procedures, and Establishing Refund Effective Date,” in *Association of*  
11 *Businesses Advocating Tariff Equity, et al. v. Midcontinent Independent System*  
12 *Operator, Inc., et al.*, 148 FERC ¶ 61,049 (2014), issued in October, 2014, the  
13 Commission set the MISO TOs’ ROEs for hearing and settlement judge  
14 procedures. In that proceeding, the complainants provided single-stage DCF and  
15 other analyses supporting a currently just and reasonable ROE of 9.15%. In  
16 setting the 12.38% and 12.2% base ROEs for hearing, the Commission said that,  
17 “the analysis provided in the Complaint constitutes substantial evidence that the  
18 challenged rates may be unjust and unreasonable, as required by section 206 of  
19 the FPA.” While those results are not directly applicable to determining the  
20 appropriate ROE for the MISO TOs in this proceeding, they are a good indication  
21 of how outdated the 12.38% and 12.2% MISO TOs’ ROEs have become and why  
22 they are not just and reasonable for continued use in the MISO TOs’ formula  
23 rates.



1           *Determination of Rate of Return on Common Equity for Public Utilities*, Order  
2           No. 489, the Commission recognized that the best way to meet these standards is  
3           through the use of the DCF method. The Commission stated:

4                         There is compelling economic justification for relying on  
5                         the market cost of capital as the standard for rate of return  
6                         decisions. Furthermore, a market cost of capital approach  
7                         addresses both the comparable earnings and attraction of  
8                         capital standards of the *Hope* decision. In the  
9                         Commission's judgment, the DCF method is the best  
10                        available means of estimating the market cost of capital.

11           FERC Stats. & Regs. ¶ 30,795, at 30,993 (1988). Thus, in its exhaustive ROE  
12           rulemaking docket the Commission recognized that the market-based DCF  
13           methodology was the best means of meeting the comparable earnings and capital  
14           attraction standards of *Hope/Bluefield*, and the Commission has since continued  
15           to rely on the results of the DCF methodology in determining just and reasonable  
16           ROEs for electric utilities.

17   **Q.   HOW DID YOU DERIVE THE COST OF COMMON EQUITY THAT**  
18   **YOU RECOMMEND FOR USE IN THE MISO TOS' TRANSMISSION**  
19   **FORMULA RATES?**

20   A.   In determining a fair rate of return on common equity that would meet the criteria  
21           of comparability of earnings and capital attraction, I followed the guidance  
22           provided by the Commission for determining the allowable ROE to be used in  
23           setting wholesale electric rates. In conducting my analyses, I applied the  
24           Commission's Opinion No. 531 two-step DCF methodology for electric utilities  
25           to a national proxy group of electric utility companies that reflects, as closely as  
26           possible, the risk characteristics associated with the electric transmission service  
27           of the MISO TOs. This is the methodology long used for natural gas and oil

1 pipelines and set forth for future application to electric utilities in the  
2 Commission's Opinion Nos. 531 and 531-A.

3 **Q. PLEASE DESCRIBE THE COMMISSION'S TWO-STEP DCF**  
4 **METHODOLOGY AND YOUR APPLICATION OF THAT**  
5 **METHODOLOGY IN MORE DETAIL.**

6 A. The Commission's preferred two-step, constant growth DCF formula is:

7 
$$k = (D/P) (1 + 0.5g) + g$$

8 The "D/P" term is the dividend yield. Pursuant to Opinion No. 531, the  
9 Commission prefers the use of the latest six-month average dividend yield for  
10 each proxy company. Thus, to gauge the MISO TOs' current cost of common  
11 equity capital, I have used dividend yields for the six months ending January  
12 2015, which were the most recent available at the time my analyses were  
13 prepared. The "g" term is the expected long-term dividend growth rate. In order  
14 to reflect investors' expected long-term dividend growth rate, the Commission in  
15 Opinion Nos. 531 and 531-A expressed its preference for the use of a single,  
16 weighted average of two different growth rates for each proxy company – a  
17 shorter-term growth rate weighted at two-thirds and a longer-term growth rate  
18 weighted at one-third. The shorter-term growth rate is the analysts' consensus  
19 forecasted "five-year" earnings per share growth rate as reported by I/B/E/S  
20 International, Inc. ("IBES")<sup>6</sup> or a comparable analysts' consensus forecasted

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<sup>6</sup> IBES was purchased by Thomson Financial, which later became Thomson Reuters. Such "IBES" growth rates are regularly retrieved from the Thomson Reuters/IBES data base and published on the Yahoo! Finance website; other reputable financial and investment information services also publish comparable analysts' consensus forecasted "five-year" earnings per share growth rates that are also used by investors.

1 growth rate for each proxy company. The longer-term growth rate is based on  
2 forecasts of long-term growth of the economy as a whole, as reflected by the  
3 Gross Domestic Product (“GDP”).<sup>7</sup> The dividend yield is multiplied by  $1 + 0.5g$   
4 to reflect the quarterly payment of dividends. See Opinion No. 531, PP 15, 17, &  
5 39.

6 **Q. DID OPINION NO. 531 DEFINITELY RESOLVE THE GROWTH**  
7 **RATE ISSUE?**

8 A. No. Using the GDP growth rate as the appropriate long-term growth rate was a  
9 new aspect of the two-step DCF method adopted in Opinion No. 531 that was not  
10 advocated by any of the underlying parties. Accordingly, the Commission  
11 directed the parties to establish an evidentiary record on the long-term growth rate  
12 issue through a paper hearing. After considering the evidence, the Commission  
13 followed the proposal concerning the GDP growth rate that it had made in  
14 Opinion No. 531. Opinion No. 531-A was issued on October 16, 2014.

15 **Q. HOW DID YOU SELECT YOUR ELECTRIC UTILITY PROXY GROUP?**

16 A. Applying the guidance provided by the Commission in Opinion No. 531, I  
17 selected a national electric utility proxy group using the following criteria:

18 (1) companies that are included in the Value Line electric utility  
19 industry universe;

20 (2) electric utilities that have an S&P corporate credit rating  
21 (“CCR”) of BBB- to AA+ and a Moody’s long-term issuer or

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<sup>7</sup> Currently, the Commission uses an average of forecasted long-term GDP data from EIA, Social Security Administration, and HIS Global Insight.

1 senior unsecured credit rating of Baa3 to Aa2<sup>8</sup> [These ratings  
2 ranges encompass one credit rating notch above and below the  
3 MISO TOs' S&P rating range of BB- to AA and one notch  
4 above and below the MISO TOs' Moody's rating range of Ba2  
5 to Aa3, but limited to the investment grade ratings scales.  
6 Because the S&P and Moody's ratings diverge for the majority  
7 of the Value Line electric utilities that are rated by both firms,  
8 using both S&P and Moody's ratings for proxy group selection  
9 purposes results in a group that is more truly comparable in  
10 risk to the MISO TOs than using S&P ratings only and  
11 conforms to the Commission's findings in Opinion No. 531.];

12 (3) electric utilities having an IBES published analysts' consensus  
13 "five-year" earnings per share growth rate;

14 (4) electric utilities that are not engaged in major merger or  
15 acquisition ("M&A") activity currently or during the six-month  
16 dividend yield analysis period;

17 (5) electric utilities that paid dividends throughout the six-month  
18 dividend yield analysis period, did not cut dividends during  
19 that period, and have not subsequently announced a dividend  
20 cut; and

21 (6) electric utilities whose DCF results pass threshold tests of  
22 economic logic and are not outliers.

23 For the S&P and Moody's credit ratings screens listed in item 2 above, the  
24 standard Commission criterion which I normally apply, is to restrict proxy  
25 companies to those with ratings within one notch of the subject utility's rating,  
26 resulting in a three-notch credit ratings range. However, because the ROE at  
27 issue will be applicable to a group of utilities, the normal three-notch range is  
28 expanded to encompass electric utilities with ratings within one notch of the  
29 lowest and highest ratings of all MISO TOs, but staying within the investment

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<sup>8</sup> Pursuant to Opinion No. 531, P 107, both the S&P and Moody's ratings are used when both are available, but if a rating is only available from one of the two rating agencies, that single rating is used to apply this criterion.

1 grade ratings spectrum. Using such a wide range of credit ratings encompasses all  
2 forty-six of the companies included in the Value Line electric utility universe  
3 except for MGE Energy, which does not have an S&P or Moody's rating.

4 **Q. WERE ANY OF THE REMAINING FORTY-FIVE VALUE LINE**  
5 **ELECTRIC UTILITIES ELIMINATED FROM THE PROXY GROUP**  
6 **BASED ON OTHER FACTORS?**

7 A. Yes. Nine companies were eliminated from the proxy group due to major M&A  
8 activity during the dividend yield analysis period and/or ongoing major M&A  
9 activity. *See* Ex. No. JCC-3 at 2. Cleco Corporation announced that it would be  
10 acquired by an investor group on October 20, 2015, and that deal is still pending.  
11 On April 30, 2014, Exelon Corporation announced its still pending deal to acquire  
12 Pepco Holdings, Inc. On December 3, 2014, NextEra Energy announced its still  
13 pending deal to acquire Hawaiian Electric Industries. On June 23, 2014,  
14 Wisconsin Energy Corporation announced its still pending deal to acquire  
15 Integrys Energy Group. On September 2, 2014, TECO Energy, Inc. completed its  
16 acquisition of New Mexico Gas Intermediate, Inc. and thereby increased its  
17 regulated electric and gas customers by 50%. Finally, on December 4, 2014, UIL  
18 Holdings ("UIL") terminated its deal that had been announced on March 3, 2013,  
19 to purchase Philadelphia Gas Works. The proposed \$1.86 billion dollar purchase  
20 was a major deal for UIL that was valued at over 36% of its total assets and  
21 adversely affected its stock price. Elimination of these nine companies left a  
22 proxy group of thirty-six electric utilities to which I applied the Commission's  
23 favored two-step constant growth DCF method. *See* Ex. No. JCC-2.

1   **Q.    HOW DID YOU APPLY THE TWO-STEP DCF METHOD TO YOUR**  
2   **PROXY GROUP OF ELECTRIC UTILITIES?**

3    A.    Following the Commission’s guidance in Opinion No. 531, I first developed a  
4    single six-month average dividend yield for each proxy company for the six-  
5    month period ending January 2015.<sup>9</sup> As the Commission directs (*see* Opinion No.  
6    531 at P 39), I then calculated a single average growth rate for each proxy group  
7    company using a “short-term” analysts’ forecasted “five-year” earnings per share  
8    growth rate weighted at two-thirds and a “long-term” forecasted GDP growth rate  
9    with a one-third weighting. For the short-term growth rate, I used the average of  
10   the analysts’ consensus “five-year” earnings per share growth rate projections for  
11   each proxy group company as reported by Yahoo! Finance from the Thomson  
12   Reuters/IBES database on January 30, 2015. The long-term growth rate  
13   incorporated in my analysis is 4.37%. This growth rate is based on forecasted  
14   long-term GDP growth as prescribed by the Commission in Opinion Nos. 531 and  
15   531-A. In Opinion No. 531, the Commission calculated a long-term GDP growth  
16   rate of 4.39%. The calculation of the most recent such growth rate of 4.37% was  
17   presented by Commission Staff witness Douglas M. Green in his recent testimony  
18   in *Entergy Arkansas, Inc., et al.*, Docket No. ER13-1508-001, *et al.*<sup>10</sup> The

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<sup>9</sup> As directed by the Commission, I used the average monthly high and low stock prices combined with the indicated annualized dividend for each month and then averaged the six monthly results to get the six-month average.

<sup>10</sup> *See* Prepared Direct and Answering Testimony of Douglas M. Green, Witness for the Staff of the Federal Energy Regulatory Commission, Exhibit No. S-4 at 31. Oct. 9, 2014, *Entergy Arkansas, Inc., et al.*, Docket No. ER13-1508-001, *et al.*, eLibrary No. 20141009-5166.

1 calculations of the dividend yields and composite average growth rates are shown  
2 in Ex. No. JCC-2.

3 **Q. PLEASE EXPLAIN THE RESULTS OF YOUR APPLICATION OF THE**  
4 **TWO-STEP, CONSTANT GROWTH DCF MODEL TO THE PROXY**  
5 **ELECTRIC UTILITIES.**

6 A. The results are shown on page 1 of Ex. No. JCC-2. The investor-required ROE  
7 results for the thirty-six-member national electric utility proxy group, prior to  
8 applying tests of economic logic and for outliers, are a range of 2.84% to 11.40%,  
9 with a median of 8.61% and a midpoint of 7.12%. *See* Ex. No. JCC-2 at 1: 38-41.

10 **Q. WITH REGARD TO THE RANGE OF INVESTOR-REQUIRED**  
11 **RETURNS YOU CALCULATED FOR THE PROXY GROUP, IS IT**  
12 **CORRECT TO CONCLUDE THAT ANY ROE WITHIN THAT RANGE IS**  
13 **JUST AND REASONABLE FOR APPLICATION TO THE MISO TOS?**

14 A. No. The range merely sets out the highest and lowest DCF results for the  
15 companies that remained in the proxy group after initial application of the  
16 selection criteria. The highest or the lowest level of investor-required returns  
17 among the proxy group companies is not a valid measure of the appropriate cost  
18 of common equity for utilities like the MISO TOs with risk characteristics near or  
19 slightly less than the average for the proxy group.

20 **Q. THEN WHY SPECIFY THE RANGE OF DCF RESULTS IN YOUR**  
21 **TESTIMONY?**

22 A. The range is informative in that it shows the maximum degree of variation in  
23 investor-required returns among the members of the proxy group. It helps  
24 confirm that the proxy group includes a robust group of companies with average

1 risk that is comparable to that of the subject utilities and that it is not a group that  
2 was selectively chosen to produce a particular ROE result.<sup>11</sup> It is not the extreme  
3 ROEs from the proxy group that are representative of the return required by  
4 investors for the average amount of risk represented by the group, but rather the  
5 ROE around which the DCF results cluster. The value that best represents this  
6 clustering of ROEs is the median, which is determined by identifying the ROE  
7 value for which there is an equal number of higher and lower calculated proxy  
8 group ROEs. For these reasons, it would be incorrect to suggest that each and  
9 every particular point within the proxy company ROE range is “just and  
10 reasonable” for current application in the MISO TOs’ transmission formula rates  
11 simply because it happens to fall within the range of the DCF results – including  
12 extreme high and low points – calculated for the proxy group companies.

13 **Q. HAVE YOU VERIFIED THAT THE LOW-END AND HIGH-END ROE**  
14 **RESULTS IN YOUR PROXY GROUP PASS THRESHOLD TESTS OF**  
15 **ECONOMIC LOGIC AND ELIMINATED ANY OUTLIERS AS THE**  
16 **COMMISSION HAS DONE IN OTHER CASES?**

17 A. Yes. In the *SCE Paper Hearing Order*,<sup>12</sup> the Commission found that it is  
18 “reasonable to exclude any company whose low-end ROE fails to exceed the  
19 average bond yield by about 100 basis points or more, taking into account the  
20 extent to which the excluded low-end ROEs are outliers from the low-end ROEs

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<sup>11</sup> Also, the Commission uses the DCF range to constrain the results of any incentive adders that it might allow.

<sup>12</sup> See *S. Cal. Edison Co.*, 131 FERC ¶ 61,020, P55 (2010) (the “*SCE Paper Hearing Order*”).

1 of other proxy group companies.”<sup>13</sup> The Commission reaffirmed this practice in  
2 Opinion No. 531, at PP 122-123. The averages of the Moody’s A and Baa Public  
3 Utility Bond Index yields for the six months ending January 2015 are 4.01% and  
4 4.66%, respectively; thus, adding 100 basis points to these average yields creates  
5 thresholds of 5.01% and 5.66%, respectively, for A and Baa rated companies.  
6 The 2.84% ROE for FirstEnergy Corporation and 4.30% for PPL Corporation are  
7 the lowest two ROEs in the proxy group results and are well below the 5.66% Baa  
8 low-end threshold; therefore, they should be eliminated. The next highest 5.81%  
9 ROE for Entergy Corporation is well above the 5.66% Baa threshold, and it  
10 should be retained in the group.

11 In the *SCE Paper Hearing Order*, the Commission also affirmed its  
12 practice of rejecting companies whose high-end ROEs are illogical, are outliers,  
13 or are calculated with unsustainable growth rates. See 131 FERC ¶ 61,020 at P  
14 57. Of course, capital costs and expected growth rates change over time based on  
15 changes in market and economic conditions; accordingly, what constitutes a  
16 “high-end outlier” or an “unsustainable growth rate” also will change over time.  
17 In Opinion No. 531, P 118, the Commission found that based on the record in that  
18 proceeding, this issue was moot because its adoption of the two-step DCF  
19 methodology reduced the highest proxy company growth rate to 7.66% and the  
20 highest ROE to 11.74%. The Commission noted that “those percentages are well  
21 within any high-end outlier test we have previously applied in utility rate cases

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<sup>13</sup> The Commission has relied on the six-month average bond yields for the period used in determining the DCF dividend yields based on the Moody’s Public Utility Bond Index of the same rating category as the utility whose low-end ROE is being tested.

1 and are within the high-end outlier test advocated by the Complainants on  
2 exceptions.” The Commission also said that “[u]nder the two-step DCF  
3 methodology, it is unnecessary to screen the proxy group for unsustainable  
4 growth rates because the methodology assumes that the long-term growth rate for  
5 each company is equal to GDP.” *Id.* However, that does not mean that it would  
6 be impossible for an aberrant or otherwise illogical or erroneous short-term  
7 growth rate that is given a two-thirds weighting to contribute to an illogical or  
8 outlying ROE. Those high-end tests are still necessary to ensure just and  
9 reasonable results, especially if the Commission uses the absolute highest ROE of  
10 the proxy group in any substantial way in determining the allowed ROE. In this  
11 case, I have not eliminated any high-end DCF results.

12  
13

**VI.**  
**ROE RECOMMENDATION**

14 **Q. WHAT IS YOUR RECOMMENDATION FOR THE ROE TO BE USED IN**  
15 **CALCULATING THE MISO TOS’ FORMULA TRANSMISSION RATES**  
16 **AT ISSUE IN THIS PROCEEDING?**

17 A. As noted above, I calculated a range of investor-required returns for my national  
18 proxy group of electric utilities by applying the Commission’s two-step DCF  
19 methodology to financial data for the six months ending January 31, 2015. The  
20 resulting range of 5.81% to 11.40% brackets investors’ required rates of return for  
21 investing in companies with risk characteristics similar to the MISO TOs. As to a  
22 specific ROE to be used in the MISO TOs’ formula transmission rates at issue in  
23 this proceeding, I recommend using the median of the array of calculated ROEs.

1 That median value, and my recommended base ROE for the MISO TOs, is 8.67%.  
2 See Ex. No. JCC-2 at 1:44. If the 50 basis point adder for RTO participation is  
3 added, my recommendation is then increased to 9.17%.

4 **Q. WHAT WOULD BE THE IMPACT ON THE ANNUAL TRANSMISSION**  
5 **REVENUE REQUIREMENTS OF THE MISO TO RESPONDENTS IF**  
6 **YOUR RECOMMENDED 9.17% ROE – WHICH INCLUDES THE 50**  
7 **BASIS POINT RTO ADDER – WERE APPROVED?**

8 A. The sum of the annual transmission revenue requirements (“ATRR”) of the MISO  
9 TO respondents pursuant to their Attachment O formula rates would be reduced  
10 by approximately \$496.7 million. The estimated impact on the ATRR of each  
11 respondent is shown in Exhibit No. JCC-3 at 307.

12 **Q. DO THE MISO TOS ON AVERAGE HAVE HIGHER RISK THAN THE**  
13 **PROXY GROUP AVERAGE RISK?**

14 A. No. As the credit ratings and Value Line Safety Rankings for the proxy  
15 companies and the MISO TOs shown on Ex. No. JCC-3 at 175-76 demonstrate,  
16 the MISO TOs are of approximately the same or slightly lower risk than the  
17 average for the proxy group. The MISO TOs have average S&P and Moody’s  
18 credit ratings of approximately A- and A3, respectively, while the proxy group  
19 average ratings are approximately BBB+ and Baa1, respectively, indicating  
20 slightly lower risk for the MISO TOs. For the MISO TOs that have a Value Line

1 Safety Rank<sup>14</sup> or have a parent with one, the average Safety Rank is 2.3; the  
2 average for the proxy group is 2.1, indicating about equivalent average risk.

3 **Q. IN OPINION NO. 531, THE COMMISSION SET THE ROE FOR THE**  
4 **ISO-NEW ENGLAND TRANSMISSION OWNERS (“NETOs”) BASED ON**  
5 **THE MIDPOINT OF THE UPPER HALF OF THE ROE RANGE.**  
6 **WOULD THAT BE AN APPROPRIATE APPROACH IN THIS CASE?**

7 A. No. For several reasons, it would not. First, I should clarify that, in Opinion No.  
8 531, the Commission used the point of central tendency in setting the NETOs’  
9 ROE, but it was the point of central tendency of the upper half of the range. In  
10 Opinion No. 531, at P 151, the Commission said:

11 [W]e believe that here in selecting the appropriate return we  
12 likewise should look to the central tendency to identify the  
13 appropriate return but, in light of the record in this proceeding, we  
14 should look to the central tendency for the top half of the zone of  
15 reasonableness.

16 (Footnote omitted.) In the Appendix to Opinion No. 531, the Commission labeled  
17 the 10.57% ROE it adopted as the 75<sup>th</sup> percentile, but it was not the true 75<sup>th</sup>  
18 percentile value. The 75<sup>th</sup> percentile value is that value below which lie 75% of  
19 the observations in the array. The midpoint of the upper half of the range is  
20 simply the average of the midpoint and the top end of the range. The true 75<sup>th</sup>  
21 percentile value is not nearly as affected by the extreme values in the array as is  
22 the midpoint of the upper half, and therefore more accurately represents the  
23 “central tendency for the top half.” Therefore, even if the Commission were to

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<sup>14</sup> The Value Line Safety Rank is a measure of the overall relative risk of a company, and the rankings range from 1, lowest risk, to 5, highest risk.

1 determine that, based on the record in this case, a point in the upper portion of the  
2 DCF array should be selected as the appropriate ROE, that point should be no  
3 higher than the 9.31% true 75<sup>th</sup> percentile value rather than the 10.00% midpoint  
4 of the upper half of the range.

5 Use of the true 75<sup>th</sup> percentile or median rather than the midpoint of the  
6 upper half of the proxy group ROEs is further supported by the fact that the  
7 Commission routinely uses the median of the DCF array of ROEs for the proxy  
8 group as the point of central tendency to set the ROE for natural gas and oil  
9 pipelines. The Commission has provided many good reasons for use of the  
10 median as the most accurate measure of central tendency, not the least of which  
11 are that it better considers all the ROEs within the array than does the midpoint,  
12 and it helps to minimize the impact of the extreme values on the results. Thus, for  
13 this case, the appropriate point of central tendency of the top half of the proxy  
14 group ROEs would be the 75<sup>th</sup> percentile value, which is effectively the median –  
15 not the midpoint – of those ROEs.

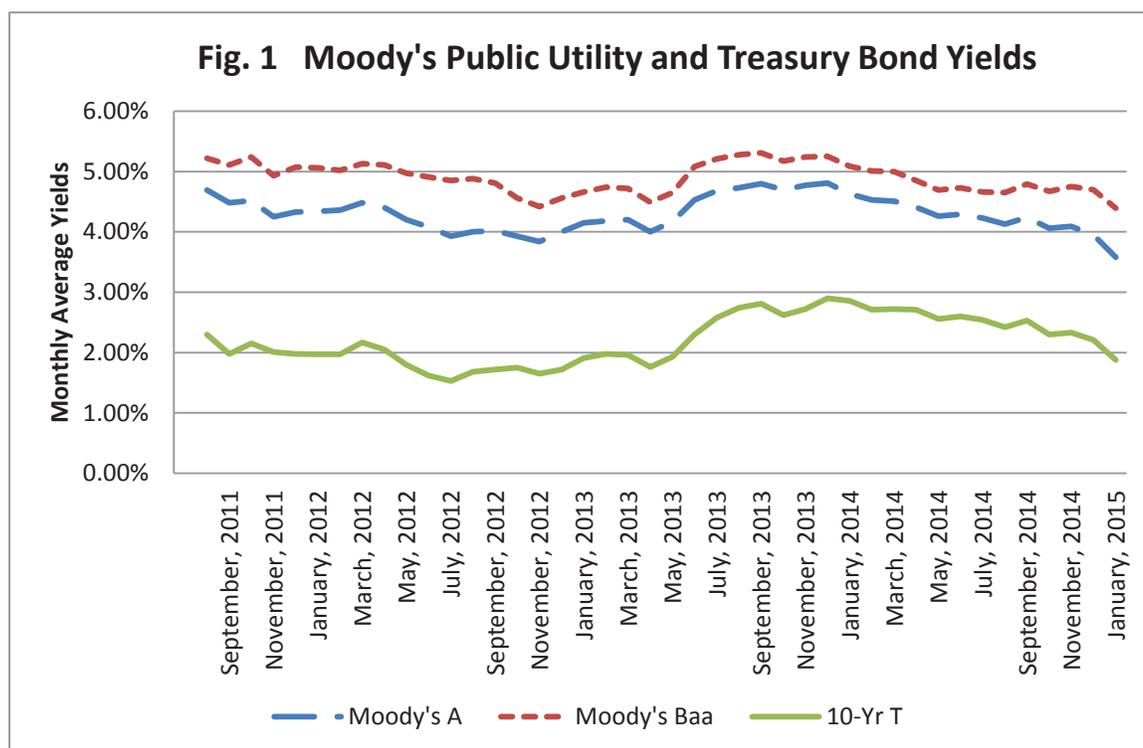
16 Additionally, in deciding to set the NETOs' ROE in the top half of the  
17 range in Opinion No. 531, the Commission noted, at P 145, that it was "concerned  
18 that capital market conditions in the record are anomalous," citing historically low  
19 bond yields and pointing to the fact that the average yield on 10-year U.S.  
20 Treasury bonds during the six-month study period ending March 2013 was below  
21 2%. The Commission said that in those circumstances, it had less confidence that  
22 the central tendency of the DCF results in that case reflected the equity returns  
23 necessary for the NETOs to attract capital. It is important to recognize that bond  
24 yields have subsequently fluctuated up and down since that almost two-year old

1 study period, and current economic conditions are not aberrational. The six-  
2 month average 10-year Treasury bond yield for the period ending January 2015  
3 used in calculating my DCF dividend yields was above 2%, at 2.28%. The  
4 unemployment rate has dropped substantially and now sits below 6.0%; the  
5 economy is expanding; the stock market has been strong; the Federal Reserve has  
6 substantially wound down its quantitative easing initiative; and inflation remains  
7 low and well below the Federal Reserve Open Market Committee's 2.0% target  
8 level. Thus, economic conditions have not been aberrational in this more recent  
9 six-month period and do not warrant an above median ROE for the MISO TOs  
10 currently.

11 Moreover, in Opinion No. 531, P 130, the Commission noted that the  
12 NETOs argued that "once the Federal Reserve's Quantitative Easing program  
13 ends, 'which may be in the very near future, interest rates can be expected to rise  
14 to more normal levels,' and bond levels can be expected to increase." Although  
15 interest rates did increase somewhat during 2013, just the opposite of the NETOs'  
16 prediction occurred during 2014 while the Federal Reserve was winding down its  
17 Quantitative Easing ("QE") program. Even as the Federal Reserve decreased its  
18 QE bond purchases, the 10-year Treasury bond yields declined throughout 2014,  
19 ending the year with a December 2014 average yield of 2.21%. Similarly,  
20 Moody's A Rated Public Utility Bond yields increased from an average of 3.84%  
21 in November 2012 to 4.81% in December 2013, and then proceeded to decline  
22 throughout 2014, reaching an average of 3.95% in December 2014, bringing such  
23 yields back to levels at or below what they were at the end of the DCF analysis  
24 period used in Opinion No. 531.

1 Figure 1 shows Moody's Public Utility and Treasury Bond Yields over the  
2 42-month period from August 2011 through January 2015. The consistency and  
3 persistence of the levels of capital costs over that period demonstrate that current  
4 bond yields cannot be considered aberrational, but rather reflect a new and  
5 consistent normal.

6

7  
8

9 As shown in the chart in Figure 1, during the last 42 months from August  
10 2011 – January 2015, A-rated public utility bond yields have settled into a range  
11 of approximately 3.6% to 4.8% and have averaged 4.30% over that period, which  
12 is very near the 4.01% average yield for my six-month DCF analysis period.  
13 Similarly, during the August 2011 – January 2015 period, Baa-rated utility bond  
14 yields have fluctuated from approximately 4.4% to 5.3% with an average of

1 4.90%, which is also relatively near the 4.66% average yield for my DCF analysis  
2 period. The fluctuations around these average yields over the past three and one-  
3 half years cannot be considered aberrational. Therefore, it is appropriate and  
4 consistent with past Commission precedent to select the median or midpoint DCF  
5 result for my national electric utility proxy group as the current allowable ROE  
6 for the MISO TOs.

7 Moreover, as shown in my workpapers Ex. No. JCC-3 at 246-47, the  
8 monthly average Moody's A and Baa Public Utility Bond yields remained below  
9 3.75% and 4.15%, respectively, for the 16 plus years from March 1940 –  
10 September 1956, so yields that average near 4.01% and 4.66%, respectively,  
11 cannot be said to be unprecedented or aberrational. Once again, there currently is  
12 no justification for setting the ROE for the MISO TOs at a level above the median  
13 or midpoint of the proxy group DCF ROE results.

14 Additionally, consistent with economic theory and the realities displayed  
15 by investor behavior in the stock and bond markets, lower bond yields compared  
16 to those in existence when the MISO TOs' existing 12.38% and 12.2% ROEs  
17 were established are a reflection of lower capital costs, and the DCF method  
18 reflects the reality of such lower capital costs. The growth rates used by the  
19 Commission in its DCF analyses are widely publicized estimates from  
20 independent investment analysts and reflect the expectations of the investors that  
21 rely now, as before, on those estimates in forming their outlooks for the future.  
22 The only other input to the DCF calculations is the dividend yield, which is direct  
23 market evidence of investors' requirements. Thus, the DCF ROEs reflect the  
24 realities of the capital markets and the actual cost of equity capital for electric

1 utilities, and there is no reason in this case to set the allowed ROE at any point  
2 other than the median or midpoint of the entire array of proxy group DCF results.

3 Furthermore, in Opinion No. 531, the Commission adopted the same two-  
4 step DCF methodology it has long used in gas and oil pipeline cases. The  
5 pipelines are faced with the same economic and market conditions as electric  
6 utilities, and the Commission has found no reason to suspect that the central  
7 tendency of the pipeline DCF results may not accurately reflect the pipelines'  
8 equity costs. In pipeline cases, the Commission has continued to use the median  
9 of the proxy group DCF results to set the pipeline's ROE unless there is a clear  
10 showing that the subject pipeline is substantially more or less risky than the proxy  
11 group average. For example, in the Commission's October 2013 Opinion No.  
12 528, *El Paso Natural Gas Company*, 145 FERC ¶ 61,040, P 698 (2013), *reh'g*  
13 *pending*, FERC stated:

14 Finally, any analysis attempting to demonstrate that a deviation  
15 from the median ROE is justified must present a comparison  
16 between the risk level of the subject company and the risk level of  
17 each of the proxy group companies. This is the crux of the  
18 analysis, and if it is lacking, the analysis is incomplete. However,  
19 the record indicates that neither El Paso nor the Presiding Judge  
20 performed this analysis satisfactorily.<sup>15</sup> This critical failing is  
21 sufficient, by itself, to reverse the Presiding Judge's ROE finding.  
22 Accordingly, for all of the above reasons, the Commission reverses  
23 the Presiding Judge's ROE finding and finds that El Paso's ROE  
24 should be set at the median ROE of the proxy group.

25 The Commission has continued to find that participants have a heavy burden in  
26 pipeline cases to show that the subject pipeline's risk substantially deviates from

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<sup>15</sup> See, e.g., Indicated Shippers Brief on Exceptions at 13 (citing ID, 139 FERC ¶ 63,020 at P 50, n.42; Ex. S-40); see also Trial Staff Brief on Exceptions at 53-55.

1 the proxy group average in order to justify a departure from setting the allowed  
2 ROE at the median of the proxy group DCF results and has not found it necessary  
3 to set pipeline ROEs in the upper half of the range under the same economic  
4 conditions faced by electric utilities. This is evidence that the DCF method is  
5 properly working to determine the cost of common equity for utilities and that in a  
6 case such as this, where the average risk for the MISO TOs is near to or less than  
7 the average for the proxy group, the allowed ROE should be no higher than the  
8 DCF median or midpoint for the entire array of results.

9 Further, the Commission referenced state commission-allowed ROEs and  
10 certain other alternative benchmarks in Opinion No. 531 to justify placing the  
11 ROE for the NETOs at the midpoint of the upper half of the range of  
12 reasonableness. However, the facts in this case suggest that no such adjustment is  
13 warranted here. As bond yields have fallen over the last several years, state  
14 commission-allowed ROEs have come down, but with a lag, and it is expected  
15 that such ROEs will fall even further. The latest reports from Regulatory  
16 Research Associates (“RRA”) show that, excluding the Virginia extraordinary  
17 surcharge/rider generation cases,<sup>16</sup> the average state commission-authorized  
18 electric ROE was 10.01% in 2012 and dropped to 9.80% in 2013 and 9.76% in

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<sup>16</sup> The RRA reports specifically note that the reported ROE data includes several surcharge/rider generation cases in Virginia that incorporate plant-specific ROE premiums based on Virginia statutes that authorize the State Corporation Commission to approve ROE premiums of up to 200 basis points for certain generation projects, and therefore, present summary statistics that exclude the ROEs from those cases. It would be especially inappropriate to include reference to those cases in determining the base ROE for transmission services.

1 2014, with a 2014 range of 9.17% to 10.40%; 26 of the 33 cases outside Virginia  
2 resulted in single digit ROEs.<sup>17</sup>

3 Also, the Edison Electric Institute (“EEI”), at page 2 of its Rate Case  
4 Summary, Q4 2013 Financial Update (attached as part of Ex. No. JCC-3 at 277),  
5 reports that in the fourth quarter of 2013, shareholder-owned electric utilities’  
6 average *requested* ROE before state commissions was 10.24%. In other words,  
7 the 10.24% ROE was the average ROE sought from state commissions, and the  
8 expectation (as reflected in the data cited above) is that state commissions will  
9 ultimately allow lower ROEs than requested by the utilities, and after a significant  
10 lag between the filing of a case and the implementation of rates based on the  
11 request. Retail service regulated by the state commissions is more risky than  
12 FERC-regulated formula rate based service such as the transmission service of the  
13 MISO TOs at issue here. Whereas state commission proceedings often result in  
14 regulatory lag that can cause utilities to earn less than their authorized ROEs, the  
15 wholesale formula rates of the MISO TOs provide for timely recovery of their  
16 actual costs of providing service, including recovery of the authorized ROE,  
17 through their Attachment O automatic annual rate changes and actual cost true-up  
18 provisions despite unexpected fluctuations in sales volumes and cost changes.

19 In its Rate Case Summary, Q2 2013 Financial Update at page 2 (Ex. No.  
20 JCC-3 at 268), EEI discusses the state commission regulatory lag issue:

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<sup>17</sup> See RRA *Regulatory Focus, Major Rate Case Decisions – Calendar 2013* (Jan. 15, 2014), Ex. No. JCC-3 at 248; RRA *Regulatory Focus, Major Rate Case Decisions – Calendar 2014* (Jan. 15, 2015), Ex. No. JCC-3 at 257, 261, 262.

1 Average regulatory lag in Q2 was 11.8 months, the highest in two  
2 years and slightly above the roughly 10-month average in recent  
3 years....

4 \* \* \*

5 During times of rapidly rising spending, utilities attempt to recover  
6 costs by filing rate cases. However, rate case decisions are based  
7 primarily on historical costs, and preparing for and administering  
8 a case takes time. If costs continue to rise, rates may already be  
9 outdated by the time the commission decides the case and puts  
10 rates into effect. We define regulatory lag as the time between a  
11 rate case filing and decision because those events are specific and  
12 measureable. We consider this a rough proxy for the time between  
13 when a utility needs recovery and when new rates take effect.

14 Some analysts have argued that regulatory lag is actually longer  
15 when other delays are considered, such as the time needed to  
16 prepare for a case. This suggests an average closer to twice what  
17 our definition measures, or close to two years. However it is  
18 measured, lag obstructs utilities' ability to earn their allowed  
19 return when costs are rising and can ultimately increase their  
20 borrowing costs. Electric utilities often fall short of achieving  
21 their allowed return due to regulatory lag.

22 Thus, if the intent is to use the retail jurisdiction-allowed state ROEs as a check  
23 on the results of the DCF analysis and the allowed ROE, the Commission's  
24 allowed ROEs for formula rates should be lower than those allowed by state  
25 commissions.

26 Finally, other methods for estimating investor-required ROEs have been  
27 shown to be unreliable, and the Commission has in the past rightly placed little or  
28 no weight on them. I believe they are not appropriate for use in determining the  
29 MISO TOs' equity cost of capital in this proceeding. However, to the extent such  
30 non-DCF benchmark analyses may be put forward during the course of the  
31 processing of this case, their usefulness will be evaluated on the record.

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**VII.**  
**CONCLUSIONS**

3 **Q. PLEASE SUMMARIZE THE CONCLUSIONS YOU HAVE REACHED**  
4 **THROUGH THE ANALYSES DESCRIBED ABOVE.**

5 A. My conclusions are as follows:

6 First, the existing 12.38% and 12.2% ROEs are substantially excessive,  
7 and therefore unjust and unreasonable for the MISO TOs at this time. Those  
8 ROEs were negotiated or litigated many years ago when capital costs were much  
9 higher than they are currently, and they are substantially above both the median  
10 and even the top end of the proxy group DCF analysis I performed, and, thus, well  
11 above the MISO TOs' cost of common equity capital. Accordingly, the TOs  
12 should not be allowed to continue using the 12.38% and 12.2% ROEs in their  
13 formula transmission rates.

14 Second, based on the application of the Commission's preferred two-step  
15 DCF methodology to my national electric utility proxy group and using financial  
16 data for the six-month period ending January 31, 2015, the range of calculated  
17 DCF results for the proxy group is 5.81% to 11.40%.

18 Third, because the appropriate measure of central tendency within the  
19 range of DCF results for the proxy group will provide a just and reasonable ROE  
20 for the MISO TOs, the Commission should adopt the median value of the  
21 calculated range, which is 8.67%, as the base ROE to be applied by the MISO  
22 TOs in their formula transmission rates at issue here. However, if the  
23 Commission determines that the midpoint of the DCF range is a more appropriate  
24 point of central tendency when setting the ROE for a group of utilities, then the

1           allowed base ROE should be 8.60%. A higher base ROE cannot be justified by  
2           economic conditions during the DCF study period or by a finding that the MISO  
3           TOs are more risky than the average for the proxy group. Of course, if a 50 basis  
4           point RTO participation incentive is added to these base ROEs, they are increased  
5           to 9.17% and 9.10%, respectively.

6   **Q.    THANK YOU. I HAVE NO FURTHER QUESTIONS AT THIS TIME.**

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

Arkansas Electric Cooperative Corporation  
Mississippi Delta Energy Agency  
Clarksdale Public Utilities Commission  
Public Service Commission of Yazoo City  
Hoosier Energy Rural Electric Cooperative, Inc.

Complainants,

v.

Docket No. EL15-\_\_-000

ALLETE, Inc. (for its operating division Minnesota Power, Inc., and its wholly-owned subsidiary, Superior Water, Light and Power Company)  
Ameren Illinois Company  
Ameren Missouri  
Ameren Transmission Company of Illinois  
American Transmission Company LLC  
Cleco Power LLC  
Duke Energy Business Services, LLC  
d/b/a Duke Energy Indiana  
Entergy Arkansas, Inc.  
Entergy Gulf States Louisiana, LLC  
Entergy Louisiana, LLC  
Entergy Mississippi, Inc.  
Entergy New Orleans, Inc.  
Entergy Texas, Inc.  
Indianapolis Power & Light Company  
International Transmission Company  
d/b/a ITC Transmission  
ITC Midwest LLC  
Michigan Electric Transmission Company, LLC  
MidAmerican Energy Company  
Montana-Dakota Utilities Co.  
Northern Indiana Public Service Company  
Northern States Power Company-Minnesota  
Northern States Power Company-Wisconsin  
Otter Tail Power Company  
Southern Indiana Gas & Electric Company

Respondents.

Association of Businesses Advocating Tariff  
Equity, *et al.*

Complainants,

v.

Midcontinent Independent System Operator, Inc., *et al.*

Respondents.

Docket No. EL14-12-000

(not consolidated)

**AFFIDAVIT  
OF J. BERTRAM SOLOMON**

**February 11, 2015**



# **Appendix A**

**J. BERTRAM SOLOMON  
PRIOR RATEMAKING TESTIMONY  
AND  
OTHER PUBLICATIONS**

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**TESTIMONY**

**FEDERAL ENERGY REGULATORY COMMISSION**

Allegheny Electric Cooperative, Inc., Docket No. EL00-88-000

Allegheny Power, Docket No. ER02-136-004

Alliance Companies, et al., Docket Nos. ER99-3144-000 and EC99-80-000

American Electric Power Service Corporation, Docket No. ER93-540-000

Appalachian Power Company, Docket Nos. ER87-105-002, ER87-106-002, EL89-53-000, ER90-132-000, ER90-133-000, & ER92-323-000

Arizona Public Service Company, Docket Nos. ER81-179 & ER82-481

Arkansas Electric Cooperative Corporation v. Oklahoma Gas and Electric Company, EL14-13-000

Blue Ridge Power Agency, et al., Docket No. EL89-53-000

Boston Edison Company, Docket Nos. ER93-150-000 & EL93-10-000

Carolina Power & Light Company, Docket Nos. ER76-495, ER77-485 & ER80-344

Central Hudson Gas & Electric Corp., et al., Docket Nos. ER97-1523-011, et al.

Central Louisiana Electric Company, Docket No. ER82-704

Central Montana Electric Power Cooperative, Inc. v. Montana Power Co., Docket No. EL99-24-000

Cleveland Electric Illuminating Co. and Toledo Edison Co., Docket Nos. OA96-204-000, et al.

Composition of Proxy Groups for Determining Gas and Oil Pipeline Return on Equity, Docket No. PL07-2-000

Delmarva Power and Light Company, Docket Nos. ER93-96-000 & EL93-11-000

Duke Power Company, Docket Nos. FA83-4-001 & ER89-106-000

East Texas Electric Cooperative, Inc., Docket No. ER94-891

Entergy Services, Inc., Docket No. ER95-112-000, et al.

Florida Power & Light Company, Docket No. ER86-383-001; ER93-465-000, et al.; ER99-2770-000

Florida Power & Light Company, Docket No. ER10-1149-000

Georgia Power Company, Docket Nos. E-9091, E-9521, ER76-587, ER78-166 & ER79-88, ER85-659 & ER85-660

Golden Spread Electric Cooperative, Inc., et al., Docket No. EL05-19-000, et al.

Golden Spread Electric Cooperative, Inc. v. Southwestern Public Service Company, Docket No. EL12-59-000, et al.

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Golden Spread Electric Cooperative, Inc. v. Southwestern Public Service Company, Docket No. EL13-78

Golden Spread Electric Cooperative, Inc., et al. v. Southwestern Public Service Company, Docket No. EL15-8-000

Grand Valley Rural Power Lines, Inc., et al., Docket No. EL12-77

Grand Valley Rural Power Lines, Inc., et al., Docket No. EL13-86-000

Gulf States Utilities Company, Docket Nos. ER84-568-000 & ER85-538-001

Idaho Power Company, Docket No. ER06-787-002

IES Utilities, Inc., Interstate Power Co., Wisconsin Power & Light Co., South Beloit Water, Gas & Electric Co., Heartland Energy Services and Industrial Energy Applications, Inc., Docket Nos. EC96-13-000, ER96-1236-000 and ER96-2560-000

Indiana & Michigan Electric Company, Docket Nos. ER78-379, et al.

ITC Holdings Corp., Entergy Corporation, Midwest Independent Transmission System Operator, Inc., Docket Nos. EC12-145-000, ER12-2681-000, EL12-107-000

Kansas Gas & Electric Company, Docket Nos. ER77-578 & ER82-412

Kentucky Utilities Company, Docket No. ER82-673

Kentucky Utilities Company, Docket No. ER13-2428-000

Louisiana Power & Light Company, Docket Nos. ER77-533, ER81-457 & EL81-13 & FA86-063-001

Maine Yankee Atomic Power Company, Docket No. EL93-22-000

MISO, Docket No. ER05-6, et al.

Midwest Independent Transmission System Operator, Inc., Docket No. ER02-485-000

Montana Power Company, Docket No. ER98-2382

Municipal Electric Utilities Association of New York, Docket No. EL13-16-000

Nantahala Power & Light Company, Docket Nos. ER76-828 & EL78-18

New Dominion Energy Cooperative, Old Dominion Electric Cooperative, Docket Nos. ER05-18-002 and ER05-309-002

New York State Electric & Gas Corporation, Docket No. ER82-803

Niagara Mohawk Power Corporation, Docket No. ER86-354-001

North Carolina Electric Membership Corporation v. Virginia Electric & Power Company, Docket No. EL90-26-000

North Carolina Electric Membership Corporation vs. Carolina Power & Light Company, Docket No. EL91-28-000

Oglethorpe Power Corporation, Docket No. EL85-40

Ohio Edison Company, et al., Docket Nos. ER97-412-000 and ER97-413-000

Old Dominion Electric Cooperative, Inc., Docket No. ER07-1134-000

Pennsylvania Power & Light, Inc., Docket No. ER00-1014-000

PJM Interconnection, L.L.C., Docket No. EL05-121

PJM Interconnection, LLC, Docket No. ER01-1201-000

PJM Interconnection, L.L.C., Duke Energy Ohio, Inc., and Duke Energy Kentucky, Inc., Docket Nos. ER12-91-008 and ER12-92-008

PJM Interconnection, L.L.C., et al., Docket No. ER15-303

Portland Natural Gas Transmission System, Docket No. RP02-13-000

Potomac Edison Company, Docket No. ER95-39-000

PSI Energy, Inc., Docket No. ER00-188-000

Public Service Company of Colorado, Docket No. ER12-1589

Public Service Company of Colorado, Docket Nos. ER12-1589 and EL12-77

Public Service Company of Indiana, Docket No. ER76-149

Public Service Company of New Mexico, Docket No. ER11-1915

Public Service Electric & Gas Company, et al., Docket Nos. EC99-79-000 and ER99-3151-000

Seminole Electric Cooperative, Inc. and Florida Municipal Power Agency v. Florida Power Corporation, Docket No. EL12-39-000

Seminole Electric Cooperative, Inc. and Florida Municipal Power Agency v. Duke Energy Florida, Inc., Docket No. EL13-63-000

Seminole Electric Cooperative, Inc. and Florida Municipal Power Agency v. Duke Energy Florida, Docket No. EL14-90-000

Southern California Edison Company, Docket No. ER10-160-000

Southern California Edison Company, Docket No. ER09-1534

Southern Company Services, Inc., Docket Nos. ER98-1096-000, et al.

Southwestern Public Service Company, Docket No. ER06-274-003

Virginia Electric & Power Company, Docket No. ER84-355-000

Virginia Electric & Power Co., Docket No. ER08-92-000

Western Resources, Inc., Docket Nos. ER95-1515 and ER96-459-000

#### **ALASKA REGULATORY COMMISSION**

In the Matter of the Tariff Revision, Designated as TA226-8, filed by Chugach Electric Association, Inc. for a Rate Increase and Rate Design, Docket No. U-01-108

#### **ARKANSAS PUBLIC SERVICE COMMISSION**

Arkansas Electric Cooperative Corporation, Docket Nos. 93-132-U & 93-134-P

In the Matter of the Application of Entergy Arkansas, Inc. for Approval of Changes in Rates for Retail Electric Service, Docket No. 96-360-U

In the Matter of the Motion of the General Staff of the Arkansas Public Service Commission to Establish a Docket to Determine the Reasonableness of the Rates of Southwestern Electric Power Company, Docket No. 98-339-U

In the Matter of the Unbundling of the Rates of Arkansas Electric Cooperative Corporation, Docket No. 99-251-U

In the Matter of an Application of Entergy Arkansas, Inc, MidSouth Transco LLC, ITC Midsouth LLC, and ITC Holdings Corp. to Enter Transactions Resulting in a Certificate of Public Convenience and Necessity for a New Arkansas Utility to Own EAI's Electric Transmission Facilities, Docket No. 12-069-U

### **FLORIDA PUBLIC SERVICE COMMISSION**

Tampa Electric Company, Docket No. 850050-EI

### **GEORGIA PUBLIC SERVICE COMMISSION**

Georgia Power Company, Docket Nos. 3840-U, 4133-U and 4136-U

### **IN THE CIRCUIT COURT OF THE ELEVENTH JUDICIAL DISTRICT McLEAN COUNTY, ILLINOIS**

Corn Belt Energy Corp. vs. Illinois Power Co., Case No. 2001 L 195

### **PUBLIC SERVICE COMMISSION OF INDIANA**

(Now Indiana Utility Regulatory Commission)

Public Service Company of Indiana, Cause No. 37414

### **STATE CORPORATION COMMISSION OF THE STATE OF KANSAS**

Kansas Electric Power Cooperative, Inc., Docket No. 01-KEPE-1106-RTS

In the Matter of the Application of Mid-Kansas Electric Company, LLC for Approval to Make Certain Changes in its Charges for Electric Service, Docket No. 09-MKEE-969-RTS

In the Matter of the Application of Mid-Kansas Electric Company, LLC for Approval to Adopt and Implement a Formula-Based Rate for Recovery of Transmission Costs and to Amend its Open Access Transmission Tariff, Docket No. 12-MKEE-650-TAR

### **KENTUCKY PUBLIC SERVICE COMMISSION**

Big Rivers Electric Corporation, Case Nos. 6499, 9006 & 9163

Fern Lake Company, Case Nos. 6971, 7292, 7982 & 8276

Jackson Purchase Electric Cooperative Corporation, Case No. 6992

### **MISSISSIPPI PUBLIC SERVICE COMMISSION**

Entergy Mississippi, Inc. EC123-0082-00, Transmission Company Mississippi, LLC, Mid South Transco LLC, ITC Midsouth LLC, ITC Holdings Corp., In Re: Joint Application For The Transfer Of Ownership And Control Of Entergy Mississippi Inc.'s Transmission Facilities And Assets Together With Related Certificates, Franchises And Other Property Rights To Transmission Company Mississippi, LLC And Approval Of Subsequent Transfers Of Ownership And Control, Docket 2012-UA-358

**MAINE PUBLIC UTILITIES COMMISSION**

Maine Public Service Company, Docket Nos. 84-80 & 84-113

**MICHIGAN PUBLIC SERVICE COMMISSION**

Detroit Edison Company, Case No. U-7660

**PUBLIC UTILITIES COMMISSION OF MINNESOTA**

Northern States Power Company, E-002/GR-91-1 & OAH 7-2500-5291-2

**NEVADA PUBLIC UTILITIES COMMISSION**

Sierra Pacific Power Company, PUCN 01-11030

**NEW JERSEY BOARD OF PUBLIC UTILITIES**

Jersey Central Power & Light Company, ER 89110912J, EM 91010067 & OAL 1804-91

**NORTH CAROLINA UTILITIES COMMISSION**

Duke Power Company, Docket No. E-7, SUB 487

Nantahala Power & Light Company, Docket Nos. E-13 SUB 29 Remand, E-13 SUB 35, & E-13 Sub 44

North Carolina Electric Membership Corporation, Docket No. E-100 SUB 58

North Carolina Natural Gas Corporation, Docket Nos. G-21, SUB 306 and G-21, SUB 307

Piedmont Natural Gas Company, Inc., Docket Nos. G-9, SUB 300, Remand; G-9, SUB 306, Remand; G-9, SUB 308, Remand

In The Matter Of Dominion North Carolina Power Investigation Of Existing Rates And Charges, Docket No. E-22, SUB 412

CP&L Energy, Inc. and Florida Progress Corp., Docket No. E-2, SUB 760

**PUBLIC UTILITY COMMISSION OF OHIO**

FirstEnergy Corporation, et al., Case Nos. 99-1212-EL-ETP, 99-1213-EL-ATA, and 99-1214-EL-AAM

In The Matter Of The Application Of The Cincinnati Gas & Electric Company For Approval Of Its Transition Plan And For Authorization To Collect Transition Revenues, et al., Case Nos. 99-1658-EL-ETP, 99-1659-EL-ATA, 99-1660-EL-ATA, 99-1661-EL-AAM, 99-1662-EL-AAM, and 99-1663-EL-UNC

Columbus Southern Power Co., et al., Case Nos. 99-1729-EL-ETP and 99-1730-EL-ETP

In The Matter Of The Application Of The Dayton Power & Light Company For Approval Of Their Transition Plan Pursuant To Section 4928.31, Revised Code And For Opportunity To Receive Transition Revenues As Authorized Under Sections

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4928.31 To 4928.40, Revised Code; Case Nos. 99-1687-EL-ETP and 99-1688-EL-AAM

In the Matter of the Continuation of the Rate Freeze and Extension of the Market Development Period for the Monongahela Power Company, Case No. 04-880-EL-UNC

In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Recover Costs Associated with the Construction and Ultimate Operation of an Integrated Gasification Combined Cycle Electric Generating Facility, Case No. 05-376-EL-UNC

**CORPORATION COMMISSION OF THE STATE OF OKLAHOMA**

Application Of Ernest G. Johnson, Director Of The Public Utility Division, Oklahoma Corporation Commission To Review The Rates, Charges, Services, And Service Terms Of Oklahoma Gas And Electric Company And All Affiliated Companies And Any Affiliate Or Nonaffiliate Transaction Relevant To Such Inquiry, Cause No. PUD 200100455

In The Matter Of The Application Of Oklahoma Gas And Electric Company For An Order Of The Commission Authorizing Applicant To Modify Its Rates, Charges, And Tariffs For Retail Electric Service In Oklahoma, Cause No. PUD 200500151

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Electric Company, Docket Nos. R-842771, R-860413, M-870172C003 & R-880979

**PUBLIC UTILITIES COMMISSION OF THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

Narragansett Electric Company, Docket No. 2019

**PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**

In the Matter of South Carolina Electric And Gas Company's Annual Review of Base Rates for Fuel Costs, Docket No. 2005-2-E

**PUBLIC UTILITY COMMISSION OF TEXAS**

Gulf States Utilities Company, Docket Nos. 4510, 5108, 5560 & 5820

Lower Colorado River Authority, Docket Nos. 8032, 8400 & 9427

Sam Rayburn G&T, Inc., Docket Nos. 5657, 6440, 6797, 7991 & 8595

Southwestern Electric Service Company, Docket Nos. 5044 & 6610

Texas Electric Service Company, et. al., Docket No. 4224

Texas Electric Service Company, Docket No. 5200

Texas Power & Light Company, Docket Nos. 1517, 1517 (On Remand), 3006, 3780 & 4321

Texas Utilities Electric Company, Docket No. 5640, 11735, 15195

Tex-La Electric Cooperative of Texas, Inc., Docket No. 7279

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Tex-La Electric Cooperative of Texas, Inc., Sam Rayburn G&T Electric Cooperative, Inc., and Northeast Texas Electric Cooperative, Inc., Docket No. 13100

Application of TXU Electric Company for Financing Order to Securitize Regulatory Assets and Other Qualified Costs, Docket No. 21527

Application of TXU Electric Company for Approval of Unbundled Cost of Service Rate Pursuant to PURA § 39.201 and Public Utility Commission Substantive Rule § 25.344, PUC Docket No. 22350

Generic Issues Associated with Applications for Approval of Unbundled Cost of Service Rate Pursuant to PURA § 39.201 and Public Utility Commission Substantive Rule § 25.344, PUC Docket No. 22344

Application of Central Power & Light Company for Approval of Unbundled Cost of Service Rates Pursuant to PURA § 39.201 and PUC Substantive Rule § 25.344, PUC Docket No. 22352

Application of West Texas Utilities Company for Approval of Unbundled Cost of Service Rates Pursuant to PURA § 39.201 and PUC Substantive Rule § 25.344, PUC Docket No. 22354

Application Of LCRA Transmission Services Corporation To Change Rates, SOAH Docket No. 473-04-1662, PUC Docket No. 28906

Application of CenterPoint Energy Houston Electric LLC, For a Competition Transition Charge (CTC), PUC Docket No. 30706

Complaint of Kenneth D. Williams Against Houston Lighting & Power Co., Docket No. 12065

Commission Staff's Petition For Selection Of Entities Responsible For Transmission Improvements Necessary To Deliver Renewable Energy From Competitive Renewable Energy Zones, PUC Docket No. 35665

Application of CenterPoint Energy Houston Electric, LLC For Authority to Change Rates, PUC Docket No. 38339

**RAILROAD COMMISSION OF TEXAS**

CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas to Rates in the Houston Division, GUD Docket No. 9902

**VIRGINIA STATE CORPORATION COMMISSION**

Appalachian Power Company, Case No. PUE900026

Old Dominion Power Company, Case Nos. 20106, PUE800028, PUE810074, PUE830035 & PUE830069

Application of Virginia Electric and Power Company for Approval of Alternative Regulatory Plan, Case No. PUE960296

## **DEPOSITIONS**

### **IN THE CIRCUIT COURT OF THE ELEVENTH JUDICIAL DISTRICT McLEAN COUNTY, ILLINOIS**

Corn Belt Energy Corp. vs. Illinois Power Co., Case No. 2001 L 195, July 9, 2003

### **PUBLIC UTILITY COMMISSION OF TEXAS**

Application of CenterPoint Energy Houston Electric LLC, For a Competition Transition Charge (CTC), PUC Docket No. 30706, March 16, 2005

Application of CenterPoint Energy Houston Electric, LLC For Authority to Change Rates, PUC Docket No. 38339, September 24, 2010.

## **EXPERT REPORTS**

Corn Belt Energy Corporation v. Illinois Power Co., Report Of Findings And Conclusions Regarding Illinois Power Company Network Transmission Service And Power Supply Cost Damages Suffered By Corn Belt, May 2, 2003

Old Dominion Electric Cooperative v. Ragnar Benson, Inc., Expert Report Of J. Bertram Solomon On Review Of Expert Report Of William J. Kemp, Civil Action No. 05-CV-34

## **PRESENTATIONS**

Future Power Supply: Contracts vs. Ownership, National Rural Electric Association Power Supply Conference, November 2002

# **Exhibit No. JCC-2**

**Solomon National Electric Utility Proxy Group DCF Analysis Using FERC Opinion No. 531 Two-Step Methodology**  
**Value Line Electric's with S&P CCR of BBB- to AA+ and Moody's Long-Term Issuer or Senior Unsecured Rating of Baa3 to Aa2**  
**Using Data for the Six Months Ending January 2015**

Line No.	Company (a)	Ticker (b)	Standard & Poor's Corporate Credit Rating (c)	Moody's Long Term Issuer or Sr Unsecured Rating (d)	Value Line Safety Rank (e)	Six Month Dividend Yld (f)	IBES Analysts' Proj EPS g (g)	Long-term GDP Growth Rate (h)	Composite Growth Rate (i)	Adjusted Dividend Yield (j)	DCF ROE Ke (k)	Price to Book Value (l)
1	ALLETE	ALE	BBB+	A3	2	3.87%	6.00%	4.37%	5.46%	3.98%	9.44%	1.47
2	Alliant Energy	LNT	A-	A3	2	3.33%	4.90%	4.37%	4.72%	3.41%	8.13%	2.02
3	Amer. Elec. Power	AEP	BBB	Baa1	2	3.65%	5.05%	4.37%	4.82%	3.73%	8.56%	1.65
4	Ameren Corp.	AEE	BBB+	Baa2	2	3.86%	8.90%	4.37%	7.39%	4.01%	11.40%	1.51
5	Avista Corp.	AVA	BBB	Baa1	2	3.77%	5.00%	4.37%	4.79%	3.86%	8.65%	1.41
6	Black Hills Corp.	BKH	BBB	Baa1	3	2.99%	7.00%	4.37%	6.12%	3.08%	9.20%	1.70
7	CenterPoint Energy	CNP	A-	Baa1	2	4.02%	3.49%	4.37%	3.78%	4.10%	7.88%	2.28
8	CMS Energy	CMS	BBB+	Baa2	2	3.35%	6.64%	4.37%	5.88%	3.45%	9.33%	2.42
9	Consol. Edison	ED	A-	A3	1	4.10%	2.36%	4.37%	3.03%	4.16%	7.19%	1.43
10	Dominion Resources	D	A-	Baa2	2	3.34%	6.52%	4.37%	5.80%	3.44%	9.24%	3.52
11	DTE Energy	DTE	BBB+	A3	2	3.38%	6.17%	4.37%	5.57%	3.47%	9.04%	1.75
12	Duke Energy	DUK	BBB+	A3	2	4.03%	4.79%	4.37%	4.65%	4.12%	8.77%	1.36
13	Edison Int'l	EIX	BBB+	A3	2	2.38%	3.53%	4.37%	3.81%	2.43%	6.24%	1.84
14	EI Paso Electric	EE	BBB	Baa1	2	2.93%	7.00%	4.37%	6.12%	3.01%	9.14%	1.56
15	Empire Dist. Elect.	EDE	BBB	Baa1	2	3.76%	3.00%	4.37%	3.46%	3.83%	7.29%	1.53
16	Entergy Corp.	ETR	BBB	Baa3	3	4.09%	0.34%	4.37%	1.68%	4.13%	5.81%	1.46
17	FirstEnergy Corp.	FE	BBB-	Baa3	3	4.01%	-3.90%	4.37%	-1.14%	3.98%	2.84%	1.16
18	G't Plains Energy	GXP	BBB+	Baa2	3	3.56%	4.60%	4.37%	4.52%	3.65%	8.17%	1.14
19	IDACORP, Inc.	IDA	BBB	Baa1	2	2.98%	4.00%	4.37%	4.12%	3.04%	7.17%	1.57
20	ITC Holdings	ITC	A-	Baa2	2	1.66%	11.26%	4.37%	8.96%	1.74%	10.70%	3.63
21	Northeast Utilities	NU	A-	Baa1	2	3.23%	5.88%	4.37%	5.38%	3.31%	8.69%	1.56
22	NorthWestern Corp.	NWE	BBB	A3	3	3.12%	7.05%	4.37%	6.16%	3.22%	9.37%	1.62
23	OGE Energy Corp.	OGE	A-	A3	1	2.71%	6.15%	4.37%	5.56%	2.78%	8.34%	2.20
24	Otter Tail Corp.	OTTR	BBB	Baa2	3	4.13%	6.00%	4.37%	5.46%	4.24%	9.70%	1.89
25	PG&E Corp.	PCG	BBB	Baa1	3	3.70%	8.79%	4.37%	7.32%	3.83%	11.15%	1.49
26	Pinnacle West	PNW	A-	Baa1	1	3.82%	4.20%	4.37%	4.26%	3.90%	8.16%	1.55
27	PNM Resources, Inc.	PNM	BBB	Baa3	3	2.67%	9.86%	4.37%	8.03%	2.78%	10.81%	1.29
28	Portland General	POR	BBB	A3	2	3.14%	7.97%	4.37%	6.77%	3.25%	10.02%	1.47
29	PPL Corp.	PPL	BBB	Baa3	3	4.31%	-2.20%	4.37%	-0.01%	4.31%	4.30%	1.68
30	Public Serv. Enterprise	PEG	BBB+	Baa2	1	3.76%	2.68%	4.37%	3.24%	3.82%	7.07%	1.65
31	SCANA Corp.	SCG	BBB+	Baa3	2	3.84%	5.35%	4.37%	5.02%	3.93%	8.96%	1.57
32	Sempra Energy	SRE	BBB+	Baa1	2	2.46%	7.63%	4.37%	6.54%	2.54%	9.08%	2.30
33	Southern Co.	SO	A	Baa1	2	4.52%	3.34%	4.37%	3.68%	4.60%	8.28%	2.13
34	Vectren Corp.	VVC	A-	NR	2	3.44%	4.50%	4.37%	4.46%	3.52%	7.98%	2.24
35	Westar Energy	WR	BBB+	Baa1	2	3.69%	3.37%	4.37%	3.70%	3.76%	7.47%	1.59
36	Xcel Energy	XEL	A-	A3	2	3.61%	4.46%	4.37%	4.43%	3.69%	8.12%	1.66
37	Average					3.48%	5.05%	4.37%	4.82%	3.56%	8.38%	1.79
38	Low - 36 Companies										2.84%	
39	High - 36 Companies										11.40%	
40	Median										8.61%	
41	Midpoint										7.12%	
<u>After Adjustment To Remove FE and PPL</u>												
42	Low - 34 Companies										5.81%	
43	High - 34 Companies										11.40%	
44	Median										8.67%	
45	Midpoint										8.60%	
46	Midpoint of the Top Half of the Array										10.00%	
47	True 75th Percentile Value										9.31%	

## Notes:

(f) - Avg. of the monthly low and high dividend yields for the 6 months ending January 31, 2015. (pp. 2-7)

(g) - Thomson Financial/IBES reported consensus of analysts' projected "5-year" earnings per share growth rate from Yahoo! Finance as of January 30, 2015.

(h) - Average long-term GDP growth rate.

(i) - Composite avg. growth rate with IBES and GDP growth rates weighted 2/3 and 1/3, respectively.

(j) - Dividend yield times (1 + 0.5g), where g = composite average growth rate.

(k) - ROE equals the adjusted dividend yield plus the composite average growth rate.

(l) - Price to book values calculated using August 2014 - January 2015 average market price and Value Line reported year end 2014 book values. (p. 8)

Moody's Public Utility Bond Index Yields

<u>Aug 2014 - Jan 2015</u>	<u>Threshold</u>
A Bond Avg Yield:	4.01% 5.01%
Baa Bond Avg Yield:	4.66% 5.66%
Average	4.34% 5.34%

## SIX MONTH AVERAGE DIVIDEND YIELD

	Price			Div	Dividend Yield		
	High	Low	Avg		Low	High	Avg
<b>ALLETE</b>							
Jan-15	\$ 59.73	\$ 54.30	\$ 57.02	\$ 1.960	3.28%	3.61%	3.44%
Dec-14	\$ 57.97	\$ 50.49	\$ 54.23	\$ 1.960	3.38%	3.88%	3.61%
Nov-14	\$ 53.26	\$ 49.56	\$ 51.41	\$ 1.960	3.68%	3.95%	3.81%
Oct-14	\$ 52.68	\$ 44.19	\$ 48.44	\$ 1.960	3.72%	4.44%	4.05%
Sep-14	\$ 48.82	\$ 44.39	\$ 46.61	\$ 1.960	4.01%	4.42%	4.21%
Aug-14	\$ 48.80	\$ 46.14	\$ 47.47	\$ 1.960	4.02%	4.25%	4.13%
Average	\$ 53.54	\$ 48.18	\$ 50.86		<b>3.68%</b>	<b>4.09%</b>	<b>3.87%</b>
<b>Alliant Energy</b>							
Jan-15	\$ 70.80	\$ 65.30	\$ 68.05	\$ 2.040	2.88%	3.12%	3.00%
Dec-14	\$ 69.78	\$ 61.94	\$ 65.86	\$ 2.040	2.92%	3.29%	3.10%
Nov-14	\$ 63.73	\$ 61.35	\$ 62.54	\$ 2.040	3.20%	3.33%	3.26%
Oct-14	\$ 62.30	\$ 55.38	\$ 58.84	\$ 2.040	3.27%	3.68%	3.47%
Sep-14	\$ 59.36	\$ 54.69	\$ 57.03	\$ 2.040	3.44%	3.73%	3.58%
Aug-14	\$ 58.51	\$ 55.04	\$ 56.78	\$ 2.040	3.49%	3.71%	3.59%
Average	\$ 64.08	\$ 58.95	\$ 61.52		<b>3.20%</b>	<b>3.48%</b>	<b>3.33%</b>
<b>Amer. Elec. Power</b>							
Jan-15	\$ 65.38	\$ 59.97	\$ 62.68	\$ 2.120	3.24%	3.54%	3.38%
Dec-14	\$ 63.22	\$ 56.97	\$ 60.10	\$ 2.120	3.35%	3.72%	3.53%
Nov-14	\$ 59.84	\$ 55.90	\$ 57.87	\$ 2.120	3.54%	3.79%	3.66%
Oct-14	\$ 58.61	\$ 51.97	\$ 55.29	\$ 2.000	3.41%	3.85%	3.62%
Sep-14	\$ 53.88	\$ 51.58	\$ 52.73	\$ 2.000	3.71%	3.88%	3.79%
Aug-14	\$ 53.71	\$ 49.06	\$ 51.39	\$ 2.000	3.72%	4.08%	3.89%
Average	\$ 59.11	\$ 54.24	\$ 56.67		<b>3.50%</b>	<b>3.81%</b>	<b>3.65%</b>
<b>Ameren Corp.</b>							
Jan-15	\$ 46.81	\$ 44.64	\$ 45.73	\$ 1.640	3.50%	3.67%	3.59%
Dec-14	\$ 48.14	\$ 42.15	\$ 45.15	\$ 1.640	3.41%	3.89%	3.63%
Nov-14	\$ 44.22	\$ 41.89	\$ 43.06	\$ 1.600	3.62%	3.82%	3.72%
Oct-14	\$ 42.71	\$ 38.25	\$ 40.48	\$ 1.600	3.75%	4.18%	3.95%
Sep-14	\$ 40.31	\$ 37.53	\$ 38.92	\$ 1.600	3.97%	4.26%	4.11%
Aug-14	\$ 39.99	\$ 36.65	\$ 38.32	\$ 1.600	4.00%	4.37%	4.18%
Average	\$ 43.70	\$ 40.19	\$ 41.94		<b>3.71%</b>	<b>4.03%</b>	<b>3.86%</b>
<b>Avista Corp.</b>							
Jan-15	\$ 38.34	\$ 34.91	\$ 36.63	\$ 1.272	3.32%	3.64%	3.47%
Dec-14	\$ 37.37	\$ 33.20	\$ 35.29	\$ 1.272	3.40%	3.83%	3.60%
Nov-14	\$ 35.98	\$ 33.19	\$ 34.59	\$ 1.272	3.54%	3.83%	3.68%
Oct-14	\$ 35.96	\$ 30.55	\$ 33.26	\$ 1.272	3.54%	4.16%	3.82%
Sep-14	\$ 32.88	\$ 30.45	\$ 31.67	\$ 1.272	3.87%	4.18%	4.02%
Aug-14	\$ 32.47	\$ 30.35	\$ 31.41	\$ 1.272	3.92%	4.19%	4.05%
Average	\$ 35.50	\$ 32.11	\$ 33.80		<b>3.60%</b>	<b>3.97%</b>	<b>3.77%</b>
<b>Black Hills Corp.</b>							
Jan-15	\$ 53.37	\$ 49.21	\$ 51.29	\$ 1.560	2.92%	3.17%	3.04%
Dec-14	\$ 55.59	\$ 49.82	\$ 52.71	\$ 1.560	2.81%	3.13%	2.96%
Nov-14	\$ 57.17	\$ 53.57	\$ 55.37	\$ 1.560	2.73%	2.91%	2.82%
Oct-14	\$ 55.11	\$ 47.11	\$ 51.11	\$ 1.560	2.83%	3.31%	3.05%
Sep-14	\$ 54.05	\$ 47.87	\$ 50.96	\$ 1.560	2.89%	3.26%	3.06%
Aug-14	\$ 53.89	\$ 50.39	\$ 52.14	\$ 1.560	2.89%	3.10%	2.99%
Average	\$ 54.86	\$ 49.66	\$ 52.26		<b>2.84%</b>	<b>3.15%</b>	<b>2.99%</b>

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Jan-15	\$	23.66	\$	22.21	\$	22.94	\$	0.952	4.02%	4.29%	4.15%
Dec-14	\$	24.38	\$	21.41	\$	22.90	\$	0.952	3.90%	4.45%	4.16%
Nov-14	\$	25.56	\$	23.85	\$	24.71	\$	0.952	3.72%	3.99%	3.85%
Oct-14	\$	24.84	\$	21.07	\$	22.96	\$	0.952	3.83%	4.52%	4.15%
Sep-14	\$	25.09	\$	23.73	\$	24.41	\$	0.952	3.79%	4.01%	3.90%
Aug-14	\$	24.91	\$	23.47	\$	24.19	\$	0.952	3.82%	4.06%	3.94%
Average	\$	24.74	\$	22.62	\$	<b>23.68</b>			<b>3.85%</b>	<b>4.22%</b>	<b>4.02%</b>

**CMS Energy**

Jan-15	\$	38.66	\$	34.65	\$	36.66	\$	1.080	2.79%	3.12%	2.95%
Dec-14	\$	36.87	\$	32.79	\$	34.83	\$	1.080	2.93%	3.29%	3.10%
Nov-14	\$	33.46	\$	32.05	\$	32.76	\$	1.080	3.23%	3.37%	3.30%
Oct-14	\$	32.91	\$	29.59	\$	31.25	\$	1.080	3.28%	3.65%	3.46%
Sep-14	\$	30.83	\$	29.15	\$	29.99	\$	1.080	3.50%	3.70%	3.60%
Aug-14	\$	30.54	\$	27.90	\$	29.22	\$	1.080	3.54%	3.87%	3.70%
Average	\$	33.88	\$	31.02	\$	<b>32.45</b>			<b>3.21%</b>	<b>3.50%</b>	<b>3.35%</b>

**Consol. Edison**

Jan-15	\$	72.25	\$	65.36	\$	68.81	\$	2.520	3.49%	3.86%	3.66%
Dec-14	\$	68.92	\$	62.62	\$	65.77	\$	2.520	3.66%	4.02%	3.83%
Nov-14	\$	64.73	\$	61.45	\$	63.09	\$	2.520	3.89%	4.10%	3.99%
Oct-14	\$	64.00	\$	56.40	\$	60.20	\$	2.520	3.94%	4.47%	4.19%
Sep-14	\$	58.12	\$	55.80	\$	56.96	\$	2.520	4.34%	4.52%	4.42%
Aug-14	\$	57.90	\$	54.58	\$	56.24	\$	2.520	4.35%	4.62%	4.48%
Average	\$	64.32	\$	59.37	\$	<b>61.84</b>			<b>3.94%</b>	<b>4.26%</b>	<b>4.10%</b>

**Dominion Resources**

Jan-15	\$	79.89	\$	75.33	\$	77.61	\$	2.400	3.00%	3.19%	3.09%
Dec-14	\$	80.89	\$	71.34	\$	76.12	\$	2.400	2.97%	3.36%	3.15%
Nov-14	\$	74.59	\$	71.34	\$	72.97	\$	2.400	3.22%	3.36%	3.29%
Oct-14	\$	72.24	\$	65.53	\$	68.89	\$	2.400	3.32%	3.66%	3.48%
Sep-14	\$	71.33	\$	67.29	\$	69.31	\$	2.400	3.36%	3.57%	3.46%
Aug-14	\$	70.38	\$	64.71	\$	67.55	\$	2.400	3.41%	3.71%	3.55%
Average	\$	74.89	\$	69.26	\$	<b>72.07</b>			<b>3.21%</b>	<b>3.48%</b>	<b>3.34%</b>

**DTE Energy**

Jan-15	\$	92.27	\$	85.69	\$	88.98	\$	2.760	2.99%	3.22%	3.10%
Dec-14	\$	90.77	\$	80.71	\$	85.74	\$	2.760	3.04%	3.42%	3.22%
Nov-14	\$	84.42	\$	79.54	\$	81.98	\$	2.760	3.27%	3.47%	3.37%
Oct-14	\$	82.33	\$	75.76	\$	79.05	\$	2.760	3.35%	3.64%	3.49%
Sep-14	\$	78.89	\$	74.62	\$	76.76	\$	2.760	3.50%	3.70%	3.60%
Aug-14	\$	78.26	\$	71.60	\$	74.93	\$	2.620	3.35%	3.66%	3.50%
Average	\$	84.49	\$	77.99	\$	<b>81.24</b>			<b>3.25%</b>	<b>3.52%</b>	<b>3.38%</b>

**Duke Energy**

Jan-15	\$	89.97	\$	82.61	\$	86.29	\$	3.180	3.53%	3.85%	3.69%
Dec-14	\$	87.29	\$	80.16	\$	83.73	\$	3.180	3.64%	3.97%	3.80%
Nov-14	\$	83.90	\$	78.51	\$	81.21	\$	3.180	3.79%	4.05%	3.92%
Oct-14	\$	82.68	\$	74.33	\$	78.51	\$	3.180	3.85%	4.28%	4.05%
Sep-14	\$	75.21	\$	72.95	\$	74.08	\$	3.180	4.23%	4.36%	4.29%
Aug-14	\$	74.00	\$	69.48	\$	71.74	\$	3.180	4.30%	4.58%	4.43%
Average	\$	82.18	\$	76.34	\$	<b>79.26</b>			<b>3.89%</b>	<b>4.18%</b>	<b>4.03%</b>

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## Edison Int'l

Jan-15	\$	69.59	\$	64.78	\$	67.19	\$	1.668	2.40%	2.57%	2.48%
Dec-14	\$	68.74	\$	62.78	\$	65.76	\$	1.420	2.07%	2.26%	2.16%
Nov-14	\$	63.66	\$	61.39	\$	62.53	\$	1.420	2.23%	2.31%	2.27%
Oct-14	\$	62.90	\$	55.88	\$	59.39	\$	1.420	2.26%	2.54%	2.39%
Sep-14	\$	59.54	\$	54.12	\$	56.83	\$	1.420	2.38%	2.62%	2.50%
Aug-14	\$	59.18	\$	54.32	\$	56.75	\$	1.420	2.40%	2.61%	2.50%
Average	\$	63.94	\$	58.88	\$	61.41			<b>2.29%</b>	<b>2.49%</b>	<b>2.38%</b>

## El Paso Electric

Jan-15	\$	41.32	\$	38.69	\$	40.01	\$	1.120	2.71%	2.89%	2.80%
Dec-14	\$	42.17	\$	36.77	\$	39.47	\$	1.120	2.66%	3.05%	2.84%
Nov-14	\$	39.63	\$	37.37	\$	38.50	\$	1.120	2.83%	3.00%	2.91%
Oct-14	\$	38.26	\$	35.34	\$	36.80	\$	1.120	2.93%	3.17%	3.04%
Sep-14	\$	39.41	\$	36.05	\$	37.73	\$	1.120	2.84%	3.11%	2.97%
Aug-14	\$	39.42	\$	35.39	\$	37.41	\$	1.120	2.84%	3.16%	2.99%
Average	\$	40.04	\$	36.60	\$	38.32			<b>2.80%</b>	<b>3.06%</b>	<b>2.93%</b>

## Empire Dist. Elect.

Jan-15	\$	31.49	\$	29.16	\$	30.33	\$	1.040	3.30%	3.57%	3.43%
Dec-14	\$	31.20	\$	27.40	\$	29.30	\$	1.040	3.33%	3.80%	3.55%
Nov-14	\$	28.87	\$	27.52	\$	28.20	\$	1.020	3.53%	3.71%	3.62%
Oct-14	\$	29.24	\$	24.09	\$	26.67	\$	1.020	3.49%	4.23%	3.83%
Sep-14	\$	25.95	\$	24.00	\$	24.98	\$	1.020	3.93%	4.25%	4.08%
Aug-14	\$	26.00	\$	24.02	\$	25.01	\$	1.020	3.92%	4.25%	4.08%
Average	\$	28.79	\$	26.03	\$	27.41			<b>3.59%</b>	<b>3.97%</b>	<b>3.76%</b>

## Entergy Corp.

Jan-15	\$	90.33	\$	85.17	\$	87.75	\$	3.320	3.68%	3.90%	3.78%
Dec-14	\$	92.02	\$	82.18	\$	87.10	\$	3.320	3.61%	4.04%	3.81%
Nov-14	\$	84.44	\$	80.04	\$	82.24	\$	3.320	3.93%	4.15%	4.04%
Oct-14	\$	84.58	\$	76.51	\$	80.55	\$	3.320	3.93%	4.34%	4.12%
Sep-14	\$	78.37	\$	75.29	\$	76.83	\$	3.320	4.24%	4.41%	4.32%
Aug-14	\$	77.45	\$	70.70	\$	74.08	\$	3.320	4.29%	4.70%	4.48%
Average	\$	84.53	\$	78.32	\$	81.42			<b>3.94%</b>	<b>4.26%</b>	<b>4.09%</b>

## FirstEnergy Corp.

Jan-15	\$	41.68	\$	37.93	\$	39.81	\$	1.440	3.45%	3.80%	3.62%
Dec-14	\$	40.84	\$	36.47	\$	38.66	\$	1.440	3.53%	3.95%	3.73%
Nov-14	\$	37.72	\$	35.69	\$	36.71	\$	1.440	3.82%	4.03%	3.92%
Oct-14	\$	37.64	\$	33.04	\$	35.34	\$	1.440	3.83%	4.36%	4.07%
Sep-14	\$	34.95	\$	33.35	\$	34.15	\$	1.440	4.12%	4.32%	4.22%
Aug-14	\$	34.25	\$	29.98	\$	32.12	\$	1.440	4.20%	4.80%	4.48%
Average	\$	37.85	\$	34.41	\$	36.13			<b>3.82%</b>	<b>4.21%</b>	<b>4.01%</b>

## G't Plains Energy

Jan-15	\$	30.25	\$	27.43	\$	28.84	\$	0.980	3.24%	3.57%	3.40%
Dec-14	\$	29.46	\$	25.94	\$	27.70	\$	0.980	3.33%	3.78%	3.54%
Nov-14	\$	27.38	\$	25.63	\$	26.51	\$	0.920	3.36%	3.59%	3.47%
Oct-14	\$	27.00	\$	24.11	\$	25.56	\$	0.920	3.41%	3.82%	3.60%
Sep-14	\$	25.80	\$	23.91	\$	24.86	\$	0.920	3.57%	3.85%	3.70%
Aug-14	\$	25.91	\$	24.09	\$	25.00	\$	0.920	3.55%	3.82%	3.68%
Average	\$	27.63	\$	25.19	\$	26.41			<b>3.41%</b>	<b>3.74%</b>	<b>3.56%</b>

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## IDACORP, Inc.

Jan-15	\$	70.48	\$	65.04	\$	67.76	\$	1.880	2.67%	2.89%	2.77%
Dec-14	\$	70.05	\$	61.35	\$	65.70	\$	1.880	2.68%	3.06%	2.86%
Nov-14	\$	63.52	\$	60.55	\$	62.04	\$	1.880	2.96%	3.10%	3.03%
Oct-14	\$	64.12	\$	53.39	\$	58.76	\$	1.720	2.68%	3.22%	2.93%
Sep-14	\$	56.97	\$	53.20	\$	55.09	\$	1.720	3.02%	3.23%	3.12%
Aug-14	\$	56.80	\$	51.70	\$	54.25	\$	1.720	3.03%	3.33%	3.17%
Average	\$	63.66	\$	57.54	\$	<b>60.60</b>			<b>2.84%</b>	<b>3.14%</b>	<b>2.98%</b>

## ITC Holdings

Jan-15	\$	44.00	\$	39.94	\$	41.97	\$	0.652	1.48%	1.63%	1.55%
Dec-14	\$	42.01	\$	37.38	\$	39.70	\$	0.652	1.55%	1.74%	1.64%
Nov-14	\$	40.67	\$	37.71	\$	39.19	\$	0.652	1.60%	1.73%	1.66%
Oct-14	\$	39.94	\$	34.05	\$	37.00	\$	0.652	1.63%	1.91%	1.76%
Sep-14	\$	38.14	\$	35.14	\$	36.64	\$	0.652	1.71%	1.86%	1.78%
Aug-14	\$	37.71	\$	34.60	\$	36.16	\$	0.572	1.52%	1.65%	1.58%
Average	\$	40.41	\$	36.47	\$	<b>38.44</b>			<b>1.58%</b>	<b>1.75%</b>	<b>1.66%</b>

## Northeast Utilities

Jan-15	\$	56.83	\$	52.93	\$	54.88	\$	1.572	2.77%	2.97%	2.86%
Dec-14	\$	56.66	\$	49.93	\$	53.30	\$	1.572	2.77%	3.15%	2.95%
Nov-14	\$	50.92	\$	48.65	\$	49.79	\$	1.572	3.09%	3.23%	3.16%
Oct-14	\$	49.98	\$	44.37	\$	47.18	\$	1.572	3.15%	3.54%	3.33%
Sep-14	\$	46.57	\$	43.88	\$	45.23	\$	1.572	3.38%	3.58%	3.48%
Aug-14	\$	45.90	\$	41.92	\$	43.91	\$	1.572	3.42%	3.75%	3.58%
Average	\$	51.14	\$	46.95	\$	<b>49.05</b>			<b>3.10%</b>	<b>3.37%</b>	<b>3.23%</b>

## NorthWestern Corp.

Jan-15	\$	59.71	\$	55.26	\$	57.49	\$	1.600	2.68%	2.90%	2.78%
Dec-14	\$	58.70	\$	52.02	\$	55.36	\$	1.600	2.73%	3.08%	2.89%
Nov-14	\$	54.42	\$	51.40	\$	52.91	\$	1.600	2.94%	3.11%	3.02%
Oct-14	\$	53.45	\$	45.14	\$	49.30	\$	1.600	2.99%	3.54%	3.25%
Sep-14	\$	49.55	\$	45.12	\$	47.34	\$	1.600	3.23%	3.55%	3.38%
Aug-14	\$	48.76	\$	45.24	\$	47.00	\$	1.600	3.28%	3.54%	3.40%
Average	\$	54.10	\$	49.03	\$	<b>51.56</b>			<b>2.97%</b>	<b>3.29%</b>	<b>3.12%</b>

## OGE Energy Corp.

Jan-15	\$	36.48	\$	33.44	\$	34.96	\$	1.000	2.74%	2.99%	2.86%
Dec-14	\$	36.70	\$	32.85	\$	34.78	\$	1.000	2.72%	3.04%	2.88%
Nov-14	\$	37.90	\$	35.64	\$	36.77	\$	1.000	2.64%	2.81%	2.72%
Oct-14	\$	37.56	\$	33.06	\$	35.31	\$	1.000	2.66%	3.02%	2.83%
Sep-14	\$	37.76	\$	35.15	\$	36.46	\$	0.900	2.38%	2.56%	2.47%
Aug-14	\$	37.60	\$	34.88	\$	36.24	\$	0.900	2.39%	2.58%	2.48%
Average	\$	37.33	\$	34.17	\$	<b>35.75</b>			<b>2.59%</b>	<b>2.83%</b>	<b>2.71%</b>

## Otter Tail Corp.

Jan-15	\$	32.16	\$	30.60	\$	31.38	\$	1.212	3.77%	3.96%	3.86%
Dec-14	\$	32.72	\$	28.40	\$	30.56	\$	1.212	3.70%	4.27%	3.97%
Nov-14	\$	31.40	\$	28.66	\$	30.03	\$	1.212	3.86%	4.23%	4.04%
Oct-14	\$	31.20	\$	26.53	\$	28.87	\$	1.212	3.88%	4.57%	4.20%
Sep-14	\$	28.70	\$	26.67	\$	27.69	\$	1.212	4.22%	4.54%	4.38%
Aug-14	\$	28.91	\$	27.16	\$	28.04	\$	1.212	4.19%	4.46%	4.32%
Average	\$	30.85	\$	28.00	\$	<b>29.43</b>			<b>3.94%</b>	<b>4.34%</b>	<b>4.13%</b>

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Jan-15	\$	60.21	\$	53.06	\$	56.64	\$	1.820	3.02%	3.43%	3.21%
Dec-14	\$	55.24	\$	49.79	\$	52.52	\$	1.820	3.29%	3.66%	3.47%
Nov-14	\$	51.46	\$	48.92	\$	50.19	\$	1.820	3.54%	3.72%	3.63%
Oct-14	\$	50.36	\$	44.17	\$	47.27	\$	1.820	3.61%	4.12%	3.85%
Sep-14	\$	48.24	\$	43.76	\$	46.00	\$	1.820	3.77%	4.16%	3.96%
Aug-14	\$	46.48	\$	42.92	\$	44.70	\$	1.820	3.92%	4.24%	4.07%
Average	\$	52.00	\$	47.10	\$	49.55			<b>3.53%</b>	<b>3.89%</b>	<b>3.70%</b>

**Pinnacle West**

Jan-15	\$	73.31	\$	67.69	\$	70.50	\$	2.380	3.25%	3.52%	3.38%
Dec-14	\$	71.11	\$	62.60	\$	66.86	\$	2.380	3.35%	3.80%	3.56%
Nov-14	\$	63.50	\$	60.61	\$	62.06	\$	2.380	3.75%	3.93%	3.84%
Oct-14	\$	61.56	\$	54.59	\$	58.08	\$	2.272	3.69%	4.16%	3.91%
Sep-14	\$	57.74	\$	54.13	\$	55.94	\$	2.272	3.93%	4.20%	4.06%
Aug-14	\$	56.97	\$	52.13	\$	54.55	\$	2.272	3.99%	4.36%	4.16%
Average	\$	64.03	\$	58.63	\$	61.33			<b>3.66%</b>	<b>3.99%</b>	<b>3.82%</b>

**PNM Resources, Inc.**

Jan-15	\$	31.18	\$	29.30	\$	30.24	\$	0.740	2.37%	2.53%	2.45%
Dec-14	\$	31.60	\$	27.41	\$	29.51	\$	0.740	2.34%	2.70%	2.51%
Nov-14	\$	29.62	\$	28.19	\$	28.91	\$	0.740	2.50%	2.63%	2.56%
Oct-14	\$	29.33	\$	24.81	\$	27.07	\$	0.740	2.52%	2.98%	2.73%
Sep-14	\$	26.97	\$	24.76	\$	25.87	\$	0.740	2.74%	2.99%	2.86%
Aug-14	\$	26.25	\$	24.26	\$	25.26	\$	0.740	2.82%	3.05%	2.93%
Average	\$	29.16	\$	26.46	\$	27.81			<b>2.55%</b>	<b>2.81%</b>	<b>2.67%</b>

**Portland General**

Jan-15	\$	41.04	\$	37.82	\$	39.43	\$	1.120	2.73%	2.96%	2.84%
Dec-14	\$	40.31	\$	36.51	\$	38.41	\$	1.120	2.78%	3.07%	2.92%
Nov-14	\$	37.29	\$	35.50	\$	36.40	\$	1.120	3.00%	3.15%	3.08%
Oct-14	\$	36.86	\$	32.07	\$	34.47	\$	1.120	3.04%	3.49%	3.25%
Sep-14	\$	34.55	\$	31.70	\$	33.13	\$	1.120	3.24%	3.53%	3.38%
Aug-14	\$	34.47	\$	31.41	\$	32.94	\$	1.120	3.25%	3.57%	3.40%
Average	\$	37.42	\$	34.17	\$	35.79			<b>3.01%</b>	<b>3.30%</b>	<b>3.14%</b>

**PPL Corp.**

Jan-15	\$	36.58	\$	34.70	\$	35.64	\$	1.492	4.08%	4.30%	4.19%
Dec-14	\$	38.14	\$	34.11	\$	36.13	\$	1.492	3.91%	4.37%	4.13%
Nov-14	\$	36.81	\$	34.78	\$	35.80	\$	1.492	4.05%	4.29%	4.17%
Oct-14	\$	35.02	\$	32.09	\$	33.56	\$	1.492	4.26%	4.65%	4.45%
Sep-14	\$	34.72	\$	32.41	\$	33.57	\$	1.492	4.30%	4.60%	4.45%
Aug-14	\$	34.64	\$	31.79	\$	33.22	\$	1.492	4.31%	4.69%	4.49%
Average	\$	35.99	\$	33.31	\$	34.65			<b>4.15%</b>	<b>4.48%</b>	<b>4.31%</b>

**Public Serv. Enterprise**

Jan-15	\$	44.45	\$	40.64	\$	42.55	\$	1.480	3.33%	3.64%	3.48%
Dec-14	\$	43.77	\$	40.31	\$	42.04	\$	1.480	3.38%	3.67%	3.52%
Nov-14	\$	42.06	\$	39.04	\$	40.55	\$	1.480	3.52%	3.79%	3.65%
Oct-14	\$	41.63	\$	36.37	\$	39.00	\$	1.480	3.56%	4.07%	3.79%
Sep-14	\$	38.32	\$	36.04	\$	37.18	\$	1.480	3.86%	4.11%	3.98%
Aug-14	\$	37.41	\$	34.05	\$	35.73	\$	1.480	3.96%	4.35%	4.14%
Average	\$	41.27	\$	37.74	\$	39.51			<b>3.60%</b>	<b>3.94%</b>	<b>3.76%</b>

Appendix 2  
Page 101 of 102Arkansas Elec. Coop. Corp., et al. v. ALLETE, Inc., et al.  
FERC Docket No. EL15-\_\_\_-000Exhibit No. JCC-2  
Page 7 of 8**SCANA Corp.**

Jan-15	\$ 65.57	\$ 59.94	\$ 62.76	\$ 2.100	3.20%	3.50%	3.35%
Dec-14	\$ 63.41	\$ 56.02	\$ 59.72	\$ 2.100	3.31%	3.75%	3.52%
Nov-14	\$ 57.39	\$ 54.83	\$ 56.11	\$ 2.100	3.66%	3.83%	3.74%
Oct-14	\$ 55.25	\$ 47.77	\$ 51.51	\$ 2.100	3.80%	4.40%	4.08%
Sep-14	\$ 52.23	\$ 48.81	\$ 50.52	\$ 2.100	4.02%	4.30%	4.16%
Aug-14	\$ 51.94	\$ 48.53	\$ 50.24	\$ 2.100	4.04%	4.33%	4.18%
Average	\$ 57.63	\$ 52.65	\$ 55.14		<b>3.67%</b>	<b>4.02%</b>	<b>3.84%</b>

**Sempra Energy**

Jan-15	\$ 116.21	\$ 108.92	\$ 112.57	\$ 2.640	2.27%	2.42%	2.35%
Dec-14	\$ 116.30	\$ 104.75	\$ 110.53	\$ 2.640	2.27%	2.52%	2.39%
Nov-14	\$ 114.50	\$ 108.22	\$ 111.36	\$ 2.640	2.31%	2.44%	2.37%
Oct-14	\$ 111.36	\$ 98.34	\$ 104.85	\$ 2.640	2.37%	2.68%	2.52%
Sep-14	\$ 107.81	\$ 102.34	\$ 105.08	\$ 2.640	2.45%	2.58%	2.51%
Aug-14	\$ 106.09	\$ 96.13	\$ 101.11	\$ 2.640	2.49%	2.75%	2.61%
Average	\$ 112.05	\$ 103.12	\$ 107.58		<b>2.36%</b>	<b>2.57%</b>	<b>2.46%</b>

**Southern Co.**

Jan-15	\$ 53.16	\$ 48.84	\$ 51.00	\$ 2.100	3.95%	4.30%	4.12%
Dec-14	\$ 51.28	\$ 47.07	\$ 49.18	\$ 2.100	4.10%	4.46%	4.27%
Nov-14	\$ 47.97	\$ 46.30	\$ 47.14	\$ 2.100	4.38%	4.54%	4.46%
Oct-14	\$ 47.69	\$ 43.55	\$ 45.62	\$ 2.100	4.40%	4.82%	4.60%
Sep-14	\$ 44.82	\$ 43.04	\$ 43.93	\$ 2.100	4.69%	4.88%	4.78%
Aug-14	\$ 44.40	\$ 41.87	\$ 43.14	\$ 2.100	4.73%	5.02%	4.87%
Average	\$ 48.22	\$ 45.11	\$ 46.67		<b>4.37%</b>	<b>4.67%</b>	<b>4.52%</b>

**Vectren Corp.**

Jan-15	\$ 49.47	\$ 45.38	\$ 47.43	\$ 1.520	3.07%	3.35%	3.21%
Dec-14	\$ 48.28	\$ 42.96	\$ 45.62	\$ 1.520	3.15%	3.54%	3.33%
Nov-14	\$ 45.96	\$ 43.50	\$ 44.73	\$ 1.520	3.31%	3.49%	3.40%
Oct-14	\$ 45.28	\$ 39.67	\$ 42.48	\$ 1.440	3.18%	3.63%	3.39%
Sep-14	\$ 41.89	\$ 39.09	\$ 40.49	\$ 1.440	3.44%	3.68%	3.56%
Aug-14	\$ 41.25	\$ 35.11	\$ 38.18	\$ 1.440	3.49%	4.10%	3.77%
Average	\$ 45.36	\$ 40.95	\$ 43.15		<b>3.27%</b>	<b>3.63%</b>	<b>3.44%</b>

**Westar Energy**

Jan-15	\$ 44.03	\$ 40.33	\$ 42.18	\$ 1.400	3.18%	3.47%	3.32%
Dec-14	\$ 43.15	\$ 38.52	\$ 40.84	\$ 1.400	3.24%	3.63%	3.43%
Nov-14	\$ 39.62	\$ 37.24	\$ 38.43	\$ 1.400	3.53%	3.76%	3.64%
Oct-14	\$ 37.91	\$ 33.73	\$ 35.82	\$ 1.400	3.69%	4.15%	3.91%
Sep-14	\$ 37.07	\$ 33.76	\$ 35.42	\$ 1.400	3.78%	4.15%	3.95%
Aug-14	\$ 37.09	\$ 34.53	\$ 35.81	\$ 1.400	3.77%	4.05%	3.91%
Average	\$ 39.81	\$ 36.35	\$ 38.08		<b>3.53%</b>	<b>3.87%</b>	<b>3.69%</b>

**Xcel Energy**

Jan-15	\$ 38.35	\$ 35.60	\$ 36.98	\$ 1.200	3.13%	3.37%	3.25%
Dec-14	\$ 37.58	\$ 33.49	\$ 35.54	\$ 1.200	3.19%	3.58%	3.38%
Nov-14	\$ 34.10	\$ 32.95	\$ 33.53	\$ 1.200	3.52%	3.64%	3.58%
Oct-14	\$ 33.76	\$ 30.18	\$ 31.97	\$ 1.200	3.55%	3.98%	3.75%
Sep-14	\$ 32.48	\$ 30.12	\$ 31.30	\$ 1.200	3.69%	3.98%	3.83%
Aug-14	\$ 32.06	\$ 29.60	\$ 30.83	\$ 1.200	3.74%	4.05%	3.89%
Average	\$ 34.72	\$ 31.99	\$ 33.36		<b>3.47%</b>	<b>3.77%</b>	<b>3.61%</b>

Source: Yahoo! Finance

Arkansas Elec. Coop. Corp., et al. v. ALLETE, Inc., et al.  
FERC Docket No. EL15-\_\_\_\_-000Exhibit No. JCC-2  
Page 8 of 8**Market Price to Book Values**

Line	Company	Ticker	Aug 2014		M/B
			to Jan 2015	2014 Yr End	
			Avg Price	Book Value	
1	ALLETE	ALE	50.86	34.70	1.47
2	Alliant Energy	LNT	61.52	30.50	2.02
3	Amer. Elec. Power	AEP	56.67	34.45	1.65
4	Ameren Corp.	AEE	41.94	27.70	1.51
5	Avista Corp.	AVA	33.80	23.90	1.41
6	Black Hills Corp.	BKH	52.26	30.70	1.70
7	CenterPoint Energy	CNP	23.68	10.40	2.28
8	CMS Energy	CMS	32.45	13.40	2.42
9	Consol. Edison	ED	61.84	43.25	1.43
10	Dominion Resources	D	72.07	20.45	3.52
11	DTE Energy	DTE	81.24	46.50	1.75
12	Duke Energy	DUK	79.26	58.30	1.36
13	Edison Int'l	EIX	61.41	33.35	1.84
14	El Paso Electric	EE	38.32	24.50	1.56
15	Empire Dist. Elect.	EDE	27.41	17.95	1.53
16	Entergy Corp.	ETR	81.42	55.85	1.46
17	FirstEnergy Corp.	FE	36.13	31.05	1.16
18	G't Plains Energy	GXP	26.41	23.15	1.14
19	IDACORP, Inc.	IDA	60.60	38.60	1.57
20	ITC Holdings	ITC	38.44	10.60	3.63
21	Northeast Utilities	NU	49.05	31.35	1.56
22	NorthWestern Corp.	NWE	51.56	31.75	1.62
23	OGE Energy Corp.	OGE	35.75	16.25	2.20
24	Otter Tail Corp.	OTTR	29.43	15.55	1.89
25	PG&E Corp.	PCG	49.55	33.25	1.49
26	Pinnacle West	PNW	61.33	39.45	1.55
27	PNM Resources, Inc.	PNM	27.81	21.50	1.29
28	Portland General	POR	35.79	24.30	1.47
29	PPL Corp.	PPL	34.65	20.65	1.68
30	Public Serv. Enterprise	PEG	39.51	23.95	1.65
31	SCANA Corp.	SCG	55.14	35.05	1.57
32	Sempra Energy	SRE	107.58	46.80	2.30
33	Southern Co.	SO	46.67	21.95	2.13
34	Vectren Corp.	VVC	43.15	19.30	2.24
35	Westar Energy	WR	38.08	24.00	1.59
36	Xcel Energy	XEL	33.36	20.05	1.66

Source: August 2014 to January 2015 Average price from Yahoo! Finance.  
2014 Year End Book Value from Value Line reports dated  
November 21 and December 19, 2014 and January 30, 2015.

**Appendix 3 – June 18, 2015 FERC Order on Second Complaint Against MISO TO  
ROE (Docket No. EL15-45-000)**

151 FERC ¶ 61,219  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Norman C. Bay, Chairman;  
Philip D. Moeller, Cheryl A. LaFleur,  
and Tony Clark.

Arkansas Electric Cooperative Corporation  
Mississippi Delta Energy Agency  
Clarksdale Public Utilities Commission  
Public Service Commission of Yazoo City  
Hoosier Energy Rural Electric Cooperative, Inc.

Docket No. EL15-45-000

v.

ALLETE, Inc.  
Ameren Illinois Company  
Ameren Missouri  
Ameren Transmission Company of Illinois  
American Transmission Company LLC  
Cleco Power LLC  
Duke Energy Business Services, LLC  
Entergy Arkansas, Inc.  
Entergy Gulf States Louisiana, LLC  
Entergy Louisiana, LLC  
Entergy Mississippi, Inc.  
Entergy New Orleans, Inc.  
Entergy Texas, Inc.  
Indianapolis Power & Light Company  
International Transmission Company  
ITC Midwest LLC  
Michigan Electric Transmission Company, LLC  
MidAmerican Energy Company  
Montana-Dakota Utilities Co.  
Northern Indiana Public Service Company  
Northern States Power Company-Minnesota  
Northern States Power Company-Wisconsin  
Otter Tail Power Company  
Southern Indiana Gas & Electric Company

## ORDER ON COMPLAINT AND ESTABLISHING HEARING PROCEDURES

(Issued June 18, 2015)

1. On February 12, 2015, pursuant to sections 206 and 306 of the Federal Power Act (FPA)<sup>1</sup> and Rules 206 and 212 of the Commission's Rules of Practice and Procedure,<sup>2</sup> Complainants<sup>3</sup> filed a complaint (Complaint) against certain of Midcontinent Independent System Operator, Inc.'s (MISO) transmission-owning members (MISO TOs).<sup>4</sup> Complainants contend that the current 12.38 percent base return on equity (ROE) earned by MISO TOs, except American Transmission Company (ATC), which has a base ROE of 12.2 percent, through the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff (Tariff) is unjust and unreasonable. Complainants contend that the ROE should be set at no higher than 8.67 percent (a reduction of 371 basis points). In this order, we establish hearing procedures and set a refund effective date of February 12, 2015.

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<sup>1</sup> 16 U.S.C. §§ 824e, 825e (2012).

<sup>2</sup> 18 C.F.R. §§ 385.206 and 385.212 (2014).

<sup>3</sup> Complainants for this filing consist of: Arkansas Electric Cooperative Corporation (Arkansas Electric Cooperative); Mississippi Delta Energy Agency and its two members, Clarksdale Public Utilities Commission of the City of Clarksdale, Mississippi and Public Service Commission of Yazoo City of the City of Yazoo City, Mississippi; and Hoosier Energy Rural Electric Cooperative, Inc. (Hoosier Cooperative).

<sup>4</sup> MISO TOs named in the Complaint are: ALLETE, Inc. (for its operating division Minnesota Power, Inc. and its wholly-owned subsidiary Superior Water Light, & Power Company; Ameren Illinois Company; Union Electric Company (identified as Ameren Missouri); Ameren Transmission Company of Illinois; American Transmission Company LLC (ATC); Cleco Power LLC; Duke Energy Business Services, LLC d/b/a Duke Energy Indiana, Inc.; Entergy Arkansas, Inc.; Entergy Gulf States Louisiana, LLC; Entergy Louisiana, LLC; Entergy Mississippi, Inc.; Entergy New Orleans, Inc.; Entergy Texas, Inc.; Indianapolis Power & Light Company; International Transmission Company d/b/a ITC Transmission (ITC Transmission), ITC Midwest LLC (ITC Midwest), and Michigan Electric Transmission Company, LLC (METC); MidAmerican Energy Company; Montana-Dakota Utilities Co., Northern Indiana Public Service Company; Northern States Power Company-Minnesota; Northern States Power Company-Wisconsin; Otter Tail Power Company; and Southern Indiana Gas & Electric Company d/b/a Vectran Energy Delivery of Indiana, Inc.

## I. Background

2. On December 3, 2001, MISO filed proposed changes to its Tariff to, among other things, increase the base ROE received by MISO transmission owners from 10.5 percent to 13 percent for all MISO pricing zones, except for the ATC transmission zone. The Commission set the ROE for hearing.<sup>5</sup> On September 23, 2003, the Commission affirmed the Initial Decision,<sup>6</sup> which approved a base ROE of 12.38 percent for the MISO transmission owners, but the Commission modified the Initial Decision to include an upward adjustment of 50 basis points for turning over operational control of transmission facilities.<sup>7</sup> On remand from the U.S. Court of Appeals for the District of Columbia Circuit, the Commission re-affirmed its decision to use the midpoint approach for calculating the ROE for MISO transmission owners.<sup>8</sup> Also on remand, the Commission vacated its prior order concerning the 50 basis point adder and stated that the MISO transmission owners may make filings under section 205 of the FPA to include an incentive adder.<sup>9</sup> The 12.38 percent base ROE continues to be the applicable ROE under Attachment O of the MISO Tariff used by all MISO transmission owners except for ATC. ATC's base ROE of 12.2 percent was established as part of a settlement agreement that was filed with the Commission on March 26, 2004.<sup>10</sup>

3. On June 19, 2014, the Commission issued Opinion No. 531, in which the Commission changed its approach on the discounted cash flow (DCF) methodology to be applied in public utility rate cases, by adopting the two-step DCF methodology in place of the one-step DCF methodology the Commission had historically used.<sup>11</sup> The

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<sup>5</sup> *Midwest Indep. Transmission Sys. Operator, Inc.*, 98 FERC ¶ 61,064, *reh'g denied*, 98 FERC ¶ 61,356 (2002).

<sup>6</sup> *Midwest Indep. Transmission Sys. Operator, Inc.*, 99 FERC ¶ 63,011 (2002).

<sup>7</sup> *Midwest Indep. Transmission Sys. Operator, Inc.*, 100 FERC ¶ 61,292, *order denying reh'g*, 102 FERC ¶ 61,143 (2003).

<sup>8</sup> *Midwest Indep. Transmission Sys. Operator, Inc.*, 106 FERC ¶ 61,302 (2004).

<sup>9</sup> *Midwest Indep. Transmission Sys. Operator, Inc.*, 111 FERC ¶ 61,355 (2005).

<sup>10</sup> In Docket No. ER04-108-000, the Commission approved the uncontested Settlement. *Am. Transmission Co. LLC and Midwest Indep. Transmission Sys. Operator, Inc.*, 107 FERC ¶ 61,117 (2004).

<sup>11</sup> *See generally Martha Coakley, Mass. Attorney Gen. v. Bangor Hydro-Elec. Co.*, Opinion No. 531, 147 FERC ¶ 61,234 (2014) (Opinion No. 531), *order on paper hearing*,

(continued ...)

Commission explained that the two-step DCF formula is  $k=D/P (1+.5g)+g$ , where “D/P,” the dividend yield, is calculated using a single, average dividend yield based on the indicated dividend and the average monthly high and low stock prices over a six-month period; and “g,” the constant dividend growth rate, is calculated by averaging short-term and long-term growth estimates, with the short-term estimate receiving two-thirds weight and the long-term estimate receiving one-third weight.<sup>12</sup>

4. The Commission, after finding that there should be only one base ROE applicable to both the refund period and the prospective period, then applied the two-step DCF methodology, using a national proxy group of companies the Commission found were of comparable risk to the New England Transmission Owners (NETOs), to determine the NETOs’ base ROE; however, because the parties had not litigated one input to the two-step DCF methodology—i.e., the appropriate long-term growth projection—the Commission instituted a paper hearing on that narrow issue. The Commission also found that, due to the anomalous capital market conditions reflected in the record of that proceeding, mechanically applying the DCF methodology and placing the NETOs’ base ROE at the midpoint of the zone of reasonableness produced by that methodology would not satisfy the requirements of *Hope* and *Bluefield*.<sup>13</sup> Therefore, the Commission found it appropriate, based on the record evidence in the proceeding, to place the NETOs’ base ROE halfway between the midpoint of the zone of reasonableness and the top of that zone.<sup>14</sup> However, the Commission explained that its finding on the specific numerical just and reasonable ROE for the NETOs was subject to the outcome of the paper hearing on the appropriate long-term growth projection to be used in the two-step DCF methodology.<sup>15</sup> The Commission also explained that, according to Commission precedent, “when a public utility’s ROE is changed, either under section 205 or section 206 of the FPA, that utility’s total ROE, inclusive of transmission incentive ROE

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Opinion No. 531-A, 149 FERC ¶ 61,032 (2014) (Opinion No. 531-A), *order on reh’g*, Opinion No. 531-B, 150 FERC ¶ 61,165 (2015) (Opinion No. 531-B).

<sup>12</sup> Opinion No. 531, 147 FERC ¶ 61,234 at PP 15, 17, 39.

<sup>13</sup> *Id.* P 142 (citing *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm’n*, 262 U.S. 679 (1923) (*Bluefield*); *FPC v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) (*Hope*)).

<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

adders, should not exceed the top of the zone of reasonableness produced by the two-step DCF methodology.”<sup>16</sup>

5. On October 16, 2014, the Commission granted in part, denied in part and dismissed in part a complaint filed by ABATE Complainants<sup>17</sup> (ABATE Complaint) against MISO and MISO TOs in Docket No. EL14-12-000.<sup>18</sup> Like the Complainants in this proceeding, the ABATE Complainants contended that the current 12.38 percent base ROE earned by MISO TOs, except ATC, which has a base ROE of 12.2 percent, through the MISO Tariff is unjust and unreasonable.<sup>19</sup> ABATE Complainants contended that the ROE should be set at 9.15 percent (a reduction of 323 basis points). Additionally, ABATE Complainants argued that the capital structures of certain MISO TOs feature unreasonably high amounts of common equity such that they are unjust and unreasonable and that MISO TOs’ capital structures should be capped at 50 percent common equity.<sup>20</sup> Finally, ABATE Complainants contended that the ROE incentive adders received by ITC Transmission for being a member of a regional transmission organization (RTO) and by both ITC Transmission and METC for being independent transmission owners are unjust and unreasonable and should be eliminated.<sup>21</sup> The Commission granted the ABATE Complaint with respect to the base ROE element and established hearing and settlement judge procedures and set a refund effective date of November 12, 2013.<sup>22</sup> The Commission noted that it expected the hearing and settlement participants’ evidence and DCF analyses to be guided by its decision in Opinion No. 531. However, the

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<sup>16</sup> *Id.* P 165.

<sup>17</sup> ABATE Complainants, a group of large industrial customers, are: Association of Businesses Advocating Tariff Equity (ABATE); Coalition of MISO Transmission Customers (Coalition of MISO Customers); Illinois Industrial Energy Consumers; Indiana Industrial Energy Consumers, Inc.; Minnesota Large Industrial Group; and Wisconsin Industrial Energy Group.

<sup>18</sup> MISO TOs named in the ABATE Complaint are the same as those named in this proceeding. *Ass’n of Bus. Advocating Tariff Equity v. Midcontinent Indep. Sys. Operator, Inc.*, 149 FERC ¶ 61,049, at n.4 (2014) (ABATE Complaint Order).

<sup>19</sup> *Id.* PP 5-11.

<sup>20</sup> *Id.* PP 12-17.

<sup>21</sup> *Id.* PP 18-22.

<sup>22</sup> *Id.* PP 183-189.

Commission denied the ABATE Complaint with respect to the transmission incentive and capital structure elements.<sup>23</sup>

## II. Complaint

6. Complainants assert that the current 12.38 percent base ROEs of MISO TOs and 12.2 percent base ROE of ATC are no longer just and reasonable and should be adjusted to a just and reasonable ROE of no higher than 8.67 percent.<sup>24</sup> Complainants explain that, until recently, under Commission precedent, when a complainant challenged a previously approved rate under section 206 of the FPA and proposed a new one, the Commission needed to find that (1) the existing rate was unjust and unreasonable; and (2) a proposed replacement rate was just and reasonable.<sup>25</sup> However, Complainants further state that, as recently held by the United States Court of Appeals for the District of Columbia, under FPA section 206, a complainant need only demonstrate that the existing rate is unjust and unreasonable; it is the Commission's responsibility to determine a new just and reasonable rate.<sup>26</sup>

7. To support their claim that the current base ROE is no longer just and reasonable, Complainants filed an affidavit of J. Bertram Solomon, Executive Consultant of GDS Associates, Inc., an engineering and consulting firm. Mr. Solomon performed a two-step, constant growth DCF analysis in accordance with the Commission's guidance for electric utilities in Opinion Nos. 531 and 531-A, as well as other Commission precedent.<sup>27</sup> Complainants explain that the DCF analysis employed a national proxy group of Value Line Investment Survey (Value Line) electric utilities with average risk comparable to

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<sup>23</sup> *Id.* PP 190-205. The Commission also dismissed in part the ABATE Complaint as it related to MISO. *Id.* P 180.

<sup>24</sup> Complainants note that Arkansas Electric Cooperative and Hoosier Cooperative are both non-jurisdictional transmission-owning members of MISO and that they "commit to changing their ROEs to whatever the outcome of this proceeding is." Complaint at 7 n.1.

<sup>25</sup> *Id.* at 13 (citing *Louisiana Pub. Serv. Comm'n v. Entergy Corp.*, 132 FERC ¶ 61,003, at P 28 (2010); *Atl. City Elec. Co. v. FERC*, 295 F.3d 1, 10 (D.C. Cir. 2002), *accord Cities of Bethany v. FERC*, 727 F.2d 1131, 1143-44 (D.C. Cir. 1984); *FPC v. Sierra Pac. Power Co.*, 350 U.S. 348, 353 (1956)).

<sup>26</sup> *Id.*

<sup>27</sup> *Id.* at 14.

that of MISO TOs. Complainants state that Mr. Solomon selected a national electric utility proxy group using the following criteria: (1) companies that are included in the Value Line electric utility industry universe; (2) electric utilities that have a Standard & Poor's (S&P) corporate credit rating of BBB- to AA+ and a Moody's long-term issuer or senior unsecured credit rating of Baa3 to Aa2, which are ratings ranges one credit rating notch above and below the MISO TO range;<sup>28</sup> (3) electric utilities having an Institutional Brokers Estimate System (IBES) published analysts' consensus "five-year" earnings per share growth rate; (4) electric utilities that are not engaged in major merger or acquisition (M&A) activity currently or during the six-month dividend yield analysis period; (5) electric utilities that have paid dividends throughout the six-month dividend yield analysis period, did not cut dividends during that period, and have not subsequently announced a dividend cut; and (6) electric utilities whose DCF results pass threshold tests of economic logic and are not outliers.<sup>29</sup> Nine companies were eliminated from the proxy group due to major M&A activity during the dividend yield analysis period and/or ongoing major M&A activity and one company was eliminated for not having an S&P or Moody's rating.<sup>30</sup>

8. Complainants state that, consistent with the Commission's two-step constant growth DCF method set forth in Opinion No. 531, Mr. Solomon's DCF analysis, using his national proxy group, produced a zone of reasonableness with a range of investor-required ROEs of 2.84 percent to 11.40 percent, with a median of the full array of results of 8.61 percent and a midpoint of 7.12 percent.<sup>31</sup> According to Complainants, excluding outliers, Mr. Solomon's national proxy group produced a zone of reasonableness of 5.81 percent to 11.40 percent. Complainants state that Mr. Solomon recommended the median value of 8.67 percent as the just and reasonable ROE for MISO TOs.

9. Complainants contend that certain anomalous market conditions that the Commission cited in Opinion No. 531 as contributing to its determination to set the ROE halfway between the midpoint of the zone of reasonableness and the top of the zone are no longer present.<sup>32</sup> Specifically, Complainants point to the current six-month average yield on 10-year U.S. Treasury bonds (2.28 percent versus a historically low bond yield

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<sup>28</sup> *Id.* at 17-18 (citing Testimony of J. Bertram Solomon (Solomon Test.) at 16-17).

<sup>29</sup> *Id.*

<sup>30</sup> *Id.* at 18 (citing Solomon Test. at 18).

<sup>31</sup> *Id.* at 19.

<sup>32</sup> *Id.* at 21-22 (citing Opinion No. 531, 147 FERC ¶ 61,234 at P 145 n.285).

of below 2.0 percent in 2013), lower unemployment, and the Federal Reserve's ending of its quantitative easing initiative, among other factors, indicate that capital market conditions are no longer anomalous. Complainants also state that Mr. Solomon evaluated bond yields in the 42-month period ending January 2015, which demonstrated that the most recent period is not anomalous, but rather is consistent with average yields over the past three and a half years. Further, Complainants state that Mr. Solomon found that state-allowed ROEs have also fallen from an average of 10.01 percent in 2012 to 9.8 percent in 2013 to 9.76 percent in 2014.<sup>33</sup> Complainants add that retail service regulated by the state commissions includes the generation function and is more risky than Commission-regulated transmission service, especially where transmission utilities have formula rates, as do the MISO TOs, providing for timely recovery of their actual costs, contrasting with the regulatory lag present in many state proceedings. Additionally, Complainants point out that Mr. Solomon testifies that discredited alternative ROE benchmarks to the DCF do not provide a basis for moving the ROE above the median of the zone of reasonableness.<sup>34</sup>

10. Complainants also argue that, even if setting the ROE at central tendency of the upper half of the zone of reasonableness were justified, the record shows, and past precedent supports, the appropriateness of using the median, rather than the midpoint, of the upper half of the array of ROEs.

11. Complainants acknowledge that section 206 of the FPA generally limits refunds to a 15-month period and that the Commission has rejected "end runs" around the FPA when a complainant has alleged identical violations of the FPA based on identical facts in serial complaints solely to extend the refund-effective date. However, Complainants assert that the Commission's precedent permits new ROE complaints when a complainant has submitted new facts and sought a new refund effective date.<sup>35</sup> Thus, Complainants argue that the Commission should establish the filing date of the Complaint as the refund effective date.

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<sup>33</sup> *Id.* at 21-23 (citing Ex. No. JCC-1 at 31:15 – 32:2 (citing reports from Regulatory Research Associates detailing major rate case decisions from 2013 and 2014; Ex. No. JCC-3 at 248; Ex. No. JCC-3 at 257, 261, 262)).

<sup>34</sup> *Id.* at 24 (citing Ex. No. JCC-1 at 33:26-31).

<sup>35</sup> *Id.* at 26-27 (citing *Southern Co. Servs., Inc.*, 68 FERC ¶ 61,231 (1994) (*Southern Co. I*), *order on reh'g*, 83 FERC ¶ 61,079, at 61,385-86 (1998) (*Southern Co. II*)).

12. Complainants request that the Commission consolidate the Complaint proceeding in this docket with the ongoing ABATE Complaint proceeding. Complainants state that the two proceedings address the same issue – i.e., establishing a just and reasonable MISO-wide base ROE – and consolidating the instant Complaint with the ABATE Complaint proceeding is the most efficient way for the Commission to proceed with resolving both complaints. Further, Complainants assert that consolidating the two dockets will avoid the potential for duplicative discovery and will allow the parties to the two proceedings to more effectively utilize their resources in addressing common issues. The Complainants state that the Commission has recently consolidated complaints filed under similar circumstances where there is the existence of common issues of law and fact.<sup>36</sup>

13. Further, Complainants request fast track processing for the Complaint pursuant to Rule 206 of the Commission's Rules of Practice and Procedure, given the motion to consolidate and because the hearing on the ABATE Complaint is scheduled for August 2015. Moreover, Complainants explain that settlement conferences already began in the ABATE Complaint proceeding and that on December 16, 2014, settlement discussions broke down. Complainants state that the Settlement Judge declared an impasse and recommended that settlement procedures be terminated, and the Chief Judge thereafter issued an order terminating settlement judge procedures and designated a judge to preside over the evidentiary hearing to be held in the ABATE Complaint proceeding.<sup>37</sup> Accordingly, because the parties in the ABATE Complaint proceeding recently engaged in settlement discussions and were unable to come to an agreement as to the appropriate MISO-wide base ROE, Complainants request that the Commission forego its standard practice of ordering an evidentiary hearing, but holding the hearing in abeyance to provide time for settlement judge procedures, and instead allow the parties to proceed directly to hearing. Complainants state they have no reason to believe that additional discussions would be productive at this time and would only delay a final resolution in this proceeding.<sup>38</sup>

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<sup>36</sup> *Id.* at 28 (citing *Seminole Elec. Coop., Inc. v. Duke Energy Florida, Inc.*, 149 FERC ¶ 61,210, at P 29 (2014); *Golden Spread Elec. Coop., Inc. v. Southwestern Pub. Serv. Co.*, 147 FERC ¶ 61,239, at P 25 (2014)).

<sup>37</sup> *Id.* at 12-13.

<sup>38</sup> *Id.* at 29 (citing Order of Chief Judge Terminating Settlement Judge Procedures, Designating Presiding Administrative Law Judge and Establishing Track II Procedural Time Standards, Docket No. EL14-12-000 (filed Jan. 5, 2015)).

### III. Notice and Responsive Pleadings

14. Notice of the Complaint was published in the Federal Register, 80 *Fed. Reg.* 9709 (2015), with protests and interventions due on or before March 4, 2015. On February 20, 2015, MISO TOs filed a motion for an extension of time in this proceeding for filing answers, interventions, or comments up to and including March 11, 2015. The period for answers, interventions, or comments regarding this filing was subsequently extended to March 11, 2015.

15. The entities that filed notices of intervention, motions to intervene, protests, comments, and answers are listed in the Appendix to this order. The entity abbreviations listed in the Appendix will be used throughout this order.

16. Numerous parties provide comments supporting the Complaint, in varying degrees, with respect to the ROE. South Mississippi Electric states it fully supports the Complaint.<sup>39</sup>

17. Iowa Group contends that the Commission's ratemaking standards require protection of consumers from exorbitant rates while fairly compensating utility investors. Further, Iowa Group asserts that the Commission does not need to find that an existing return is completely outside the zone of reasonableness that was used in its initial setting, but rather it is up to the Commission to make its own assessment on the circumstances before it.<sup>40</sup> Regarding the Complainants' two-step DCF analysis in response to the Commission's modified DCF model, Iowa Group asserts that the Complainants' analysis is echoed in its own two-step DCF analysis.<sup>41</sup> Iowa Group's DCF analysis determined the zone of reasonableness to be 5.78 percent to 11.37 percent, with a midpoint of the zone to be 8.58 percent. Iowa Group contends that its analysis demonstrates that, as a result of significantly changed conditions in the financial markets since 2000, MISO TOs' current base ROE is excessive and results in unjust and unreasonable rates. Iowa Group states that MISO TOs' base ROE and capital structure have upset the balance between investor and consumer interests. Accordingly, Iowa Group states it strongly supports the Complaint.<sup>42</sup>

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<sup>39</sup> South Mississippi Electric Comments at 6.

<sup>40</sup> Iowa Group Comments at 5-8 (citing *Bangor Hydro-Elec. Co.*, 122 FERC ¶ 61,038, at P 11 (2008) (*Bangor Hydro*)).

<sup>41</sup> *Id.* at 8-12.

<sup>42</sup> *Id.* at 12 (citing Testimony of David C. Parcell at 18).

18. ABATE Complainants support the Complaint and agree that MISO TOs' existing ROEs are excessive, unjust, and unreasonable. ABATE Complainants submit their two-step DCF analysis and recommend a base ROE for MISO TOs of 9.54 percent for MISO TOs that have a common equity ratio of 55 percent or less.<sup>43</sup>

19. Further, ABATE Complainants support the Complainants' request for consolidation because the two proceedings address the same issue—i.e., determining whether the current ROE is no longer just and reasonable and, if not, establishing a just and reasonable ROE. ABATE Complainants also support the request for fast track processing because the ABATE Complaint proceeding has already moved into the hearing phase and they argue that expedited treatment will allow the consolidated proceedings to move forward and achieve greater administrative efficiency.<sup>44</sup>

20. MISO TOs argue that Complainants have not made a prima facie case that MISO TOs' base ROE is unjust and unreasonable. In this regard, MISO TOs aver that Complainants bear the burden to establish by substantial evidence that the present base ROE is unjust and unreasonable.<sup>45</sup>

21. MISO TOs argue that flaws and omissions in Mr. Solomon's DCF analysis and testimony render the Complaint deficient. First, MISO TOs contend that Mr. Solomon's DCF analysis contains an inherent downward bias due to his unjustified failure to exclude illogical low-end DCF values. MISO TOs argue that Mr. Solomon's low-end outlier test is based on mechanically adding 100 basis points to a historical yield on triple-B rated public utility bonds, which is counter to the widely accepted, inverse relationship between equity risk premiums and interest rates and to the well-established principle that equity risk premiums are higher when interest rates are very low.<sup>46</sup> According to MISO TOs, Mr. Solomon's mechanical approach, when applied in the context of anomalously low interest rates, has the effect of retaining low-end DCF

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<sup>43</sup> ABATE Complainants Answer at 4.

<sup>44</sup> *Id.* at 15-16.

<sup>45</sup> MISO TOs Answer at 8 (citing, e.g., *Ameren Services Co. v. Midwest Indep. Transmission Sys. Operator, Inc.*, 125 FERC ¶ 61,161, at P 9 (2008)).

<sup>46</sup> *Id.* at 8-9 (citing Testimony of Adrien M. McKenzie (McKenzie Test.) at 30-33).

estimates that are far below what equity investors require in order to be compensated for the risk associated with electric transmission investment.<sup>47</sup>

22. Second, MISO TOs criticize Mr. Solomon's exclusive reliance on IBES growth data, without acknowledging the availability of equally reliable and widely used Value Line growth estimates. MISO TOs assert that, at a minimum, Mr. Solomon should have run his DCF model twice, using both IBES and Value Line estimates, in order to inform his DCF results and provide another analytical tool to aid the Commission in determining whether his "mechanical application of the DCF methodology . . . result[s] in an ROE that does not satisfy the requirements of *Hope* and *Bluefield*."<sup>48</sup>

23. Third, MISO TOs question Mr. Solomon's DCF analysis for failing to consider any other cost of capital models, and for failing to compare the results of other models with his DCF results. MISO TOs argue that such failure is irreconcilable with the Commission's finding in Opinion No. 531 that the *Hope* and *Bluefield* capital attraction standard requires evaluation of alternative benchmark methodologies as a check on DCF results, given the unusual capital market conditions identified in the record.<sup>49</sup> They argue that, had Mr. Solomon compared his DCF ROE estimates with estimates producing using the Capital Asset Pricing Model (CAPM), the Empirical Capital Asset Pricing Model (ECAPM), and/or an expected earnings analysis, Mr. Solomon would have found that significant discrepancies continue today and entirely undercut his proposal to reduce the base ROE by over 350 basis points.

24. MISO TOs also argue that Complainants' analysis advances sweeping conclusions that do not follow from the facts. As an example, MISO TOs assert that Mr. Solomon's testimony regarding the relatively low cost of capital, which he bases on a 2002 to 2015 comparison of average utility bond yields, overlooks the artificially low interest rates in the wake of the global recession. Further, MISO TOs argue that Mr. Solomon testifies that his proposed ROE would reduce the annual transmission revenue requirements by nearly \$500 million but he makes no attempt to analyze what the consequences would be on future infrastructure investment, and/or the ability of

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<sup>47</sup> *Id.* at 9 (citing McKenzie Test. at 32).

<sup>48</sup> *Id.* at 9-10 (citing Opinion No. 531, 147 FERC ¶ 61,234 at P 102; *ISO New England, Inc.*, 109 FERC ¶ 61,147, at P 25 (2004), *aff'd*, *Me. Pub. Utils. Comm'n v. FERC*, 454 F.3d 278 (D.C. Cir. 2006); Solomon Test. at 33).

<sup>49</sup> *Id.* at 10 (citing Opinion No. 531, 147 FERC ¶ 61,234 at P 145).

MISO TOs to attract capital for future system expansions and upgrades, including projects to meet various regulatory and legislative initiatives.<sup>50</sup>

25. MISO TOs also argue that Mr. Solomon's own evidence confirms that his recommended ROE cannot be justified when compared to prevailing ROEs being approved in state regulatory proceedings. MISO TOs assert that the low end of the range of allowed state returns cited by Mr. Solomon exceeds by 50 basis points the ROE Mr. Solomon claims is just and reasonable for MISO TOs. Further, MISO TOs and Xcel contend that his recommended base ROE is below state-approved ROEs in the nation.<sup>51</sup> Moreover, they claim he provides no support for his contention that state-regulated retail service is more risky than the Commission-regulated transmission service provided by MISO TOs, even though they note that the Commission reached the opposite conclusion in Opinion No. 531.<sup>52</sup>

26. MISO TOs also criticize Complainants' approach in concluding that the existing base ROE is unjust or unreasonable. MISO TOs argue that the Commission must ensure that the economic interests of the utility are considered, consistent with *Hope* and *Bluefield*, through flexibly applying its approach to determining a just and reasonable ROE for MISO TOs, and not through Mr. Solomon's flawed DCF analysis on its own. Further, MISO TOs and Xcel argue that the anomalous capital conditions cited by the Commission in Opinion No. 531 have not materially changed and, as a result, Mr. Solomon's mechanical DCF analysis does not adequately reflect a return sufficient to compensate for the investment and business risks facing equity investors in capital-intensive investments such as electric transmission facilities.<sup>53</sup>

27. MISO TOs also argue that Mr. Solomon's application of the DCF methodology and implementation of Opinion No. 531 in his analysis is flawed. MISO TOs argue that Mr. Solomon's elimination of only the low-end DCF estimates that are within approximately 100 basis points of average public utility bond yields results in the retention of unrepresentative returns that unreasonably skew the low end of the overall

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<sup>50</sup> *Id.* at 11-12.

<sup>51</sup> *Id.* at 12; Xcel Answer at 17.

<sup>52</sup> MISO TOs Answer at 12 (citing Solomon Test. at 31-34; McKenzie Test. at 15; Opinion No. 531, 147 FERC ¶ 61,234 at P 149; Opinion No. 531-B, 150 FERC ¶ 61,165 at PP 84-85).

<sup>53</sup> *Id.* at 13-16, 22-23 (citing Opinion No. 531, 147 FERC ¶ 61,234 at P 145; McKenzie Test. at 20-24); Xcel Answer at 15-16, 19.

DCF range and lower the midpoint of that range. In addition, they argue that Mr. Solomon's exclusive reliance on IBES growth rate estimates produces an unreasonably low range of ROE estimates and correspondingly low midpoint and median values for his DCF range. MISO TOs assert that the results of their DCF methodology using Value Line short-term growth rates are consistent with the Commission's determination in Opinion No. 531. Using such an approach, MISO TOs argue that the DCF results produced a range of 6.58 percent to 16.25 percent in which to evaluate investors' required ROE for MISO TOs.<sup>54</sup>

28. MISO TOs assert that, using several "benchmark" ROE analyses to assess whether the current base ROE remains within a properly derived zone of reasonableness, the current base ROE remains just and reasonable.<sup>55</sup>

29. MISO TOs contend that other costs associated with raising capital through the sale of equity securities, which include legal, accounting, printing, and brokerage costs, are not accounted for in the DCF or other models, but deserve consideration.<sup>56</sup>

30. MISO TOs further argue that Complainants ignore the significant consumer benefits that are supported by the base ROE and approved incentives.<sup>57</sup> Moreover, MISO TOs argue that the need for transmission investment is far from over. MISO TOs contend that granting the Complaint would undermine the ability of MISO TOs to meet future demands and federal regulatory requirements while safeguarding reliability of the grid.<sup>58</sup>

31. MISO TOs argue that the Commission should deny the Complaint in its entirety because the base ROE is within the zone of reasonableness and cannot, as a matter of

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<sup>54</sup> MISO TOs Answer at 17-21 (citing McKenzie Test. at 15, 34-38, 40-41; Opinion No. 531, 147 FERC ¶ 61,234 at P 90).

<sup>55</sup> *Id.* at 24-27 (evaluating the results of the DCF study using CAPM, ECAPM, projected utility bond yields, expected earnings, and non-utility DCF models).

<sup>56</sup> *Id.* at 27.

<sup>57</sup> *Id.* at 28-34.

<sup>58</sup> *Id.* at 34-41 (describing discussions related to the United States Environmental Protection Agency's Clean Power Plan and Mercury and Air Toxics Standards).

law, be unjust and unreasonable.<sup>59</sup> According to MISO TOs, the FPA provides that the Commission “may only set aside a rate that is outside the zone of reasonableness, bounded on one end by investor interest and the other by the public interest against excessive rates,”<sup>60</sup> although MISO TOs recognize that the Commission in *Bangor Hydro-Electric Co.* held that an ROE within the zone of reasonableness still may be unjust and unreasonable.<sup>61</sup> However, MISO TOs argue that the *Bangor Hydro* finding is erroneous in the section 206 context and that continued application of that finding here would create rate instability and an environment of regulatory uncertainty.<sup>62</sup>

32. MISO TOs and Xcel argue that the Complaint violates section 206 of the FPA by seeking to extend the 15-month refund period established in the ABATE Complaint proceeding. MISO TOs argue that all of the Complainants are parties to the ABATE Complaint proceeding and have had and will have ample opportunity to submit new or updated facts and testimony regarding the MISO TOs’ base ROE in that case. Xcel argues that the Complainants’ “new analysis” in support of a second complaint on the base ROE has actually been provided in the ABATE Complaint proceeding.<sup>63</sup> Therefore, they argue that this Complaint is not necessary to provide an opportunity for Complainants to challenge the base ROE because that opportunity exists in the ABATE Complaint proceeding. Further, MISO TOs argue that, under FPA section 206, the refund potential is limited to a single 15-month period. According to MISO TOs and Xcel, accepting the Complaint here would circumvent section 206’s refund period limitation and the intent behind it. MISO TOs argue that the Commission has

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<sup>59</sup> *Id.* at 42. (citing *Montana-Dakota Utils. Co. v. Nw. Pub. Serv. Co.*, 341 U.S. 246, 251 (1951); *San Diego Gas & Elec. Co. v. Sellers of Energy & Ancillary Servs. Into Markets Operated by Cal. Indep. Sys. Operator & Cal. Power Exch.*, 97 FERC ¶ 61,275, at 62,218 (2001); *S. Cal. Edison Co.*, 139 FERC ¶ 61,042, at P 65 (2012), *reh’g denied*, 144 FERC ¶ 61,145 (2013)).

<sup>60</sup> *Id.* (citing *Pac. Gas. & Elec. Co. v. FERC*, 306 F.3d 1112, 1116 (D.C. Cir. 2002)).

<sup>61</sup> *Id.* at 43 & n.129 (citing *Bangor Hydro*, 122 FERC ¶ 61,038 at PP 10-11; *see also* Opinion No. 531-B, 150 FERC ¶ 61,165 at PP 32-33).

<sup>62</sup> *Id.* at 43-44.

<sup>63</sup> Xcel Answer at 9, 11-12.

disallowed successive complaints when the sole purpose is to extend the statutorily limited 15-month refund period.<sup>64</sup>

33. MISO TOs assert that, if the Commission does not dismiss the Complaint, it should set the latest possible refund effective date of July 12, 2015, or five months after the Complaint's filing, because the existing base ROE was approved by the Commission and has been used by MISO TOs for years. Further, MISO TOs argue that the base ROE has helped to support substantial, ongoing transmission investment in the MISO grid and provided net benefits to consumers. Moreover, MISO TOs contend that Complainants have not made the requisite showing that fast track processing is appropriate.<sup>65</sup> Lastly, MISO TOs and Xcel argue that the Commission should deny Complainants' request to consolidate the Complaint with the ABATE Complaint proceeding, or to consider them on separate procedural tracks, because Commission policy is to consolidate proceedings where there are common issues of law or fact and consolidation will ultimately result in greater administrative efficiency.<sup>66</sup> MISO TOs and Xcel argue that there are no common issues of law or fact among the Complaint and the ABATE Complaint because the Commission treats each successive ROE complaint as an independent claim from prior ROE complaints, the adjudication of which would require evaluation of risk, capital market conditions, or other variables over different time periods. Therefore, they argue that consolidation of the two complaints would not serve the goals of administrative efficiency and would instead unduly delay the resolution of the ABATE Complaint proceeding. MISO TOs point to a recent ROE proceeding where the Commission left

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<sup>64</sup> MISO TOs Answer at 44-45 (citing *Allegheny Elec. Coop., Inc. v. Niagara Mohawk Power Corp.*, 58 FERC ¶ 61,096, at 61,349 (1992) (*Niagara Mohawk*); cf. *Southern Co. II*, 83 FERC ¶ 61,079 at 61,386; *Consumer Advocate Div. of the Pub. Serv. Comm'n of W. Va. v. Allegheny Generating Co.*, 67 FERC ¶ 61,288, at 62,000 (*Consumer Advocate I*), *order on reh'g*, 68 FERC ¶ 61,207 (1994) (*Consumer Advocate II*)).

<sup>65</sup> *Id.* at 47-48 (citing *Complaint Procedures*, Order No. 602, 1996-2000 FERC Stats. & Regs., Regs. Preambles ¶ 31,071, at 30,766, *order on reh'g*, Order No. 602-A, 1996-2000 FERC Stats. & Regs., Regs. Preamble ¶ 31,076, *order on reh'g*, Order No. 602-B, 1996-2000 FERC Stats. & Regs., Regs. Preamble ¶ 31,083 (1999); *Midwest Indep. Transmission Sys. Operator, Inc.*, 134 FERC ¶ 61,185, at PP 12-13 (2011)).

<sup>66</sup> *Id.* at 48-49 (citing *Empire Dist. Elec. Co.*, 133 FERC ¶ 61,004, at P 15 (2010); *Sw. Power Pool, Inc.*, 125 FERC ¶ 61,001, at P 26 (2008)); Xcel Answer at 29.

the decision of consolidation to the Chief Administrative Law Judge, who denied it, and they argue that the Commission should do the same here.<sup>67</sup>

34. Xcel asserts that the Commission's policy in section 205 filings is to require that a non-jurisdictional TO provide a voluntary commitment of refunds, including interest, in the event that the Commission determines that the rates are unjust and unreasonable, and if the non-jurisdictional TO does not provide the voluntary commitment of refunds, it is not permitted to receive any revenues from the rates under review until the Commission makes a final determination on the justness and reasonableness of the rates.<sup>68</sup> Xcel notes that, while the Complainants' rate proposal is under section 206 of the FPA and not section 205, Arkansas Electric Cooperative and Hoosier Cooperative are non-jurisdictional TOs and would not be subject to any refund obligations in the event that the Commission set the Complaint for hearing and established a refund effective date of February 12, 2015. Xcel notes that Arkansas Electric Cooperative and Hoosier Cooperative do not expressly offer to lower their existing base ROE as of the refund effective date to 8.67 percent, but rather "commit to changing their ROEs to whatever the outcome of [the Complaint] proceeding is."<sup>69</sup> Accordingly, Xcel argues that, if the Commission does not dismiss the Complaint, the Commission must require Arkansas Electric Cooperative and Hoosier Cooperative to provide a voluntary commitment that they will provide refunds between the base ROE they currently collect and any reduction to the base ROE ordered by the Commission, effective as of the same refund effective date established by the Commission.

35. Xcel also argues that, if the Commission determines that the MISO base ROE of 12.38 percent may be unjust and unreasonable, the Commission should institute a section 206 proceeding on its own motion into the base ROE collected by non-jurisdictional TOs in MISO.<sup>70</sup> If further proceedings are warranted, then the Commission should require MISO to make a compliance filing that either (1) includes voluntary commitments of refunds by such non-jurisdictional TOs to refund the

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<sup>67</sup> MISO TOs Answer at 50-51 (citing *Golden Spread Elec. Coop., Inc. v. Sw. Pub. Serv. Co.*, 150 FERC ¶ 63,003, at P 4 (2015)).

<sup>68</sup> Xcel Answer at 21-22 (citing *Lively Grove Energy Partners, LLC*, 140 FERC ¶ 61,252, at P 47 & n.59 (2012); *see also City of Riverside, California*, 128 FERC ¶ 61,207, at P 26 (2009); *Midwest Indep. Transmission Sys. Operator, Inc.*, 135 FERC ¶ 61,131, at P 70 & n.92 (2011)).

<sup>69</sup> *Id.* at 21 (citing Complaint at 7 n.1).

<sup>70</sup> *Id.* at 24-26 (citing *Sw. Power Pool, Inc.*, 142 FERC ¶ 61,135 (2013)).

difference between the base ROE and any reduced base ROE ultimately determined by the Commission to be just and reasonable on the same effective date established by the Commission in the Complaint; or (2) removes from the MISO Tariff the tariff sheets containing the non-jurisdictional TOs' annual transmission revenue requirements that contain the 12.38 percent ROE for any non-jurisdictional TO not making such a voluntary commitment.<sup>71</sup>

36. Complainants disagree with MISO TOs' and Xcel's contention that their complaint should be rejected as a successive complaint intended solely to extend the 15-month refund period. They contend that the Commission has allowed multiple complaints where the complainant has provided new facts and sought a new refund-effective date, and has found so specifically for ROE complaints.<sup>72</sup> Additionally, according to Complainants, the Commission has explicitly rejected challenges to successive complaints in the context of FPA section 206 complaint proceedings against ROEs of public utility transmission owners when presented with new analysis.<sup>73</sup> They also disagree with Xcel's contention that the Complaint should be rejected because the same analysis was provided in the ABATE Complaint proceeding. Complainants point out that the filing parties in the two proceedings are different, as was the evidence underlying the different initial complaints. They argue that, while the procedural schedule for the ABATE Complaint proceeding happened to result in the testimony filed by Complainants being based on the same time period used in the instant Complaint, the important fact is that Complainants' analysis demonstrates that financial conditions have changed since November 2013 such that the ROE for MISO TOs is unjust and unreasonable in February 2015.<sup>74</sup>

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<sup>71</sup> *Id.* at 27.

<sup>72</sup> Complainants Answer at 3-4 (citing *Southern Co. II*, 83 FERC ¶ 61,079 at 61,385-86; *Consumer Advocate I*, 67 FERC at 61,998-99; *Golden Spread Elec. Coop., Inc. v. S.W. Pub. Serv. Co.*, 147 FERC ¶ 61,239, at P 26 (2014)).

<sup>73</sup> *Id.* at 4-5 (citing *Seminole*, 149 FERC ¶ 61,210 at P 32 (citing *Consumer Advocate I*, 67 FERC at 62,000); *Southern Co. I*, 68 FERC ¶ 61,231, *order on reh'g*, 83 FERC ¶ 61,079; *San Diego Gas & Elec. Co. v. Pub. Serv. Co. of New Mexico*, 85 FERC ¶ 61,414 (1998) (*San Diego Gas & Elec.*), *reh'g denied*, 86 FERC ¶ 61,253 (1999), *reh'g denied*, 95 FERC ¶ 61,073 (2001)). *But see id.* (citing *EPIC Merchant Energy NJ/PA, L.P. v. PJM Interconnection, L.L.C.*, 131 FERC ¶ 61,130 (2010) (rejecting the "pancaked" complaint, by distinguishing it from the complaints in *Consumer Advocate I*, *Southern Co. II*, and *San Diego Gas & Elec.*)).

<sup>74</sup> *Id.* at 5-6.

37. Complainants also disagree with MISO TOs' alleged deficiencies in Mr. Solomon's testimony. Complainants argue that MISO TOs' disagreement with Mr. Solomon's analysis does not render his analysis defective. Additionally, Complainants argue that some of the MISO TOs' assertions, such as their assertion that Mr. Solomon should not have excluded certain low-end DCF values and used Value Line and not IBES growth data, are inconsistent with Commission precedent.<sup>75</sup> Complainants also argue that Mr. Solomon did consider whether there were anomalous market conditions in determining where in the zone of reasonableness the ROE should be and had no need to consider alternative cost of capital models. They state that Mr. Solomon found that the current market conditions have been the case for an extended period, rendering them, by definition, not anomalous.<sup>76</sup> Accordingly, Complainants contend that Mr. Solomon relied on the Commission's methodology as outlined in Opinion Nos. 531 and 531-B and that they provided more than sufficient evidence to meet their prima facie burden to show that the MISO TOs' current ROE is unjust and unreasonable.

38. Complainants also contend that, contrary to arguments raised by MISO TOs in their answer, MISO TOs have not demonstrated that the current MISO-wide ROE is just and reasonable, but instead demonstrated that the current MISO-wide ROE should be set for investigation and reduction. Further, Complainants cite ongoing low bond yields and argue that MISO TOs failed to eliminate high-end outliers from their analysis.<sup>77</sup> Complainants also state that MISO TOs' arguments that the base ROE cannot be unjust and unreasonable because it falls in the zone of reasonableness are inconsistent with Commission precedent.<sup>78</sup>

39. In their answer, Arkansas Electric Cooperative and Hoosier Cooperative argue that Xcel raises arguments in its answer that are beyond the scope of the instant proceeding and should be denied. Nevertheless, Arkansas Electric Cooperative and Hoosier Cooperative acknowledge that, while they are non-jurisdictional MISO transmission owners, they voluntarily commit to change their ROEs to whatever the

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<sup>75</sup> *Id.* at 7-9 (citing Opinion No. 531, 147 FERC ¶ 61,234 at PP 13, 89, 102, 122-123, 142; Opinion No. 531-B, 150 FERC ¶ 61,165 at PP 49, 71-72, 78).

<sup>76</sup> *Id.* at 9-10.

<sup>77</sup> *Id.* at 12-17.

<sup>78</sup> *Id.* at 17-18 (citing *Bangor Hydro*, 122 FERC ¶ 61,038 at P 10; *S. Cal. Edison Co. v. FERC*, 717 F.3d 177, 181 (D.C. Cir. 2013)).

outcome of this proceeding is,<sup>79</sup> and they intend to adopt that ROE as of the refund effective date established by the Commission in this proceeding, in order to maintain parity between themselves and MISO's public utility transmission owners with regard to ROE.<sup>80</sup>

40. Arkansas Electric Cooperative and Hoosier Cooperative state that they are exempted from the FPA's definition of "public utility"<sup>81</sup> and that, because the Complaint does not place at issue the ROEs embedded in the rates of Arkansas Electric Cooperative, Hoosier Cooperative, and other non-jurisdictional MISO transmission owners, those ROEs are beyond the scope of this proceeding.<sup>82</sup> Arkansas Electric Cooperative and Hoosier Cooperative argue that Xcel cites no case where the Commission affirmatively expanded the issues before it to include not only the rates of public utility transmission owners, but also the rates of non-jurisdictional transmission owners, simply because the transmission owners were members of the same RTO.<sup>83</sup>

41. Further, Arkansas Electric Cooperative and Hoosier Cooperative assert that the fact that rates of one or several of an RTO's transmission owners are found to be excessive does not require that the rates of all of the RTO's transmission owners be

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<sup>79</sup> Complaint at 7 & n.1.

<sup>80</sup> Arkansas Electric Cooperative and Hoosier Cooperative Answer at 3, 11-12. Arkansas Electric Cooperative and Hoosier Cooperative state that, "[a]ssuming that parity is maintained with regard to the [RTO participation adder sought by Hoosier Cooperative in Docket No. ER15-1210-000], [they] will voluntarily provide refunds, from the refund effective date set in this docket, of the difference between what they collect under their current rates and what they would have collected had their rates reflected the just and reasonable ROE the Commission determines in this docket." They further state that Arkansas Electric Cooperative's commitment "assumes that it is granted comparable treatment should it seek in the future to implement a 50-basis adder for RTO membership." *Id.* at 3 n.7, 4.

<sup>81</sup> *Id.* at 4 (citing 16 U.S.C. § 824(f) ("No provision in this subchapter shall apply to, or be deemed to include . . . an electric cooperative that receives financing under the Rural Electrification Act of 1936 . . . unless such provision makes specific reference thereto.")).

<sup>82</sup> *Id.*

<sup>83</sup> *Id.* at 5-6.

revised, let alone revised on the same day.<sup>84</sup> Moreover, Arkansas Electric Cooperative and Hoosier Cooperative note that the Commission's refund authority pursuant to section 206 of the FPA requires the initiation of an action either through the filing of a complaint or upon the Commission's own initiative and, in this case, they state that the rates of non-jurisdictional transmission owners has not been put at issue pursuant to FPA section 206.<sup>85</sup> Arkansas Electric Cooperative and Hoosier Cooperative also argue that, while Xcel requests that the Commission impose a reduced ROE on Arkansas Electric Cooperative and Hoosier Cooperative, Xcel provides no factual support of any kind for this request. They assert that Xcel is even without standing to raise any issues regarding the transmission rates of Arkansas Electric Cooperative and Hoosier Cooperative because Xcel does not claim to take transmission service from either Arkansas Electric Cooperative or Hoosier Cooperative, or that it would otherwise be affected by any increase or decrease in their transmission rates.<sup>86</sup>

42. Lastly, Arkansas Electric Cooperative and Hoosier Cooperative contend that Xcel's request that the Commission open section 206 proceedings against MISO's Tariff and require that MISO make a compliance filing to remove the tariff sheets of any non-jurisdictional transmission owner that did not voluntarily commit to making refunds as of the effective date established in this docket is without merit for similar reasons and should be denied.<sup>87</sup>

#### IV. Discussion

##### A. Procedural Matters

43. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2014), the notices of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d) (2014), the Commission will grant the late-filed motions to intervene given the interest in the proceeding, the early stage of the proceeding, and the absence of undue prejudice or delay.

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<sup>84</sup> *Id.* at 6-7.

<sup>85</sup> *Id.* at 7-9.

<sup>86</sup> *Id.* at 10.

<sup>87</sup> *Id.* at 10-11.

44. Rule 213(a)(2) of the Commission's Rule of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2014), prohibits an answer to a protest or answer unless otherwise ordered by the decisional authority. We will accept the answers because they have provided information that assisted us in our decision-making process.

**B. Substantive Matters**

45. We find that the Complaint raises issues of material fact that cannot be resolved based upon the record before us and that are more appropriately addressed in the hearing ordered below. Accordingly, we will set the Complaint for investigation and a trial-type, evidentiary hearing under section 206 of the FPA. With regard to the request for consolidation, we leave to the discretion of the Chief Administrative Law Judge whether it is appropriate to consolidate this proceeding and the ABATE Complaint proceeding in Docket No. EL14-12 for purposes of hearing and decision.<sup>88</sup>

46. In cases where, as here, the Commission institutes an investigation on complaint under section 206 of the FPA, section 206(b) requires that the Commission establish a refund effective date that is no earlier than the date a complaint was filed, but no later than five months after the filing date. Section 206(b) permits the Commission to order refunds for a 15-month period following the refund effective date. Consistent with our general policy of providing maximum protection to customers,<sup>89</sup> we will set the refund effective date at the earliest date possible, i.e., February 12, 2015, as requested.

47. If the Chief Administrative Law Judge determines that it is appropriate to consolidate this proceeding with the ABATE Complaint proceeding in Docket No. EL14-12, the consolidated proceeding will involve multiple refund periods—the 15-month refund period in the instant proceeding and the 15-month refund period in Docket No. EL14-12-000. In those circumstances, it would be appropriate for the parties to litigate a separate ROE for each refund period. Specifically, for the refund period covered by the proceeding in Docket No. EL14-12-000 (i.e., November 12, 2013 through February 11, 2015), the ROE for that particular 15-month refund period should be based on the most recent financial data available during that period, i.e., the last

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<sup>88</sup> See 18 C.F.R. § 385.503(a) (2014).

<sup>89</sup> See, e.g., *Seminole Elec. Coop., Inc. v. Florida Power & Light Co.*, 65 FERC ¶ 61,413, at 63,139 (1993); *Canal Elec. Co.*, 46 FERC ¶ 61,153, at 61,539 (1989), *reh'g denied*, 47 FERC ¶ 61,275 (1989).

six months of that period.<sup>90</sup> For the refund period in the instant docket (i.e., February 12, 2015 through May 11, 2016) and for the prospective period, the ROE should be based on the most recent financial data in the record.<sup>91</sup>

48. Section 206(b) also requires that, if no final decision is rendered by the conclusion of the 180-day period commencing upon initiation of a proceeding pursuant to section 206, the Commission shall state the reasons why it has failed to do so and shall state its best estimate as to when it reasonably expects to make such decision. Based on our review of the record, we expect that, if this case does not settle, the presiding judge should be able to render a decision within twelve months of the commencement of hearing procedures, or by June 30, 2016. Thus, we estimate that, absent settlement we would be able to issue our decision within approximately eight months of the filing of briefs on and opposing exceptions, or by May 31, 2017.

49. While MISO TOs and Xcel raise various arguments as to the propriety of allowing the Complaint, the Commission has previously allowed successive complaints when presented with a new analysis.<sup>92</sup> In this case, Complainants have submitted a new, two-step DCF analysis for a new time period, with new, more current data. Regarding MISO TOs' and Xcel's assertions that the Complaint must be dismissed because Complainants have the opportunity to challenge the base ROE in the ABATE Complaint proceeding, the fact that the record in the ABATE Complaint proceeding is still open is irrelevant. Complainants were free to file a complaint requesting a rate decrease based on later common equity cost data without regard to the status of the ABATE Complaint

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<sup>90</sup> See Opinion No. 531, 147 FERC ¶ 61,234 at P 160 (addressing the use of recent financial data to determine the ROE); see also *New York Ass'n of Pub. Power v. Niagara Mohawk Power Corp.*, 148 FERC ¶ 61,176, at P 24 (2014).

<sup>91</sup> See Opinion No. 531, 147 FERC ¶ 61,234 at PP 65-67, 160 (holding that a single ROE should be established for the most recent refund period addressed at the hearing and for the prospective period based on the most recent financial data in the record); see also *New York Ass'n of Pub. Power v. Niagara Mohawk Power Corp.*, 148 FERC ¶ 61,176 at P 24.

<sup>92</sup> *Consumer Advocate I*, 67 FERC at 62,000; *Southern Co. I*, 68 FERC ¶ 61,231, order on reh'g, 83 FERC ¶ 61,079; see also *San Diego Gas & Elec.*, 85 FERC ¶ 61,414 (1998), reh'g denied, 86 FERC ¶ 61,253 (1999), reh'g denied, 95 FERC ¶ 61,073 (2001). But see *EPIC Merchant Energy NJ/PA, L.P. v. PJM Interconnection, LLC*, 131 FERC ¶ 61,130 (2010), reh'g denied, 136 FERC ¶ 61,041 (2011) (rejecting the "pancaked" complaint, by distinguishing it from the complaints in *Consumer Advocate I*, *Southern Co. II*, and *San Diego Gas & Elec.*).

proceeding.<sup>93</sup> We likewise find unpersuasive MISO TOs' assertion that the Commission should dismiss the Complaint because the base ROE falls within the zone of reasonableness. The Commission has previously rejected the contention that every ROE within the zone of reasonableness is necessarily just and reasonable,<sup>94</sup> and we do so again here.

50. We find that Xcel's contention that the Commission must require Arkansas Electric Cooperative and Hoosier Cooperative to provide a voluntary commitment that they will provide refunds between the base ROE they currently collect and any reduction to the base ROE ordered by the Commission, effective as of the same refund effective date established by the Commission, is beyond the scope of this proceeding. The issues of the base ROE of non-jurisdictional MISO transmission owners and the refund obligations from non-jurisdictional MISO transmission owners are not before the Commission in this proceeding because they were not issues raised in the Complaint. We note, however, that Arkansas Electric Cooperative and Hoosier Cooperative acknowledge that, while they are non-jurisdictional MISO transmission owners, they voluntarily commit to change their ROEs to whatever the outcome of this proceeding is,<sup>95</sup> and they intend to adopt that ROE as of the refund effective date established by the Commission in this proceeding, in order to maintain parity between themselves and MISO's public utility transmission owners with regard to ROE.<sup>96</sup>

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<sup>93</sup> See *Consumer Advocate I*, 67 FERC at 62,000.

<sup>94</sup> See, e.g., *Bangor Hydro-Electric Co.*, 122 FERC ¶ 61,038, at PP 10-15 (2008); Opinion No. 531, 147 FERC ¶ 61,234 at PP 51-55.

<sup>95</sup> Complaint at 7 & n.1.

<sup>96</sup> Arkansas Electric Cooperative and Hoosier Cooperative Answer at 3, 11-12. Arkansas Electric Cooperative and Hoosier Cooperative state that, "[a]ssuming that parity is maintained with regard to the [RTO participation adder sought by Hoosier Cooperative in Docket No. ER15-1210-000], [they] will voluntarily provide refunds, from the refund effective date set in this docket, of the difference between what they collect under their current rates and what they would have collected had their rates reflected the just and reasonable ROE the Commission determines in this docket." They further state that Arkansas Electric Cooperative's commitment "assumes that it is granted comparable treatment should it seek in the future to implement a 50-basis point adder for RTO membership." *Id.* at 3 n.7, 4.

On May 8, 2015, the Commission conditionally accepted requests by Hoosier Cooperative and Southern Illinois Power Cooperative (Southern Illinois) to implement

(continued ...)

The Commission orders:

(A) Pursuant to the authority contained in and subject to the jurisdiction conferred upon the Federal Energy Regulatory Commission by section 402(a) of the Department of Energy Organization Act and by the FPA, particularly section 206 thereof, and pursuant to the Commission's Rules of Practice and Procedure and the regulations under the FPA (18 C.F.R. Chapter I), a public hearing shall be held concerning this Complaint.

(B) In the event that this proceeding is not consolidated with Docket No. EL14-12-000, a presiding judge, to be designated by the Chief Administrative Law Judge, shall, within fifteen (15) days of the date of the presiding judge's designation, convene a prehearing conference in these proceedings in a hearing room of the Commission, 888 First Street, NE, Washington, DC 20426. Such a conference shall be held for the purpose of establishing a procedural schedule. The presiding judge is authorized to establish procedural dates and to rule on all motions (except motions to dismiss) as provided in the Commission's Rules of Practice and Procedure.

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the RTO participation adder, subject to it being applied to a base ROE that has been shown to be just and reasonable based on an updated discounted cash-flow analysis, and subject to the resulting ROE being within the zone of reasonableness determined by that updated discounted cash-flow analysis, as those may be determined in the ABATE Complaint proceeding in Docket No. EL14-12. *Midcontinent Indep. Sys. Operator, Inc.*, 151 FERC ¶ 61,104 (2015). Further, the Commission conditioned its acceptance upon a voluntary commitment by Hoosier Cooperative and Southern Illinois to "(1) provide refunds, with interest at Commission refund interest rates, to the extent that the ROE or zone of reasonableness established in the [ABATE Complaint proceeding] when applied as of the effective date of the instant filing would result in a lower revenue requirement than that charged by Hoosier [Cooperative] and Southern Illinois, and (2) provide refunds, with interest at Commission refund interest rates, consistent with any refund effective date established in any other proceedings resulting in a new base ROE or a new zone of reasonableness for the MISO transmission owners' base ROE, to the extent that the ROE or zone of reasonableness established in such proceedings, when applied as of the refund effective date established in such proceedings, would result in a lower revenue requirement than that charged by Hoosier [Cooperative] and Southern Illinois, for as long as Hoosier [Cooperative] and Southern Illinois apply the Commission approved base ROE of the MISO transmission owners." *Id.* P 27.

Docket No. EL15-45-000

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(C) The refund effective date in Docket No. EL15-45-000, established pursuant to section 206(b) of the FPA, is February 12, 2015, as discussed in the body of this order.

By the Commission. Commissioner Honorable is not participating.

( S E A L )

Kimberly D. Bose,  
Secretary.

**Appendix**

**Motions to Intervene**

Alliant Energy Corporate Services, Inc.

Ameren Services Company

Arkansas Cities<sup>97</sup>

Association of Businesses Advocating Tariff Equity

Coalition of MISO Transmission Customers

Consumers Energy Company

DTE Electric Company

Duke-American Transmission Company, LLC and DATC Midwest Holdings, LLC

Great Lakes Utilities

Great River Energy

Illinois Industrial Energy Consumers

Indiana Industrial Energy Consumers, Inc.

Joint Consumer Advocates<sup>98</sup>

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<sup>97</sup> Arkansas Cities for purposes of this filing are: the Conway Corporation; the West Memphis Utilities Commission; the City of Osceola, Arkansas; the City of Benton, Arkansas; the North Little Rock Electric Department; and the City of Prescott, Arkansas.

<sup>98</sup> Joint Consumer Advocates for purposes of this filing are: Illinois Citizens Utility Board; Indiana Office of Utility Consumer Counselor; Iowa Office of Consumer Advocate; Michigan Citizens Against Rate Excess; Minnesota Department of Commerce; Missouri Office of Public Counsel; and Citizens Utility Board of Wisconsin.

Docket No. EL15-45-000

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Michigan Attorney General Bill Schuette

Michigan Public Power Agency

Michigan South Central Power Agency

Midcontinent MCN, LLC

Midwest Municipal Transmission Group

Midwest TDUs

Minnesota Large Industrial Group

Minnesota Municipal Power Agency

Missouri Joint Municipal Electric Utility Commission

NRG Companies<sup>99</sup>

Southern Minnesota Municipal Power Agency

Southwestern Electric Cooperative, Inc.

Transource Energy, LLC

Wabash Valley Power Association, Inc.

Wisconsin Electric Power Company

Wisconsin Industrial Energy Group

Wisconsin Public Service Corporation

WPPI Energy

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<sup>99</sup> NRG Companies for purposes of this filing are: NRG Power Marketing LLC and GenOn Energy Management, LLC.

**Notices of Intervention**

Arkansas Public Service Commission (Arkansas Commission)  
Council of the City of New Orleans, Louisiana

Illinois Commerce Commission (Illinois Commission)

Mississippi Public Service Commission and Mississippi Public Utilities Staff

Missouri Public Service Commission (Missouri Commission)

Organization of MISO States

**Motions to Intervene and Comments and/or Protests**

South Mississippi Electric Power Association (South Mississippi Electric)

Resale Power Group of Iowa (Iowa Group)<sup>100</sup>

**Answers to Complaint**

MISO TOs<sup>101</sup> (Answer to Complaint)

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<sup>100</sup> Iowa Group is: Amana Society Service Co.; Anita Municipal Utilities; City of Afton; City of Buffalo; City of Danville; City of West Liberty; Coggon Municipal Utilities; Dysart Municipal Utilities; Farmers Electric Cooperative-Kalona; Grand Junction Municipal Utilities; Hopkinton Municipal Utilities; La Porte City Utilities; Long Grove Municipal Electric Utilities; Mt. Pleasant Municipal Utilities; New London Municipal Utilities; Odgen Municipal Utilities; Sibley Municipal Utilities; State Center Municipal Utilities; Story City Municipal Electric Utility; Tipton Municipal Utilities; Traer Municipal Utilities; Vinton Municipal Electric Utility; and Whittemore Municipal Utilities.

<sup>101</sup> MISO TOs joining in the motion to dismiss and answer are: ALLETE for its operating division Minnesota Power (and its subsidiary Superior Water, L&P); Ameren Services Company, as agent for Union Electric Company, Ameren Illinois Company, and Ameren Transmission Company of Illinois; American Transmission Company LLC (ATC); Cleco Power LLC; Duke Energy Corporation for Duke Energy Indiana; Entergy Arkansas, Inc.; Entergy Louisiana, LLC; Entergy Gulf States Louisiana, L.L.C.; Entergy Mississippi, Inc.; Entergy New Orleans, Inc.; Entergy Texas, Inc.; Indianapolis Power & Light Company; International Transmission Company (ITC Transmission); ITC

(continued ...)

Xcel Energy Services, Inc. (Xcel) on behalf of its utility operating company affiliates Northern States Minnesota and Northern States Wisconsin

**Other Motions**

Iowa Utilities Board (Motion to Intervene)

Maryland Public Service Commission (Out-of-Time Motion to Intervene)

**Other Answers**

ABATE Complainants<sup>102</sup> (March 11, 2015) (Answer in Support of Complaint Requesting Fast Track Processing and Answer in Support of Motion to Consolidate)

Complainants (March 26, 2015) (Motion for Leave to Respond on Behalf of Arkansas Electric Cooperative Corporation, Mississippi Delta Energy Agency, Clarksdale Public Utilities Commission, Public Service Commission of Yazoo City, and Hoosier Energy Rural Electric Cooperative, Inc.)

Arkansas Electric Cooperative and Hoosier Cooperative (March 26, 2015) (Answer of Arkansas Electric Cooperative Corporation and Hoosier Energy Rural Electric Cooperative, Inc. to Answer of Xcel Energy Services, Inc.)

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Midwest LLC; and Michigan Electric Transmission Company, LLC (METC); MidAmerican Energy Company; Montana-Dakota Utilities Co.; Northern Indiana Public Service Company; Northwestern Wisconsin Electric Company; Otter Tail Power Company; Southern Indiana Gas & Electric Company d/b/a Vectren Energy Delivery of Indiana; and Wolverine Power Supply Cooperative, Inc.

<sup>102</sup> The ABATE Complainants for purposes of this filing are: Association of Businesses Advocating Tariff Equity; Coalition of MISO Transmission Customers; Illinois Industrial Energy Consumers; Indiana Industrial Energy Consumers, Inc.; Minnesota Large Industrial Group; and Wisconsin Industrial Energy Group.

**Appendix 4 – January 5, 2015 FERC Order Granting 50 Basis Point RTO Incentive  
Adder to MISO TOs ROE (Docket No. ER15-35845-000)**

150 FERC ¶ 61,004  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Chairman;  
Philip D. Moeller, Tony Clark,  
and Norman C. Bay.

Midcontinent Independent System  
Operator, Inc.

Docket No. ER15-358-000

ORDER ACCEPTING AND SUSPENDING TARIFF FILING

(Issued January 5, 2015)

1. On November 6, 2014, pursuant to sections 205 and 219 of the Federal Power Act (FPA)<sup>1</sup> and section 35.13 of the Commission's regulations,<sup>2</sup> the MISO Transmission Owners<sup>3</sup> submitted revisions to the Attachment O formula rate templates of Midcontinent

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<sup>1</sup> 16 U.S.C. §§ 824e, 824s (2012).

<sup>2</sup> 18 C.F.R. § 35.13 (2014).

<sup>3</sup> The MISO Transmission Owners for this filing consist of the following: ALLETE, Inc. for its operating division Minnesota Power (and its subsidiary Superior Water, L&P); Ameren Services Company, as agent for Ameren Missouri, Ameren Illinois, and Ameren Transmission Company of Illinois; American Transmission Company LLC (ATC); Cleco Power LLC; Duke Energy Corporation for Duke Energy Indiana, Inc.; Entergy Arkansas, Inc.; Entergy Louisiana, LLC; Entergy Gulf States Louisiana, L.L.C.; Entergy Mississippi, Inc.; Entergy New Orleans, Inc.; Entergy Texas, Inc.; Indianapolis Power & Light Company; ITC Transmission (ITC); ITC Midwest LLC; Michigan Electric Transmission Company, LLC (METC); MidAmerican Energy Company; Montana-Dakota Utilities Co.; Northern Indiana Public Service Company; Northern States Power Company, a Minnesota corporation, and Northern States Power Company, a Wisconsin corporation, subsidiaries of Xcel Energy Inc.; Northwestern Wisconsin Electric Company; Otter Tail Power Company; Vectren Energy Delivery of Indiana; and Wolverine Power Supply Cooperative, Inc.

Independent System Operator, Inc.'s (MISO) Open Access Transmission, Energy and Operating Reserve Markets Tariff (Tariff) to implement a 50-basis point adder (RTO Adder) to the authorized rate of return on equity (ROE) based on the MISO Transmission Owners' participation as members in a regional transmission organization (RTO).<sup>4</sup>

2. In this order, we accept the MISO Transmission Owners' request to implement the RTO Adder, subject to it being applied to a base ROE that has been shown to be just and reasonable based on an updated discounted cash-flow analysis and subject to the resulting ROE being within the zone of reasonableness determined by that updated discounted cash-flow analysis, as those may be determined in the pending complaint proceeding in Docket No. EL14-12-000 (Complaint Proceeding).<sup>5</sup> We accept the proposed revisions for filing and suspend them for a nominal period, to become effective January 6, 2015, subject to refund, and subject to the outcome of the Complaint Proceeding. We also accept the MISO Transmission Owners' request to defer collection of the RTO Adder pending the outcome of the Complaint Proceeding.

### **I. Background**

3. On November 12, 2013, a group of large industrial customers (Complainants) filed a complaint against MISO and certain of its transmission-owning members in the Complaint Proceeding.<sup>6</sup> Complainants contended that the current 12.38 percent base ROE allowed for MISO Transmission Owners is unjust and unreasonable. Complainants also contended that the ROE incentive adders received by ITC for being a member of an RTO and by both ITC and METC for being independent transmission owners are unjust and unreasonable and should be eliminated.

4. In the Complaint Hearing Order, the Commission granted in part the complaint with respect to the ROE and established hearing and settlement judge procedures.<sup>7</sup> The

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<sup>4</sup> MISO is also a party to the filing but states that it joins the filing solely as the administrator of its Tariff.

<sup>5</sup> See *Ass'n of Bus. Advocating Tariff Equity v. Midcontinent Indep. Sys. Operator, Inc.*, 149 FERC ¶ 61,049 (2014) (Complaint Hearing Order).

<sup>6</sup> Complainants are Association of Businesses Advocating Tariff Equity (ABATE); Coalition of MISO Transmission Customers; Illinois Industrial Energy Consumers; Indiana Industrial Energy Consumers, Inc.; Minnesota Large Industrial Group; and Wisconsin Industrial Energy Group.

<sup>7</sup> Complaint Hearing Order, 149 FERC ¶ 61,049 at P 183.

Commission denied the Complainants' challenges to ITC and METC's incentive adders.<sup>8</sup> In the Complaint Hearing Order, the Commission established a refund effective date of November 12, 2013 for MISO Transmission Owners' base ROE.

## II. Filing

5. On November 6, 2014, the MISO Transmission Owners submitted revisions to the Attachment O formula rate templates of the Tariff to allow the RTO Adder in addition to the Commission-approved base ROE for the MISO Transmission Owners.<sup>9</sup> The MISO Transmission Owners request a 50-basis point adder as an incentive for their membership in MISO, which they state is consistent with FPA section 219, Order No. 679, and Commission precedent granting a 50-basis point ROE adder to other utilities that join and maintain their memberships in RTOs.<sup>10</sup> The MISO Transmission Owners state that, in Order No. 679, the Commission made incentive ROE adders available to all transmission-owning utilities that join a Commission-approved transmission organization, and that subsequent Commission orders have made clear that this incentive for RTO participation remains available both to new and continuing RTO members.<sup>11</sup> The MISO Transmission Owners state that the Complaint Hearing Order reaffirmed that the RTO Adder remains available to transmission owners based on their participation in MISO.<sup>12</sup>

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<sup>8</sup> *Id.* P 200.

<sup>9</sup> The proposed Tariff revisions consist of a revision to Note P of the generic Attachment O formula rate template of the Tariff, which describes how the base ROE is established, and provides notice that the RTO Adder may be added to the base ROE up to the upper end of the zone of reasonableness approved by the Commission, and corresponding revisions to the company-specific Attachment O formula rate templates for each MISO Transmission Owner that has a company-specific formula rate.

<sup>10</sup> MISO Transmission Owners Transmittal Letter at 7 (citing *Promoting Transmission Investment through Pricing Reform*, Order No. 679, FERC Stats. & Regs. ¶ 31,222, at P 326 (2006), *order on reh'g*, Order No. 679-A, FERC Stats. & Regs. ¶ 31,236, at P 86, *order on reh'g*, 119 FERC ¶ 61,062 (2007)).

<sup>11</sup> *Id.*

<sup>12</sup> *Id.* at 8 (citing *Midwest Indep. Transmission Sys. Operator, Inc.*, 111 FERC ¶ 61,355, at P 5 (2005); *Michigan Elec. Transmission Co.*, 116 FERC ¶ 61,164, at P 15 (2006)).

6. The MISO Transmission Owners state that the requested RTO Adder will be added to the base ROE for each MISO Transmission Owner only to the extent that the addition of the adder results in a total ROE within the zone of reasonableness established by the Commission in the Complaint Proceeding.<sup>13</sup> The MISO Transmission Owners claim that, once the RTO Adder is implemented, their respective Commission-approved ROEs will remain just and reasonable.<sup>14</sup> The MISO Transmission Owners commit to restrict their total ROEs, including the RTO Adder, in accordance with any new range of reasonable returns adopted by the Commission in the Complaint Proceeding.

7. The MISO Transmission Owners state that, in connection with their commitment to restrict their total ROEs in accordance with any new range of reasonable returns adopted by the Commission in a final order in the Complaint Proceeding, the MISO Transmission Owners request a waiver of the portions of the Commission's section 35.13 rules that require the submission of cost of service information and statements, and testimony and exhibits to support the requested tariff changes, including the required discounted cash-flow analysis.<sup>15</sup> The MISO Transmission Owners argue that it is unnecessary to submit this information at this time because it would merely duplicate the exhibits and testimony that have been or may be filed in the Complaint Proceeding, given that the MISO Transmission Owners have agreed, for the purpose of implementing the RTO Adder, to adhere to any range of reasonable returns that the Commission may establish in the Complaint Proceeding.<sup>16</sup> Thus, the MISO Transmission Owners request a waiver of section 35.13(a), (c), (d), (e), and (h), and any other portions of 18 C.F.R. § 35.13 necessary to allow the Commission to accept the MISO Transmission Owners' addition of the RTO Adder to each MISO Transmission Owner's formula rate template contained in Attachment O of the Tariff based on the final outcome of the Complaint Proceeding.<sup>17</sup>

8. The MISO Transmission Owners also request waiver of the Commission's prior notice requirement pursuant to section 35.11 of the Commission's regulations to allow an

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<sup>13</sup> *Id.* at 8 (citing *Martha Coakley, Massachusetts Attorney General v. Bangor Hydro-Elec. Co.*, Opinion No. 531-A, 149 FERC ¶ 61,032, at PP 10-11 (2014)).

<sup>14</sup> *Id.* at 9.

<sup>15</sup> *Id.* at 11.

<sup>16</sup> *Id.*

<sup>17</sup> *Id.* (citing 18 C.F.R. § 35.13(a), (c), (d), (e), (h) (2014)).

effective date of November 7, 2014.<sup>18</sup> The MISO Transmission Owners state that ratepayers have been on notice of the MISO Transmission Owners' eligibility for the RTO Adder at least as far back as the order following remand of the 2003 ROE decision, and such notice was recently reiterated when the Complaint Hearing Order affirmed the continued validity of the RTO Adder for ITC.<sup>19</sup>

9. The MISO Transmission Owners state that they do not wish to complicate rate collection by collecting rates reflecting the RTO Adder at this time, only to have those rates possibly modified by the outcome of the Complaint Proceeding.<sup>20</sup> Therefore, the MISO Transmission Owners request Commission approval to defer collection of the RTO Adder until the Commission issues an order on the Complaint Proceeding, in which the Commission will establish a zone of reasonableness for the MISO Transmission Owners' ROEs.<sup>21</sup> The MISO Transmission Owners state that as proposed, the deferral would not modify the effective date of the RTO Adder, but would merely impact the timing of collection of the RTO Adder.<sup>22</sup> The MISO Transmission Owners state that by deferring the collection, but not the effectiveness, of the RTO Adder until the outcome of the Complaint Proceeding, MISO, the MISO Transmission Owners, and customers will benefit from the increased rate stability achieved by reducing the number of rate changes that may result from implementation of the RTO Adder and possibly from subsequent resolution of the Complaint Proceeding.<sup>23</sup>

### **III. Notice and Responsive Pleadings**

10. Notice of the MISO Transmission Owners' filing was published in the *Federal Register*, 79 Fed. Reg. 68,430 (2014), with interventions and protests due on or before November 28, 2014.

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<sup>18</sup> *Id.* (citing 18 C.F.R. §§ 35.3, 35.11 (2014)).

<sup>19</sup> *Id.* at 9 (citing *Midwest Indep. Transmission Sys. Operator, Inc.*, 100 FERC ¶ 61,292 (2002), *reh'g denied*, 102 FERC ¶ 61,143 (2003)).

<sup>20</sup> *Id.* at 10.

<sup>21</sup> *Id.*

<sup>22</sup> *Id.*

<sup>23</sup> *Id.* at 10-11.

11. The entities that filed notices of intervention, motions to intervene, protests, comments, and answers are listed in the Appendix to this order. The entity abbreviations listed in the Appendix will be used throughout this order.

**A. Comments and Protests**

**1. Appropriateness of RTO Adder**

12. A number of commenters argue that the proposed RTO Adder lacks sufficient justification. The Organization of MISO States argues that the RTO Adder is not just and reasonable nor in the public interest because the MISO Transmission Owners did not demonstrate that the RTO Adder incentive is necessary and results in demonstrable benefits to MISO's transmission customers.<sup>24</sup> Similarly, Consumer Advocates state that the RTO Adder is not just and reasonable nor in the public interest because it will not have any effect on RTO membership, the MISO Transmission Owners offer no incentive related justification, and providing a benefit to transmission owners that are already MISO members is unnecessary.<sup>25</sup> Joint Consumers state that the MISO Transmission Owners fail to demonstrate that the RTO Adder is necessary to incentivize them to join an RTO or remain members in an RTO.<sup>26</sup>

13. Coops/Municipals, Joint Consumers, and Resale Power Group of Iowa argue that while the Commission stated in Order No. 679 that "[it] will approve, *when justified*, requests for ROE-based incentives for public utilities that join and/or continue to be a member of an [Independent System Operator (ISO)], RTO, or other Commission-approved Transmission Organization," the MISO Transmission Owners do not provide any justification other than being members of an RTO.<sup>27</sup> Coops/Municipals state that the MISO Transmission Owners seek to imply that Order No. 679 created an entitlement to an adder for FERC-regulated transmission owners that are RTO members, but, however, Order No. 679 merely held open the possibility of such an adder, subject to the transmission owner or owners supplying the necessary justification.<sup>28</sup> Coops/Municipals

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<sup>24</sup> Organization of MISO States Comments at 2.

<sup>25</sup> Consumer Advocates Protest at 6-7.

<sup>26</sup> Joint Consumers Protest at 4.

<sup>27</sup> Coops/Municipals Protest at 5; Resale Power Group of Iowa Protest at 10; and Joint Consumers Protest at 4 (citing Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 326) (emphasis added by Coops/Municipals).

<sup>28</sup> Coops/Municipals Protest at 5.

argue that in lieu of a financial analysis, the MISO Transmission Owners' filing is deficient.<sup>29</sup>

14. Great Lakes Utilities and Southwestern Electric argue that granting the MISO Transmission Owners' request would not enhance reliability or increase the coordination of planning and operation of transmission facilities, which are the purported benefits of joining an ISO/RTO, because many of the MISO Transmission Owners have been members of MISO since its inception.<sup>30</sup> Southwestern Electric states that these adders represent a windfall for the MISO Transmission Owners and a burden on transmission customers that are increasingly saddled with transmission costs that are not connected to the actual cost of providing transmission service.<sup>31</sup> Great Lakes Utilities states that the Energy Policy Act of 2005 (EPAcT 2005) does not require the Commission to grant ROE adders of a full 50 basis points, nor does it stipulate that the incentives to be provided must take the form of an ROE adder or prohibit the Commission from limiting participation adders only to those utilities that are newly joining an ISO/RTO or from requiring more stringent criteria or demonstrations of utilities that have participated in an ISO/RTO for a number of years.<sup>32</sup> Great Lakes Utilities further comments that this proceeding provides the Commission with the opportunity to revisit its policy on ROE adders in a comprehensive fashion, which it has not done since the issuance of Order No. 679 in 2006.<sup>33</sup> Coops/Municipals also comment that EPAcT 2005 did not provide for incentives to utilities that had already joined an RTO.<sup>34</sup>

15. Joint Consumers argue that the benefits and costs of incentives must be roughly proportional, stating that “[i]f the Commission contemplates increasing rates for the purpose of encouraging a policy goal, then the Commission ‘must see to it that the increase is in fact needed, and is no more than is needed, for the purpose.’”<sup>35</sup> Joint

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<sup>29</sup> *Id.* at 4.

<sup>30</sup> Great Lakes Utilities Protest at 2; Southwestern Electric Protest at 4.

<sup>31</sup> Southwestern Electric Protest at 4.

<sup>32</sup> Great Lakes Utilities Protest at 2 (citing Pub. L. No. 109-58, § 1241, 119 Stat. 594 (2005)).

<sup>33</sup> *Id.*

<sup>34</sup> Coops/Municipals Protest at 4.

<sup>35</sup> Joint Consumers Protest at 4, 5 (citing *City of Detroit v. FPC*, 230 F.2d 810, 817 (D.C. Cir. 1955)).

Consumers argue that the RTO Adder cannot be justified and is unjust and unreasonable because the MISO Transmission Owners do not demonstrate that the RTO Adder provides benefits equal to or greater than the cost to customers.<sup>36</sup>

16. Some commenters also express concern that the MISO Transmission Owners' filing is improper because it does not reflect a case-by-case determination of the RTO Adder. Specifically, Joint Consumers state that granting the MISO Transmission Owners' request for the ROE Adder simply because the Commission has done so for other transmission owners would, in theory, create a generic adder and would go against the case-by-case approach that was expressly adopted in Order No. 679 and otherwise required by law.<sup>37</sup> Resale Power Group of Iowa also states that considering this case on a stand-alone basis does not mean that the Commission is compelled to reach the same result as in other cases because doing so would constitute a *de facto* generic RTO Adder, an approach the Commission has expressly rejected.<sup>38</sup> American Municipal Power states that because it would implement the RTO Adder for all MISO Transmission Owners as a group, rather than on a case-by-case basis, the proposed revision would deprive the Commission of the opportunity to consider, in advance of the adder's effectiveness, factors that might bear on the entitlement of any individual MISO Transmission Owner to receive the adder.<sup>39</sup> American Municipal Power also states that the Commission has recognized that fulfillment of its statutory mandate requires a case-by-case approach to implementation of the RTO Adder.<sup>40</sup>

## 2. Procedures For Implementation

17. Joint Consumers state that if the Commission does not reject the MISO Transmission Owners' RTO Adder filing, the Commission should initiate an evidentiary hearing because this proceeding raises genuine issues of material fact regarding whether, in the particular circumstances of this case, the RTO Adder would be just and reasonable.<sup>41</sup> Resale Power Group of Iowa states that a critical component of any rate

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<sup>36</sup> *Id.* at 5.

<sup>37</sup> *Id.* at 6.

<sup>38</sup> Resale Power Group of Iowa Protest at 11.

<sup>39</sup> American Municipal Power Protest at 3.

<sup>40</sup> *Id.* at 4.

<sup>41</sup> Joint Consumers Protest at 3, 6-7.

increase application is testimony and the supporting information required by section 35.13(c) of the Commissions regulations of the effect of the proposed rate change.<sup>42</sup> Resale Power Group of Iowa states that a filing under FPA section 205 requires evidentiary support and without such support, the Commission should reject the filing as patently deficient.<sup>43</sup> Resale Power Group of Iowa adds that the Commission must assess the proposed ROE Adder's impact on overall rates, but that the filing lacks critical evidence, which prevents the Commission from performing a full analysis of whether the RTO Adder results in just and reasonable rates.<sup>44</sup> Therefore, Resale Power Group of Iowa states that if the Commission does not reject the application as patently deficient, then Resale Power Group of Iowa requests that the Commission (1) order the MISO Transmission Owners to submit testimony and exhibits regarding the impact on customer rates of the proposed RTO Adder; and (2) establish a paper hearing on the issue of the rate impact of the RTO Adder.<sup>45</sup> Resale Power Group of Iowa also states that if the Commission does not reject the application as patently deficient, then Resale Power Group of Iowa requests that the Commission accept the application for filing, suspend the RTO Adder for the maximum five month period suspension provided under FPA section 205, subject to refund, and hold this proceeding in abeyance until issuance of a final order in the Complaint Proceeding.<sup>46</sup> Resale Power Group of Iowa states that “[i]f the Commission truly desires to advance its policy of encouraging settlements, the more uncertainty as to an ultimate outcome incentivizes the parties [in the Complaint Proceeding] to reach their own agreement.”<sup>47</sup>

18. Alliant, Organization of MISO States, and Consumer Advocates request that the Commission consolidate the instant proceeding with the Compliant Proceeding. Specifically, Alliant states that the most efficient, holistic and expeditious means to resolve the ROE matter is to consolidate the instant proceeding with the broader evaluation of the MISO ROE in the Complaint Proceeding, because the overall ROE is impacted by the base ROE and the capital structure employed including any incentive

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<sup>42</sup> Resale Power Group of Iowa Protest at 6.

<sup>43</sup> *Id.* at 7 (citing *Consolidated Edison Co. of New York, Inc.*, 131 FERC ¶ 61,274, at P 12 (2010)).

<sup>44</sup> *Id.* at 10.

<sup>45</sup> *Id.* at 12.

<sup>46</sup> *Id.* at 4.

<sup>47</sup> *Id.* at 13.

adders granted.<sup>48</sup> Alliant also notes that, in Order No. 679, the Commission recognized that “issues concerning risk [...] are more appropriately addressed in the proceedings that evaluate proxy companies and set a zone of reasonableness.”<sup>49</sup> Organization of MISO States and Consumer Advocates contend that the MISO Transmission Owners’ waiver and deferral requests clearly demonstrate the linkage between the RTO Adder and the level of the base ROE and the zone of reasonableness for the MISO Transmission Owners’ ROE to be determined in the ongoing Complaint Proceeding.<sup>50</sup>

19. Coops/Municipals state that the MISO Transmission Owners have made no attempt to meet the requirements for waiver of the 60-day prior notice requirements.<sup>51</sup> Resale Power Group of Iowa and MDEA also state that none of the circumstances justifying waiver exist in this case, and, moreover, the MISO Transmission Owners have not made a strong showing of good cause.<sup>52</sup> MMTG/MJMEUC also states that the MISO Transmission Owners fail to adequately justify their requested effective date.<sup>53</sup>

### 3. Implementation of RTO Adder for MISO Entities Who Are Not Applicants Here

20. MMTG/MJMEUC, Missouri River Energy, and Great River Energy state that they are, or have members who are or may become, public power transmission-owning members of MISO and they request that the Commission also grant the RTO Adder to them and other similarly situated entities subject to an appropriate compliance filing, if the Commission grants the RTO Adder to the MISO Transmission Owners.<sup>54</sup> Transource Wisconsin and Duke-American state that they are transmission developers who are not yet transmission-owning members of MISO but intend to become MISO Transmission Owners. Transource Wisconsin requests that the Commission find that each Transource

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<sup>48</sup> Alliant Protest at 5.

<sup>49</sup> *Id.* (citing Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 326).

<sup>50</sup> Organization of MISO States Protest at 4; Consumer Advocates Protest at 7.

<sup>51</sup> Coops/Municipals Protest at 6.

<sup>52</sup> Resale Power Group of Iowa Protest at 12; MDEA Protest at 2.

<sup>53</sup> MMTG/MJMEUC Protest at 3 n.3.

<sup>54</sup> MMTG/MJMEUC Protest at 3; Missouri River Energy Comments at 5; Great River Energy Comments at 2.

MISO entity may include the RTO Adder in its formula rate once it becomes a MISO Transmission Owner and makes a compliance filing to incorporate the formula rate into Attachment O of the Tariff.<sup>55</sup> Duke-American similarly requests that the Commission find that the RTO Adder will be applicable to Duke-American entities that become MISO Transmission Owners in the future.<sup>56</sup>

21. Great River Energy states that it is concerned that granting the RTO Adder to the MISO Transmission Owners without granting the same to other transmission-owning members of MISO, such as Great River Energy, will not be a just and reasonable outcome.<sup>57</sup> MMTG/MJMEUC state that to allow the incentive only to the requesting MISO Transmission Owners would be unduly discriminatory and preferential.<sup>58</sup> MMTG/MJMEUC also note that “[section 219 of the FPA] states that incentive-based rate treatments to ‘promote reliable and economically efficient transmission’ are to be applied ‘regardless of the ownership of the facilities.’”<sup>59</sup> MMTG/MJMEUC also state that section 219 of the FPA precludes providing certain investor owned utilities with an RTO incentive that public power systems do not receive on a comparable basis, noting that subsection 219(c) of the FPA mandates that an incentives “rule issued under this section [. . .] provide[s] for incentives *to each transmitting utility or electric utility* that joins a Transmission Organization.”<sup>60</sup>

22. MMTG/MJMEUC also state that, if the dominant transmission owners who are represented in the MISO Transmission Owners’ filing need an RTO incentive, this need would apply no less to smaller MISO public power entities because they are smaller entities and newer investors in high voltage grid transmission relative to the MISO Transmission Owners and would find financing more difficult than the MISO Transmission Owners.<sup>61</sup> MMTG/MJMEUC state that, moreover, a failure to allow

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<sup>55</sup> Transource Wisconsin Comments at 2.

<sup>56</sup> Duke-American Comments at 1.

<sup>57</sup> Great River Energy Comments at 2.

<sup>58</sup> MMTG/MJMEUC Protest at 3.

<sup>59</sup> *Id.* at 3-4 (citing 16 U.S.C. § 824s (2012)).

<sup>60</sup> *Id.* at 5 (citing 16 U.S.C. § 824s(c) (2012)) (emphasis added by MMTG/MJMEUC).

<sup>61</sup> *Id.* at 7 (citing *Central Minnesota Mun. Power Agency*, 134 FERC ¶ 61,115, PP 30-33 (2011)).

MMTG transmission-owning members, and like smaller systems, incentive rate recovery that the MISO Transmission Owners will receive can only disadvantage smaller systems competitively in their abilities to finance and invest in transmission, to the overall public's detriment.<sup>62</sup> Missouri River Energy states that the Commission has held that transmission-owning, non-public utilities are entitled to the same ROE as transmission-owning Public Utilities, and accordingly, acceptance of the proposed 50-basis point adder for the MISO Transmission Owners should therefore be extended to MISO's transmission-owning, non-public utility members.<sup>63</sup>

23. Regarding the availability of the RTO Adder to transmission developers who will become MISO Transmission Owners, Transource Wisconsin states that it is important that non-incumbent developers are able to compete for transmission projects on a level playing field.<sup>64</sup> Transource Wisconsin notes that its proposed formula rate currently exists in a stand-alone eTariff database, and has not yet been included in Attachment O of the Tariff.<sup>65</sup> Transource Wisconsin states, therefore, that the MISO Transmission Owners proposed Tariff changes do not benefit Transource Wisconsin.<sup>66</sup>

## **B. MISO Transmission Owners' Answer**

### **1. Appropriateness of RTO Adder**

24. The MISO Transmission Owners assert that arguments suggesting that the MISO Transmission Owners have not provided sufficient justification for granting the RTO Adder or a showing of need for the RTO Adder are unavailing.<sup>67</sup> The MISO Transmission Owners state that when reviewing RTO incentive requests, the Commission looks only at whether the utility is or will become a member of an RTO and whether the resulting total ROE, including the RTO incentive, remains within a zone of

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<sup>62</sup> *Id.*

<sup>63</sup> Missouri River Energy Comments at 5 (citing *Midwest Indep. Transmission Sys. Operator, Inc.*, 128 FERC ¶ 61,047, at P 24 (2009)).

<sup>64</sup> Transource Wisconsin Comments at 5.

<sup>65</sup> *Id.*

<sup>66</sup> *Id.*

<sup>67</sup> MISO Transmission Owners Answer at 13.

reasonableness established by the Commission.<sup>68</sup> The MISO Transmission Owners argue that the additional information requested by commenters has not been required previously and should not be required here, and arguments to the contrary are collateral attacks on the Commission's prior orders and should be rejected as such.<sup>69</sup>

25. The MISO Transmission Owners state that requests to deny the RTO Adder on the basis that EPCRA 2005 does not specifically authorize an incentive adder for continued RTO participation, the MISO Transmission Owners already participate in an RTO, few members have left RTOs, or new members have joined MISO, all represent impermissible collateral attacks on Order No. 679.<sup>70</sup> The MISO Transmission Owners assert that the Commission expressly stated in Order No. 679 that "entities that *have already joined, and that remain members* of, an RTO, ISO, or other Commission-approved Transmission Organization are eligible to receive this incentive..." and "[The Commission's] interpretation of the statute is that eligibility for this incentive flows to an entity that 'joins' a Transmission Organization and is not tied to when the entity

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<sup>68</sup> *Id.* at 11-13, 12 n.39 (citing *Central Transmission, LLC*, 135 FERC ¶ 61,145, at PP 78-79 (2011) (granting an RTO incentive conditioned upon RTO membership and subject to the overall ROE being within the zone of reasonableness); *New York Reg'l Interconnect, Inc.*, 124 FERC ¶ 61,259, at P 38 (2008) (accepting RTO incentive "conditioned on [New York Independent System Operator, Inc. (NYISO)] approving [New York Regional Interconnect, Inc.'s (NYRI)] membership application and on NYRI's continued participation in NYISO" and "further conditioned on the final ROE being within the zone of reasonable returns"); *Niagara Mohawk Power Corp.*, 124 FERC ¶ 61,106, at P 35 (2008) ("We will grant up to 50 basis points of incentive ROE for Niagara Mohawk's continued participation in NYISO, subject to the conditions of this order and the zone of reasonable returns.")).

<sup>69</sup> *Id.* at 13.

<sup>70</sup> *Id.* at 15 (citing *Virginia Elec. & Power Co.*, 123 FERC ¶ 61,098, at P 54 (2008) (rejecting an argument that incentive adders should not be awarded for continued RTO participation as "a collateral attack on Order No. 679-A"); *Baltimore Gas & Elec. Co.*, 120 FERC ¶ 61,084, at P 31 (2007) (characterizing arguments that RTO incentives should not be awarded for continued RTO membership as collateral attacks on Order No. 679-A); *Pepco Holdings, Inc.*, 121 FERC ¶ 61,169, at P 16 (2007) ("[Delaware Municipal Electric Corporation, Inc.'s] protest that PHI Affiliates should not be rewarded for its continued membership in [PJM Interconnection, L.L.C.] is inconsistent with Order No. 679-A . . . .")).

joined.”<sup>71</sup> The MISO Transmission Owners state that the Commission should continue to honor its policy for current RTO members and reject arguments that the incentive is no longer necessary for current RTO members as collateral attacks.<sup>72</sup>

26. The MISO Transmission Owners state that arguments requesting the RTO Adder be rejected because of a lack of cost-benefit showing lack merit and should be rejected. The MISO Transmission Owners state that the Commission rejected arguments requiring a showing of net benefits or a cost-benefit analysis to grant rate incentives,<sup>73</sup> and the Commission upheld its determination in Order No. 679-A.<sup>74</sup> The MISO Transmission Owners also state that the Commission has routinely granted RTO membership incentives without any cost-benefit showing, observing that “[t]he consumer benefits, including reliability and cost benefits, provided by Transmission Organizations are well documented, and the best way to ensure those benefits are spread to as many consumers as possible is to provide an incentive that is *widely available* to member utilities of Transmission Organizations and is effective for the entire duration of a utility’s membership in the Transmission Organization.”<sup>75</sup>

27. The MISO Transmission Owners state that commenters who claim that the MISO Transmission Owners’ filing is improper because it does not reflect a case-by-case determination of the RTO Adder misconstrue the language of Order No. 679.<sup>76</sup> The MISO Transmission Owners argue that by declining to establish a “generic” adder for RTO membership, the Commission did not preclude members of an RTO from petitioning the Commission as a group for an incentive adder to a group ROE.<sup>77</sup> The

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<sup>71</sup> *Id.* at 15-16 (citing Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 331).

<sup>72</sup> *Id.* at 16.

<sup>73</sup> *Id.* at 14 (citing Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 65 (“We affirm the NOPR’s determination not to require applicants for incentive-based rate treatments to provide cost-benefit analysis.”)).

<sup>74</sup> *Id.* at 14 (citing Order No. 679-A, FERC Stats. & Regs. ¶ 31,236 at PP 35-40).

<sup>75</sup> *Id.* at 14-15 (citing Order No. 679-A, FERC Stats. & Regs. ¶ 31,236 at P 86).

<sup>76</sup> *Id.* at 16.

<sup>77</sup> *Id.*

MISO Transmission Owners state that, instead, the Commission merely opted to “consider the appropriate ROE incentive when public utilities request this incentive.”<sup>78</sup>

## 2. Procedures For Implementation

28. The MISO Transmission Owners state that requests to initiate an evidentiary hearing in this proceeding are groundless and should be rejected. The MISO Transmission Owners argue that the courts and Commission have consistently held that a hearing is not required to resolve disputed issues of material fact unless issues of motive, intent, credibility, or a past event are in dispute,<sup>79</sup> and “[t]he mere assertion that a trial-type hearing is necessary, without identifying specific factual disputes that cannot be resolved on the basis of a written record, is not sufficient.”<sup>80</sup> The MISO Transmission Owners state that the only relevant issue of fact is whether the MISO Transmission Owners are members of a Commission-approved RTO, which is undisputed, and, thus, the Commission’s standard for initiating a hearing has not been met.<sup>81</sup> The MISO Transmission Owners also state that because the appropriate zone of reasonableness will

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<sup>78</sup> *Id.* (citing Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 326; *Midwest Indep. Transmission Sys. Operator, Inc.*, 111 FERC ¶ 61,355, at P 5 (2005); *Michigan Elec. Transmission Co.*, 113 FERC ¶ 61,343, at P 15 (2005)).

<sup>79</sup> *Id.* at 6 (citing *Union Pac. Fuels v. FERC*, 129 F.3d 157, 164 (D.C. Cir. 1997) (“FERC may resolve factual issues on a written record unless motive, intent, or credibility are at issue or there is a dispute over a past event.”); *Southern California Edison Co.*, 109 FERC ¶ 61,086, at P 38 (2004); *Blumenthal v. FERC*, 613 F.3d 1142, 1145 (D.C. Cir. 2010) (“Even when there are disputed factual issues, FERC does not need to conduct an evidentiary hearing if it can adequately resolve the issues on a written record.”)).

<sup>80</sup> *Id.* at 6-7 (citing *Pub. Serv. Co. of Ind., Inc.*, 51 FERC ¶ 61,367, at 62,219 (1990) (emphasis added by MISO Transmission Owners); *Ill. Commerce Comm’n v. FERC*, 721 F.3d 764, 776 (7th Cir. 2013) (stating that the Commission “need not conduct an oral hearing if it can adequately resolve factual disputes on the basis of written submissions”), *cert. denied*, 134 S. Ct. 1277 (2014); *Woolen Mill Assoc. v. FERC*, 917 F.2d 589, 592 (D.C. Cir. 1990) (stating that “mere allegations of disputed fact are insufficient to mandate a hearing”); *Pepco Holdings, Inc.*, 124 FERC ¶ 61,176, at P 130 (2008)).

<sup>81</sup> *Id.* at 7.

be determined in the Complaint Proceeding, there is no need to establish another hearing in this case to address the issue.<sup>82</sup>

29. The MISO Transmission Owners also state that Resale Power Group of Iowa's request for a five-month suspension or indefinite abeyance of the instant proceeding seeks relief that is inappropriate under Commission precedent. The MISO Transmission Owners state that it is Commission policy to impose a five-month suspension only when "[the Commission's] preliminary analysis indicates that proposed rates may be unjust and unreasonable and substantially excessive."<sup>83</sup> The MISO Transmission Owners also note that given the limitation imposed by the zone of reasonableness, the rate resulting from the inclusion of the RTO Adder will be just and reasonable. Furthermore, the MISO Transmission Owners state that the instant proceeding does not meet the standard for a five-month suspension because the upper end of the zone of reasonableness ensures that any possible rate increase will not be substantially excessive.<sup>84</sup>

30. The MISO Transmission Owners argue that the alleged "linkage" between the instant proceeding and the Complaint Proceeding provides no basis for consolidation and the Commission should reject such consolidation requests.<sup>85</sup> The MISO Transmission Owners note that "[t]he Commission's policy is to consolidate matters only if a trial-type evidentiary hearing is required to resolve common issues of law and fact and consolidation will ultimately result in greater administrative efficiency."<sup>86</sup> The MISO Transmission Owners state that the instant proceeding and the Complaint Proceeding are separate cases involving different matters, different burdens of proof, and different

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<sup>82</sup> *Id.*

<sup>83</sup> *Id.* at 9-10 (citing *American Elec. Power Serv. Corp.*, 120 FERC ¶ 61,205, at P 27 (2007) (citing *West Texas Utils. Co.*, 18 FERC ¶ 61,189 (1982) (*West Texas*)) (summarizing the Commission's standard for a five-month suspension), *order on reh'g*, 121 FERC ¶ 61,245 (2007); *Pacific Gas & Electric Co.*, 148 FERC ¶ 61,245, at P 26 (2014) (stating that, under *West Texas*, the Commission imposes a five-month suspension when its preliminary analysis indicates that the proposed rates may be unjust and unreasonable and may be substantially excessive)).

<sup>84</sup> *Id.* at 10-11.

<sup>85</sup> *Id.* at 8-9.

<sup>86</sup> *Id.* at 7-8 (citing *Southwest Power Pool, Inc.*, 144 FERC ¶ 61,059, at P 18 (2013), *order on reh'g*, 149 FERC ¶ 61,048 (2014); *ISO New England Inc.*, 143 FERC ¶ 61,150, at P 10 (2013)).

showings, and no trial-type hearing is necessary in this case because there is no factual issue here regarding the MISO Transmission Owners' eligibility for the RTO Adder.<sup>87</sup> The MISO Transmission Owners state that the fact that one case will rely on a single finding in another case does not mean that the cases must be consolidated to promote greater administrative efficiency, and no such efficiency will be gained by doing so here.<sup>88</sup> The MISO Transmission Owners state, therefore, that the Commission can accept the instant proceeding, subject to the outcome of the Complaint Proceeding, without consolidating the two matters or setting the RTO Adder for hearing.<sup>89</sup> The MISO Transmission Owners state that the Commission routinely has summarily granted an RTO incentive adder without subjecting the requested RTO incentive to further review in a hearing, even when the appropriate base ROE and zone of reasonableness were set for hearing.<sup>90</sup>

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<sup>87</sup> *Id.* at 8.

<sup>88</sup> *Id.*

<sup>89</sup> *Id.* (citing *Xcel Energy Transmission Dev. Co.*, 149 FERC ¶ 61,181, at P 53 (2014) (accepting, without consolidation, formula rate protocols subject to the outcome of a separate compliance proceeding); *Transource Wisconsin, LLC*, 149 FERC ¶ 61,180, at P 56 (2014); *Southern California Edison Co.*, 146 FERC ¶ 61,177, at P 16 (2014) (accepting, without consolidation, an agreement subject to the outcome of a separate complaint proceeding involving a common issue)).

<sup>90</sup> *Id.* (citing *Valley Elec. Ass'n*, 141 FERC ¶ 61,238, at P 26 (2012) (“We will however, consistent with previous orders, summarily grant the 50-basis points of incentive ROE adder for Valley Electric’s participation in CAISO, subject to suspension [of. other aspects of the filing] and the zone of reasonable returns determined at hearing.”); *Pacific Gas and Electric Co.*, 141 FERC ¶ 61,168, at P 24 (2012) (“summarily accept[ing]” an RTO incentive adder, subject to the zone of reasonableness and suspension of other aspects of the rate filing); *AEP Appalachian Transmission Co., Inc.*, 130 FERC ¶ 61,075, at P 21 (2010) (accepting a proposed ROE incentive for RTO participation as just and reasonable and not unduly discriminatory even though other aspects of the filing, including the Base ROE, were set for hearing); *Virginia Electric & Power Co.*, 123 FERC ¶ 61,098, at P 54 (2008) (granting an RTO incentive adder despite rejecting proposed ROE)).

31. In response to commenters, the MISO Transmission Owners state that parties have received ample notice, as contemplated in the FPA, and the request for a waiver of the Commission's prior notice requirement is entirely appropriate.<sup>91</sup>

**C. MMTG/MJMEUC Answer**

32. In their answer, MMTG/MJMEUC argue that the MISO Transmission Owners make no showing that the RTO Adder would serve public needs in this case, such as causing them to join or continue membership in MISO, and neither the waivers nor applying the RTO Adder presently or in the future is justified.<sup>92</sup>

33. MMTG/MJMEUC state that the MISO Transmission Owners made a voluntary choice to not request an RTO Adder before the instant filing because they would have risked the possibility that a Commission investigation into their ROE would ultimately reduce their authorized ROE.<sup>93</sup> MMTG/MJMEUC state that the RTO Adder cannot be included in rates now because the MISO Transmission Owners cannot show the lawfulness of the resulting 12.88 percent ROE with the RTO Adder,<sup>94</sup> and the MISO Transmission Owners implicitly recognize that the total 12.88 percent equity rate of return may not be just and reasonable or within the zone of reasonableness.<sup>95</sup>

34. MMTG/MJMEUC state that the MISO Transmission Owners' filing cannot be accepted as a change of rate filing under section 205 of the FPA, because the MISO Transmission Owners do not seek a change to the ROE for any rates that they propose to collect currently.<sup>96</sup> MMTG/MJMEUC state the filing is no more than a current request to authorize a future retroactive rate collection for a rate adder for which collection cannot be currently justified.<sup>97</sup> MMTG/MJMEUC state, however, that even if the filing were accepted as an FPA section 205 rate change, the MISO Transmission Owners have not

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<sup>91</sup> *Id.* at 4-5.

<sup>92</sup> MMTG/MJMEUC Answer at 3-4.

<sup>93</sup> *Id.* at 2.

<sup>94</sup> *Id.* (citing *Pub. Serv. Comm'n of Ky. v. FERC*, 397 F.3d 1004 (D.C. Cir. 2005)).

<sup>95</sup> *Id.* at 3 (citing MISO Transmission Owners Answer at 3-4, 10).

<sup>96</sup> *Id.*

<sup>97</sup> *Id.*

justified waiving the 60-day prior notice period and five-month suspension period.<sup>98</sup> MMTG/MJMEUC argue that if the MISO Transmission Owners can support the RTO Adder as an addition to the ROE that may be established in the future, they must file in the context of those rates.

35. MMTG/MJMEUC also state that any order granting the MISO Transmission Owners' request should specify other transmission-owning members of MISO are entitled to non-discriminatory treatment subject to any appropriate implementing filings.<sup>99</sup>

#### IV. Discussion

##### A. Procedural Matters

36. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2014), the notices of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

37. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d) (2014), the Commission will grant the late-filed motions to intervene of East Texas Cooperatives, Southwestern Electric, Duke-American, and Missouri River Energy, given their interest in the proceeding, the early stage of the proceeding, and the absence of undue prejudice or delay.

38. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2014), prohibits an answer to a protest or an answer unless otherwise ordered by the decisional authority. We will accept the MISO Transmission Owners' and MMTG/MJMEUC's answers because they have provided information that assisted us in our decision-making process.

##### B. Substantive Matters

###### 1. MISO Transmission Owners' Request for the RTO Adder

39. We grant the MISO Transmission Owners' request for a 50-basis point adder to their base ROE for their participation in MISO, consistent with section 219 of the FPA

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<sup>98</sup> *Id.*

<sup>99</sup> *Id.* at 4 (citing MISO Transmission Owners Answer at 11 n.36).

and Commission precedent,<sup>100</sup> subject to it being applied to a base ROE that has been shown to be just and reasonable based on an updated discounted cash-flow analysis and subject to the resulting ROE being within the zone of reasonableness determined by that updated discounted cash-flow analysis, as those may be determined in the Complaint Proceeding.

40. In EPCRA 2005, Congress added section 219 to the FPA, directing the Commission to establish, by rule, incentive-based rate treatments for the transmission of electric energy in interstate commerce by public utilities for the purpose of benefiting consumers by ensuring reliability or reducing the cost of delivered power by reducing transmission congestion.<sup>101</sup> The purpose of this rule is, *inter alia*, to promote reliable and economically efficient transmission and generation of electricity by promoting capital investment in electric transmission infrastructure.<sup>102</sup> The Commission subsequently issued Order No. 679,<sup>103</sup> which sets forth processes by which a public utility may seek transmission rate incentives, pursuant to section 219 of the FPA, including the incentives requested here by the MISO Transmission Owners.

41. We reject protestors' arguments that the proposed RTO Adder lacks sufficient justification. A utility is presumed eligible for an RTO incentive "if it can demonstrate that it has joined an RTO, ISO, or other Commission-approved Transmission Organization, and that its membership is on-going"<sup>104</sup> and need not provide additional justification as to the necessity or benefits of the incentive. We agree with protestors that the RTO Adder is not an "entitlement" and may be subject to further analysis,<sup>105</sup> which is

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<sup>100</sup> See, e.g., *Pacific Gas and Electric Co.*, 148 FERC ¶ 61,245, at P 30 (2014) (granting 50-basis point adder for continued RTO participation); *Valley Elec. Ass'n*, 141 FERC ¶ 61,238, at P 26 (2012) (granting 50-basis point adder for RTO participation); *Pacific Gas and Electric Co.*, 141 FERC ¶ 61,168, at P 25 (2012).

<sup>101</sup> 16 U.S.C. § 824s(a), (b) (2012).

<sup>102</sup> *Id.*

<sup>103</sup> Order No. 679, FERC Stats. & Regs. ¶ 31,222.

<sup>104</sup> *Id.* P 327. MISO is already covered under the Commission's definition. See *id.* P 328 (stating that all RTOs and ISOs are already covered by the approved definition).

<sup>105</sup> See, e.g., *Central Transmission, LLC*, 135 FERC ¶ 61,145 at PP 78-79 (granting an RTO incentive conditioned upon RTO membership and subject to the overall ROE being within the zone of reasonableness); *New York Reg'l Interconnect, Inc.*, 124 FERC ¶ 61,259 at P 38 (accepting RTO incentive "conditioned on NYISO approving

(continued...)

why we subject our granting of the MISO Transmission Owners' requested 50-basis point adder to the determination of a just and reasonable base ROE and zone of reasonableness, as those may be determined in the Complaint Proceeding.

42. We disagree with protestors' arguments that the RTO Adder should be denied because granting the request would not benefit reliability or increase the coordination of planning and operation of transmission facilities. Protestors provide no support for such assertion. Protestors continue to argue that no incentive adder is needed to incent participation in MISO. We reiterate that the basis for the incentive adder is a recognition of the benefits that flow from membership in an RTO, ISO, or other Commission-approved Transmission Organization and that *continuing* membership is generally voluntary.<sup>106</sup> Therefore, consistent with the policy in Order No. 679 to encourage continued involvement in MISO, we find that the requested 50-basis point adder is appropriate, subject to the determination of the just and reasonable base ROE and zone of reasonableness.<sup>107</sup>

43. We also reject protestors' arguments that the MISO Transmission Owners' filing is improper because it does not reflect a case-by-case determination of the RTO Adder. In Order No. 679, the Commission declined to create a generic adder, but stated that it "will consider the appropriate ROE incentive when public utilities request this incentive."<sup>108</sup> Therefore, the Commission did not preclude members of an RTO from requesting an incentive adder as a group, as the MISO Transmission Owners did here.

44. Accordingly, we find that the MISO Transmission Owners are qualified to receive the requested 50-basis point adder, subject to it being applied to a base ROE that has been

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NYRI's membership application and on NYRI's continued participation in NYISO" and "further conditioned on the final ROE being within the zone of reasonable returns"); *Niagara Mohawk Power Corp.*, 124 FERC ¶ 61,106 at P 35 ("We will grant up to 50 basis points of incentive ROE for Niagara Mohawk's continued participation in NYISO, subject to the conditions of this order and the zone of reasonable returns.").

<sup>106</sup> Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 331 (emphasis added).

<sup>107</sup> See *Pacific Gas and Electric Co.*, 141 FERC ¶ 61,168, at P 25 (2012) (determining that granting Pacific Gas and Electric (PG&E) an incentive ROE for participation in the CAISO is consistent with the stated purpose of FPA section 219 as amended by EPAct 2005 and is intended to encourage PG&E's continued involvement in the CAISO, despite arguments that such incentive is no longer necessary).

<sup>108</sup> Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 326.

shown to be just and reasonable based on an updated discounted cash-flow analysis and subject to the resulting ROE being within the zone of reasonableness determined by that updated discounted cash-flow analysis, as those may be determined in the Complaint Proceeding, because all of the MISO Transmission Owners are members of MISO, a Commission-authorized RTO. Our approval of this incentive is based on the MISO Transmission Owners' commitment to continue being members of MISO.

**2. MISO Transmission Owners' Request for Waiver of the Requirement for Supporting Evidence and Protestors' Motion to Consolidate**

45. Based upon a review of the filing and the comments, our preliminary analysis indicates that the overall ROE resulting from application of the RTO Adder has not been shown to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory, or otherwise unlawful (i.e., it has not been shown to be just and reasonable to apply the RTO Adder to the current base ROE). Accordingly, we accept the revisions to Attachment O of the Tariff, suspend them for a nominal period to become effective January 6, 2015,<sup>109</sup> subject to refund, and subject to the RTO Adder being applied to a base ROE that has been shown to be just and reasonable based on an updated discounted cash-flow analysis and the resulting ROE being within the zone of reasonableness determined by that updated discounted cash-flow analysis, as those may be determined in the Complaint Proceeding, and make the proposed revisions subject to the outcome of the Complaint Proceeding. Because we are accepting the proposed revisions subject to the outcome of the Complaint Proceeding for the purpose of determining the just and reasonable base ROE and the zone of reasonableness, we grant the MISO Transmission Owners' request for waiver of the portions of the Commission's section 35.13 requirements that require the submission of cost of service information, statements, testimony, and exhibits to support the requested tariff changes, including the required discounted cash-flow analysis.

**3. MISO Transmission Owners' Request for Waiver of Prior Notice Requirement**

46. We deny the MISO Transmission Owners' request for waiver of the 60-day prior notice requirement for failure to show good cause. The fact that ratepayers were on notice of the MISO Transmission Owners' eligibility to receive the RTO Adder does not constitute notice of the MISO Transmission Owners' decision to request the RTO Adder, nor does it constitute good cause for waiver of the 60-day prior notice requirement.

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<sup>109</sup> As discussed below, we deny the MISO Transmission Owners' request that the Commission waive the prior notice requirement.

Accordingly, we establish an effective date for the proposed Tariff revisions of January 6, 2015, subject to refund.

**4. MISO Transmission Owners' Request to Defer Collection of the RTO Adder**

47. We accept the MISO Transmission Owners' commitment to defer collection of the RTO Adder pending the outcome of the Complaint Proceeding, noting that the RTO Adder will be effective as of January 6, 2015. This should promote administrative efficiency.

**5. Implementation of the RTO Adder for Other MISO Transmission Owners**

48. Consistent with the way that the generally applicable MISO ROE is available for use by any MISO transmission owner,<sup>110</sup> we affirm that the RTO Adder would be available for use by any transmission-owning members of MISO that have turned operational control of their transmission system over to MISO and use the generally applicable MISO ROE, subject to the conditions concerning the base ROE and zone of reasonableness discussed above. However, those entities utilizing an Attachment O formula that has not been revised to reflect the RTO Adder in the instant proceeding will need to make a filing under section 205 to reflect the RTO Adder in their formula in order to be able to include the RTO Adder in rates that are calculated pursuant to their formula.

The Commission orders:

The proposed Tariff revisions are hereby accepted for filing, subject to refund, and suspended for a nominal period to become effective January 6, 2015, subject to the proposed RTO Adder being applied to a base ROE that has been shown to be just and reasonable based on an updated discounted cash-flow analysis and subject to the resulting

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<sup>110</sup> See, e.g., *DATC Midwest Holdings, LLC*, 139 FERC ¶ 61,224, at P 83 (2012) (explaining that transmission-owning members of MISO are currently authorized to use a 12.38 percent ROE for calculating their annual transmission revenue requirement, and that if DATC becomes a transmission-owning member of MISO, it will also be entitled to receive the then-current ROE that the Commission has approved for MISO transmission owners, as long as it remains a member of MISO).

ROE being within the zone of reasonableness determined by that updated discounted cash-flow analysis, as those may be determined in the Complaint Proceeding, and subject to the outcome of the Complaint Proceeding, as discussed in the body of this order.

By the Commission. Commissioner Honorable is not participating.

( S E A L )

Kimberly D. Bose,  
Secretary.

## Appendix

### Motions to Intervene

Consumers Energy Company

Iowa Utilities Board

DTE Electric Company

Alliant Energy Corporate Services, Inc. (Alliant)

NRG Companies<sup>111</sup>

South Mississippi Electric Power Association (SMEPA)

Wabash Valley Power Association, Inc. (WVPA)

Wisconsin Public Service Corporation

Michigan Public Power Agency

Michigan South Central Power Agency

Occidental Power Services, Inc.

Midcontinent MCN, LLC

Madison Gas & Electric Company and WPPI Energy

Dairyland Power Cooperative (Dairyland)

Arkansas Electric Cooperative Corporation

Great Lakes Utilities

Mississippi Delta Energy Agency, Clarksdale Public Utilities Commission, and Public Service Commission of Yazoo City (MDEA)

Illinois Municipal Electric Agency (IMEA)

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<sup>111</sup> NRG Companies are NRG Power Marketing LLC and GenOn Energy Management, LLC.

Wisconsin Electric Power Company

Xcel Energy Services Inc.

Indiana Industrial Energy Consumers, Inc.

Coalition of MISO Transmission Customers

Illinois Industrial Energy Consumers

Minnesota Large Industrial Group

Association of Businesses Advocating Tariff Equity (ABATE)

Wisconsin Industrial Energy Group

Arkansas Cities<sup>112</sup>

Midwest Municipal Transmission Group (MMTG)<sup>113</sup>

Steel Producers<sup>114</sup>

East Texas Cooperatives<sup>115</sup>

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<sup>112</sup> Arkansas Cities consists of: the Conway Corporation; the West Memphis Utilities Commission; the City of Osceola, Arkansas; the City of Benton, Arkansas; the North Little Rock Electric Department; and the City of Prescott, Arkansas.

<sup>113</sup> MMTG filed on behalf of itself and its member cities and the Missouri Joint Municipal Electric Utility Commission (MJMEUC) (collectively, MMTG/MJMEUC), its member cities include the following: Central Minnesota Municipal Power Agency; Cedar Falls Utilities; Willmar Municipal Utilities; Waverly Light and Power; Indianola, Iowa.

<sup>114</sup> Steel Producers includes Steel Dynamics, Inc. and Nucor Steel-Indiana.

<sup>115</sup> East Texas Cooperatives consist of the following: East Texas Electric Cooperative, Inc.; Sam Rayburn G&T Electric Cooperative, Inc.; and Tex-La Electric Cooperative of Texas, Inc. East Texas Cooperatives' motion to intervene was filed out of time.

**Notices of Intervention**

Missouri Public Service Commission

Council of the City of New Orleans, Louisiana

Mississippi Public Service Commission

Louisiana Public Service Commission

Arkansas Public Service Commission

**Motions to Intervene and Comments and/or Protests**

Resale Power Group of Iowa

Hoosier Energy Rural Electric Cooperative, Inc. (Hoosier), Southern Illinois Power Cooperative (SIPC), Dairyland, IMEA, SMEPA, WVPA (collectively, Coops/Municipals)<sup>116</sup>

Consumer Advocates<sup>117</sup>

Transource Wisconsin, LLC (Transource Wisconsin)

American Municipal Power, Inc. (American Municipal Power)

Great River Energy

Southwestern Electric Cooperative, Inc. (Southwestern Electric)<sup>118</sup>

Duke-American Transmission Company, LLC (Duke-American)<sup>119</sup>

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<sup>116</sup> Only Hoosier and SIPC submitted motions to intervene in this motion to intervene and protest, the other filing parties filed separate motions to intervene.

<sup>117</sup> Consumer Advocates includes: The Indiana Office of Utility Consumer Counselor, the Iowa Office of Consumer Advocate, Michigan Citizens Against Rate Excess, Minnesota Department of Commerce, the Missouri Office of the Public Counsel, the Montana Consumer Counsel, and the Citizens Utility Board of Wisconsin.

<sup>118</sup> Southwestern Electric's motion to intervene and protest was filed out of time.

<sup>119</sup> Duke-American's motion to intervene and comments were filed out of time.

Missouri River Energy Services (Missouri River Energy)<sup>120</sup>

**Notices of Intervention and Comments and/or Protests**

Organization of MISO States<sup>121</sup>

**Comments and/or Protests**

MDEA

Great Lakes Utilities

Alliant

Joint Consumers<sup>122</sup>

**Answers**

MISO Transmission Owners

MMTG/MJMEUC

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<sup>120</sup> Missouri River Energy's members included in this filing are: Detroit Lakes Public Utilities; Worthington Public Utilities; Benson Municipal Utilities; Hutchinson Utilities Commission; and Marshall Municipal Utilities. Missouri River Energy's motion to intervene and comments were filed out of time.

<sup>121</sup> The Organization of MISO States includes: Arkansas Commission; Illinois Commission; Indiana Utility Regulatory Commission; the Iowa Utilities Board; Kentucky Public Service Commission; Louisiana Commission; Manitoba Public Utilities Board; Michigan Commission; Minnesota Public Service Commission; Mississippi Public Service Commission; Missouri Commission; Montana Public Service Commission; New Orleans City Council Utilities Regulatory Office; North Dakota Public Service Commission; South Dakota Public Utilities Commission; Public Utility Commission of Texas; and Public Service Commission of Wisconsin.

<sup>122</sup> Joint Consumers consists of: ABATE; Coalition of MISO Transmission Customers; Illinois Industrial Energy Consumers; Indiana Industrial Energy Consumers, Inc.; Minnesota Large Industrial Group; and Wisconsin Industrial Energy Group.

Document Content(s)

ER15-358-000.DOCX.....1-28

**Appendix 5 – January 30, 2015 ITC-M Request to Implement a 100 Basis Point Adder to its ROE for its Status as an Independent Transmission Company (Docket No. ER15-945-000)**

**STUNTZ, DAVIS & STAFFIER, P.C.**  
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January 30, 2015

Ms. Kimberly Bose, Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, DC 20426

**Re: ITC Midwest LLC  
Authorization for Return on Equity Incentive for Independence  
Docket No. ER15-\_\_\_\_-000**

**via eTariff Filing**

Dear Ms. Bose:

Pursuant to Sections 205 and 219 of the Federal Power Act ("FPA"), 16 U.S.C. §§ 824d, 824s, and Section 35.13 of the regulations of the Federal Energy Regulatory Commission ("Commission"), 18 C.F.R. § 35.13, ITC Midwest LLC ("ITC Midwest") and the Midcontinent Independent System Operator, Inc. ("MISO") submit a revision to the ITC Midwest formula rate in Attachment O of the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff ("Tariff") to implement a 100 basis point return on equity ("ROE") incentive for independent transmission ownership.<sup>1</sup>

Approval of the incentive is consistent with Section 219 of the FPA and the Commission's longstanding recognition of the benefits of independent transmission ownership.

ITC Midwest requests an effective date 60 days after the date of this filing, as discussed below. ITC Midwest further requests Commission authorization to defer collection of the independence incentive until after the issuance of a final order in Docket No. EL14-12-000, at which point the independence incentive will be applied back to the effective date of this filing.<sup>2</sup>

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<sup>1</sup> MISO joins in this filing in its capacity as administrator of the MISO Tariff, but takes no position on the substance of this filing.

<sup>2</sup> This request is consistent with the deferral of collection requested by the MISO Transmission Owners, including ITC Midwest, for an ROE incentive for membership in a regional transmission organization ("RTO") that was

## I. BACKGROUND

ITC Midwest's business strategy is to operate, maintain and invest in transmission infrastructure to enhance system integrity and reliability, to reduce transmission constraints and provide greater access to electric markets and to allow new power generating sources to interconnect to its transmission system. By pursuing this strategy, ITC Midwest strives to lower the delivered cost of electricity and improve accessibility to power generation sources of choice, including renewable energy.

Like its affiliates International Transmission Company d/b/a/ *ITCTransmission*, Michigan Electric Transmission Company, LLC ("METC") and ITC Great Plains, LLC ("ITC Great Plains"), each of which receives the independence incentive, ITC Midwest is focused singularly on developing, owning and operating transmission. Because transmission is ITC Midwest's only business, it faces no internal competition for capital from generation or other market affiliates. As a result, ITC Midwest is motivated to invest in its system and achieve and maintain best-in-class performance for the benefit of its customers. This is unlike vertically-integrated utilities that face competing demands for available capital and that consider the implications of transmission investment on the profitability of their generation assets when making their investment decisions. Because the independence incentive will apply to the ITC Midwest system, rather than a specific project, it will operate continuously to encourage greater system efficiency through improved operations, maintenance and capital investment, and will offset in part the ongoing burdens borne by independent transmission companies, including strict limitations on dealings with any market participants.

While producing substantial benefits for consumers, adherence to the independent model imposes significant burdens and business risks on ITC Midwest. Opportunities for partnerships are constrained by the requirement to maintain absolute independence from market participants. Unlike traditional vertically integrated utilities, ITC Midwest has limits on its ability to diversify its business, which makes withstanding inevitable business cycle fluctuations or policy changes more challenging. ITC Midwest also is subject to additional Commission oversight of its business relationships and ownership structure that traditional vertically integrated utilities do not face.

### A. The Commission Approves Return On Equity Incentives To Reflect The Benefits Of The Independent Transmission Company Model.

The Commission has a long track record of awarding incentives for independent ownership of transmission. ITC Midwest's affiliates *ITCTransmission* and METC were the first independent transmission companies awarded 100 basis point ROE incentives under FPA Section 205 in recognition that the independent model of transmission ownership best assures the most effective planning, investment in and operation of transmission for consumers.

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approved by the Commission in Docket No. ER15-358-000. See *Midcontinent Independent System Operator, Inc.*, 150 FERC ¶ 61,004 (2015) ("RTO Incentive Order"). See discussion *infra* at II.C.

In its order approving the independence incentive for *ITC Transmission*, the Commission recognized that “transfer of transmission facilities to an independent entity is one of the most effective means of separating transmission interests from generation interests and achieving independence through a for-profit transmission company.”<sup>3</sup> Benefits to customers flow from enhanced competition and reliability and new investment in infrastructure that the independence incentive encourages.<sup>4</sup> The Commission acknowledged that the single-focus independent business model, when contrasted with vertically integrated utilities, brings significant benefits through “improved asset management, development of innovative services, and improved access to capital markets.”<sup>5</sup> Structural independence also lessens the potential for the exercise of undue discrimination in providing transmission service.<sup>6</sup>

The Commission continues to award incentives for independent ownership and operation of transmission by independent transmission companies.<sup>7</sup> The Commission has done so because the independence incentive has produced desired transmission investment. As the Commission wrote in *ITC Great Plains*:

We find that the 100 basis point adder is appropriate here because of the very significant transmission investment that has been undertaken by transcos to date. Furthermore, the Commission has found that the singular focus of transmission-only companies, the elimination of competition for capital between generation and transmission investments, and the access to capital markets all support the value of the transco business model for getting new transmission built. In addition, the purpose of our policy of incentives for transcos is to build much needed transmission infrastructure and *ITC Great Plains*’ proposal is consistent with this policy. It is for these reasons that the Commission adopted incentive-based rate treatments applicable to transcos that would both encourage Transco formation and attract investment.<sup>8</sup>

The Commission confirmed the benefits of the independent transmission company model in June 2013 in approving the merger and acquisition and disposition of jurisdictional facilities proposed by *ITC Holdings Corp.* (“*ITC Holdings*”) and Entergy Corporation in Docket No. EC12-145-000:

The Commission has noted the benefits that the independent transmission company business model can provide on previous occasions. Specifically, the Commission has noted that “[b]y eliminating the competition for capital between generation and

<sup>3</sup> *ITC Holdings Corp., et al.*, 102 FERC ¶ 61,182, P 1 (“*ITC Holdings*”), *reh’g denied*, 104 FERC ¶ 61,033 (2003).

<sup>4</sup> *Id.*

<sup>5</sup> *Id.*, P 62. See also *Michigan Electric Transmission Co., LLC*, 105 FERC ¶ 61,214, P 20 (2003) (“*METC*”) (“Independent ownership and operation of transmission is an important policy objective of the Commission because it will bring significant benefits including, among other things, lessened potential for discrimination, improved access to capital markets for transmission investment, improved asset management, and development of innovative services”).

<sup>6</sup> *ITC Holdings*, P 62.

<sup>7</sup> In 2009, the Commission granted independence incentives for new independent transmission companies in *Green Power Express LP*, 127 FERC ¶ 61,031 (2009) (“*Green Power Express*”) (approving 100 basis points for independence), *reh’g denied*, 135 FERC ¶ 61,141 (2011) and *ITC Great Plains, LLC*, 126 FERC ¶ 61,223 (2009) (“*ITC Great Plains*”), *reh’g pending*.

<sup>8</sup> *ITC Great Plains*, P 93 (footnotes omitted).

transmission functions and thereby focusing only on transmission investment, the Transco model responds more rapidly and precisely to market signals indicating when and where transmission investment is needed.” As Applicants explain, ITC Holdings’ only business is electric transmission, and the company “is structured to be free from influence by entities that buy or sell energy as a commodity”; does not own generation or distribution assets (or fuel suppliers); and makes no retail or wholesale electricity sales.<sup>9</sup>

The Commission recently reaffirmed the validity of the independence incentive. Rejecting a challenge to the independence incentives for ITC Transmission and METC, the Commission determined that “ongoing operation as an independent transmission company justifies continued provision of the independence incentive.”<sup>10</sup> Again, the Commission found that the independent transmission company business model “provides benefits to consumers that justify the incentive.”<sup>11</sup> The Complaint Order also confirmed that utilities requesting the independence incentive do not have to provide a cost-benefit analysis.<sup>12</sup>

#### **B. The Commission’s Award Of Independence Incentives Is Consistent With FPA Section 219 And Order No. 679.**

Section 219 of the FPA<sup>13</sup> was enacted through Section 1241 of the Energy Policy Act of 2005.<sup>14</sup> Section 219, Transmission Infrastructure Investment, directed the Commission to promulgate incentives to increase transmission investment. Among other things, Congress required that the rule to implement Section 219 shall promote capital investment in transmission facilities and “provide a return on equity that attracts new investment in transmission facilities.”<sup>15</sup>

The Commission promulgated Order No. 679<sup>16</sup> to comply with the mandates of FPA Section 219.<sup>17</sup> Order No. 679 was a logical extension of, and fully consistent with, the Commission’s previous award of policy-based independence incentives under FPA Section 205. In fact, those FPA Section 205 policy-based decisions laid the groundwork for the Transco<sup>18</sup> ROE incentive provided under Order No. 679. “Order No. 679 determined that Transcos satisfy

<sup>9</sup> See *ITC Holdings Corp. and Entergy Corp.*, 143 FERC ¶ 61,256, P 125 (2013) (footnotes omitted), *reh’g pending*.

<sup>10</sup> *Association of Businesses Advocating Tariff Equity Coalition, et al., v. Midcontinent Independent System Operator, Inc., et al.*, 149 FERC ¶ 61,049, P 201 (2014) (“Complaint Order”).

<sup>11</sup> *Id.*

<sup>12</sup> Complaint Order, P 203.

<sup>13</sup> 16 U.S.C. § 824s.

<sup>14</sup> Pub. L. No. 109-58, 119 Stat. 594 (August 8, 2005).

<sup>15</sup> 16 U.S.C. § 824s(b)(1) and (2).

<sup>16</sup> *Promoting Transmission Investment through Pricing Reform*, Order No. 679, *FERC Statutes and Regulations* ¶31,222, *order on reh’g*, Order No. 679-A, *FERC Statutes and Regulations* ¶31,236 (2006), *order on reh’g*, 119 FERC ¶61,062 (2007).

<sup>17</sup> The Commission’s regulations in Section 35.35(d)(1)(i) authorize an incentive-based rate treatment that includes a rate of return on equity sufficient to attract new investment in transmission facilities. Additionally, the regulations in section 35.35(d)(2)(i) authorize the Commission to approve an ROE that both encourages Transco formation and is sufficient to attract investment.

<sup>18</sup> “Transcos” are defined, as relevant here, as stand-alone transmission companies approved by the Commission that sell transmission services at wholesale. 18 C.F.R. 35.35(b)(1).

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section 219 of the FPA because this business model promotes increased investment in new transmission, which in turn reduces costs and increases competition.”<sup>19</sup>

The purpose of the Commission’s “policy of incentives for Transcos is to build much needed transmission infrastructure.”<sup>20</sup> The Commission determined to grant an ROE to Transcos “that both encourages Transco formation and is sufficient to attract investment after the Transco is formed.”<sup>21</sup> The Commission relied on the benefits of the independence incentives authorized for ITC~~Transmission~~ and METC to support the establishment of the Transco incentive in Order No. 679.<sup>22</sup> In the Notice of Proposed Rulemaking that led to Order No. 679, the Commission took the view that “[c]ontinuing to allow a higher ROE (that falls within a zone of reasonableness) in recognition of the benefits transcos provide, we believe, is an appropriate way to ensure that the objectives of new FPA section 219 are achieved.”<sup>23</sup>

As the Commission explained in *Startrans IO*:

Recognizing the proven and encouraging track record of Transco investment in transmission infrastructure and the need for increased transmission in general, Order No. 679 concluded that certain incentives are appropriate to encourage Transco formation and new transmission infrastructure investment. Moreover, Transcos’ for-profit nature, combined with a transmission-only business model, enhances asset management and access to capital markets and provides greater incentives to develop innovative services. Order No. 679 also observed that this business model responds more rapidly and precisely to market signals. Accordingly, Order No. 679 determined that Transcos satisfy section 219 of the FPA because this business model promotes increased investment in new transmission, which in turn reduces costs and increases competition.<sup>24</sup>

Almost five years after the issuance of Order No. 679, the Commission undertook an evaluation of the scope and implementation of its transmission incentives regulations and policies.<sup>25</sup> In November 2012, the Commission issued a policy statement on “Promoting Transmission Investment Through Pricing Reform” (“Policy Statement”) to provide additional

<sup>19</sup> *New York Regional Interconnect, Inc.*, 124 FERC ¶ 61,259, P 41 (“NYRI”) (2008).

<sup>20</sup> Order No. 679, P 231.

<sup>21</sup> Order No. 679 at P 221. See also the Commission’s regulations in 18 C.F.R. Section 35.35(d)(2)(i).

<sup>22</sup> See discussion in Order No. 679, PP 222-223. See also Order No. 679-A, P 77: “[T]he Final Rule described at great length the very significant transmission investment that has been undertaken by Transcos, to date. . . . their singular focus on transmission investment by transmission-only companies, the elimination of competition for capital between generation and transmission investments, and the access to capital markets have all been cited in support of the value of the Transco business model for getting new transmission built. For all of these reasons, the Commission adopted incentive-based rate treatments applicable to Transcos that would both encourage Transco formation and attract investment.”

<sup>23</sup> Notice of Proposed Rulemaking, *Promoting Transmission Investment through Pricing Reform*, 113 FERC ¶ 61,182, P 40 (2005).

<sup>24</sup> *Startrans IO, L.L.C.*, 122 FERC ¶ 61,306, P 19 (footnotes omitted) (2008), *reh’g denied*, 130 FERC ¶ 61,209 (2010), 133 FERC ¶ 61,154 (2010). See also *NYRI*, P 41.

<sup>25</sup> Notice of Inquiry, *Promoting Transmission Investment Through Pricing Reform*, 76 Fed. Reg. 30,869 (2011) (“NOI”).

guidance on its evaluation of applications for transmission incentives under FPA Section 219.<sup>26</sup> The Policy Statement evidences the Commission's continuing obligation to provide transmission incentives under FPA Section 219. While other changes were made, the Commission elected not to make any changes in its policy on Transco incentives.<sup>27</sup>

In summary, the Commission consistently has found that:

- The independence ROE incentive will encourage new investment in infrastructure, which will benefit customers through enhanced competition and reliability.<sup>28</sup>
- The independent transmission model brings significant benefits in terms of “lessened potential for discrimination, improved access to capital markets for transmission investment, improved asset management, and development of innovative services.”<sup>29</sup>
- The independent, single-focus business model has performed as the Commission anticipated when it approved incentive rate treatments.<sup>30</sup>
- An ROE incentive is important to continue to attract investment after a stand-alone transmission company is formed.<sup>31</sup>

## II. PURPOSE OF THE FILING

This filing seeks authorization for ITC Midwest to collect the 100 basis point ROE incentive for independent ownership of transmission. The Commission in *ITC Great Plains* awarded a 100 basis point independence incentive based on a finding that ITC Great Plains was independent.<sup>32</sup> Similarly, in *Green Power Express*, the Commission “grant[ed] the 100 basis point incentive adder based on Green Power’s status as an independent transmission company.”<sup>33</sup>

ITC Midwest has been approved by the Commission as a fully independent, transmission only-company, and is an independent transmission company member of MISO pursuant to Appendix I of the MISO Tariff.<sup>34</sup> ITC Midwest thus qualifies for the independence ROE incentive based on its status as an independent transmission company.

The Commission continues to approve ROE incentives for qualified entities. Approval of the independence incentive for ITC Midwest would be in accord with the RTO Incentive

<sup>26</sup> Policy Statement, *Promoting Transmission Investment Through Pricing Reform*, 77 Fed. Reg. 69,754 (2012) (“Policy Statement”).

<sup>27</sup> “In Order No. 679 and subsequent cases applying incentives policies, the Commission has addressed the granting of incentive ROEs that are not based on the risks and challenges of a project, such as incentive ROEs for RTO membership or Transco formation. With respect to aspects of the Commission’s incentives policies not addressed in this policy statement, we decline to provide additional guidance at this time.” Policy Statement, P 5.

<sup>28</sup> *ITC Holdings*, P 1.

<sup>29</sup> *METC*, P 20.

<sup>30</sup> See *Michigan Electric Transmission Co., LLC*, 113 FERC ¶ 61,343, P 19 (2005), *order on reh’g*, 116 FERC ¶ 61,164, PP 17, 20 (2006).

<sup>31</sup> See Order No. 679, P 221.

<sup>32</sup> See *ITC Great Plains*, PP 93-95.

<sup>33</sup> See *Green Power Express*, P 86.

<sup>34</sup> *ITC Holdings Corp., et al.*, 121 FERC ¶ 61,229, P 87 (2007) (“ITC Midwest Order”).

Order,<sup>35</sup> in which the Commission found that the MISO Transmission Owners qualified by virtue of their status as members of MISO to receive an ROE incentive for their continuing RTO participation.

There can be no serious allegation that ITC Midwest is not an independent transmission company as defined by the Commission in its *Policy Statement Regarding Evaluation of Independent Ownership and Operation of Transmission*.<sup>36</sup> ITC Midwest should be granted the 100 basis point incentive approved for other independent transmission companies.

**A. Award Of The Independence Incentive To ITC Midwest Now Is Appropriate.**

In the proceeding for approval of the acquisition of its jurisdictional assets in 2007, ITC Midwest sought authorization for the 100 basis point independence incentive based on its status as an independent transmission company.

The Commission declined to award the independence incentive in 2007. However, the Commission's action was based solely on its finding that ITC Midwest had not demonstrated that its proposed ROE, including the 100 basis point independence incentive, fell within the range of reasonable returns, due to what the Commission described as "a number of difficulties" with the analysis submitted by ITC Midwest to support its requested ROE.<sup>37</sup> The Commission ordered ITC Midwest to use the 12.38 percent base ROE applicable to all MISO transmission owners. Importantly, the Commission also explained that its rejection of ITC Midwest's proposed ROE was "without prejudice to ITC Midwest making a new section 205 filing seeking to change its ROE" supported by a DCF analysis of a proxy group of companies with comparable risks.<sup>38</sup>

Commissioner Kelly filed a partial concurrence to emphasize that she would have supported the independent ownership incentive had ITC Midwest demonstrated that the resulting ROE fell within the zone of reasonableness.

In the Complaint Order, the Commission confirmed that the earlier denial of ITC Midwest's request for the independence incentive was not a substantive rejection of the incentive: "The Commission's rejection of incentives in that case was based on ITC Midwest's failure to demonstrate that the resulting ROE, including the incentives, would be within the zone of reasonableness, and not because ITC Midwest was ineligible for such incentives or that such incentives would provide less value to consumers than their costs."<sup>39</sup>

Even while declining to approve the 2007 request, the Commission confirmed ITC Midwest's independence, based on ITC Midwest's showing that ITC Midwest would not be affiliated with a traditional public utility company that engages in sales and distribution of electric power to captive retail customers, or with a traditional public utility company that owns

<sup>35</sup> See footnote 2, *infra*.

<sup>36</sup> 111 FERC ¶ 61,473 (2005).

<sup>37</sup> ITC Midwest Order, PP 42-44.

<sup>38</sup> *Id.*, P 44.

<sup>39</sup> Complaint Order, P 202 (footnote omitted).

and operates generation assets. ITC Midwest's parent, ITC Holdings, had adopted – and continues to adhere to – rigorous provisions to secure its independence, including restrictions on Market Participants holding 5 percent or more of the common stock of ITC Holdings. The composition of ITC Holdings' Board of Directors, as well as the corporate governance structure of ITC Holdings, support ITC Midwest's full independence.<sup>40</sup> Under ITC's Policy on Independence, ITC Holdings' Board and all ITC officers and employees are precluded from having any direct financial interest in a Market Participant.<sup>41</sup>

Thus, the Commission's action in 2007 in declining to authorize the independence incentive for ITC Midwest does not present any bar to the Commission's authorizing the incentive in this proceeding. ITC Midwest is independent, as the Commission has found, and therefore entitled to receive the incentive in order to achieve the benefits that flow from its singular focus on transmission. Moreover, ITC Midwest agrees to be bound by the outcome of the MISO ROE complaint case in Docket No. EL14-12-000 with respect to the zone of reasonableness. This addresses the deficiency found by the Commission in ITC Midwest's prior request for an independence ROE incentive.

The Commission has continuing authority under Section 205 to provide policy-based incentives to encourage transmission investment. This authority pre-dates Order No. 679, and was the basis for the independence incentives authorized for ITC Transmission and METC. Recently the Commission has confirmed that "incentives identified in Order No. 679 can also be granted under the Commission's section 205 authority under certain circumstances, such as to promote important public policy goals."<sup>42</sup> As discussed above, the independence incentive achieves the Commission's policy to encourage transmission investment, as well as furthering the purpose of FPA Section 219 to promote "capital investment in the enlargement, improvement, maintenance, and operation of all facilities for the transmission of electric energy in interstate commerce" and to provide "a return on equity that attracts new investment in transmission facilities."<sup>43</sup>

**B. With the Independence Incentive Included, The Authorized ROE For ITC Midwest Will Be Just And Reasonable.**

To meet the requirement that rates be just and reasonable, the Commission has required that the overall ROE including any incentives must remain within the zone of reasonable returns.<sup>44</sup> Here the requested 100 basis point incentive would be applied to the base MISO-wide

<sup>40</sup> See Application in Docket Nos. EC07-89-000, *et al.*, at p. 51, and ITC Midwest Order, PP 77, 87. See also *ITC Holdings Corp. and Entergy Corp.*, 143 FERC ¶ 61,256, P 125 (2013) ("The ITC Holdings Policy on Independence and Articles of Incorporation, which restrict potential ownership of stock in the company by market participants, also bolster and help maintain ITC Holdings' independence." (Footnote omitted.)

<sup>41</sup> The Policy on Independence establishes specific requirements to safeguard and maintain the independence of ITC Holdings and all of its Commission-regulated operating subsidiaries, including ITC Midwest. Restrictions on director, officer and employee financial interests in Market Participants appear in Section 4. The Policy on Independence is available at: <http://www.itc-holdings.com/images/itc-greatplains/regulatory/14PolicyOnIndependence112514.pdf>.

<sup>42</sup> *Xcel Energy Transmission Development Co., LLC*, 149 FERC ¶ 61,181, P 13 (2014) (footnote omitted).

<sup>43</sup> 16 U.S.C. § 824s(b)(1) and (2).

<sup>44</sup> See, e.g., *Commonwealth Edison Co. and Commonwealth Edison Co. of Indiana, Inc.*, 119 FERC ¶ 61,238 at P 77 (2007); *Southern California Edison Co.*, 121 FERC ¶ 61,168 at P 158 (2007), *reh'g denied*, 123 FERC ¶ 61,293

ROE to be determined in EL14-12-000. ITC Midwest understands the Commission's standing policy and agrees that its ROE, including the independence incentive requested here, will be bound by the upper end of the zone of reasonableness as determined in Docket No. EL14-12-000. The Commission recently accepted a similar commitment to apply an ROE incentive to the base MISO-wide ROE shown to be just and reasonable based on an updated discounted cash flow ("DCF") analysis, and subject to the resulting ROE being within the zone of reasonableness determined by the DCF analysis, as determined in Docket No. ER14-12-000.<sup>45</sup>

### C. Request For Deferral Of Collection

The attached tariff sheets reflect the requested 100 basis point ROE incentive becoming effective 60 days from the date of this filing, or April 1, 2015. However, as the result of the complaint in Docket No. EL14-12-000, ITC Midwest's base ROE is being collected subject to refund, and there is the possibility of a change in the MISO-wide base ROE and the range of reasonable returns. ITC Midwest requests that it be authorized to defer collection of the independence ROE incentive from the effective date until such time as a final order is entered in Docket No. EL14-12-000.

Good cause exists to grant ITC Midwest's request. Deferral of the collection of the independence ROE incentive pending the outcome of the Complaint Proceeding will avoid unnecessary rate volatility that would result if the incentive is collected now, but then the base ROE is modified by the outcome of the complaint proceeding. Deferral of collection of the requested incentive also avoids the potential for increased refund liability, should the current MISO base ROE be reduced. The proposed deferral does not affect the effective date of the incentive, only the timing of its collection. Upon resolution of the complaint proceeding, ITC Midwest would apply the independence ROE incentive back to the effective date (60 days after the January 30, 2015, filing date, or April 1, 2015) in calculating any refunds or surcharges that may result from the complaint proceeding. The Commission approved a similar request for deferral of collection of an approved ROE incentive in the RTO Incentive Order<sup>46</sup> in the interests of administrative efficiency.

### III. DOCUMENTS SUBMITTED IN THIS FILING; REQUEST FOR WAIVERS

This filing consists of the following:

1. This transmittal letter; and
2. Clean and redlined tariff sheets under Attachment O of the MISO Tariff for ITC Midwest to implement the independence incentive.

In light of ITC Midwest's commitment to limit its total ROE in accordance with any new range of reasonable returns adopted by the Commission in a final order in Docket No. EL14-12-000, ITC Midwest requests a waiver of the provisions of the Commission's rules in Section 35.13 that require the submission of cost of service information and statements in connection

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(2008); *Potomac-Appalachian Transmission Highline, L.L.C.*, 122 FERC ¶ 61,188 at P 28 (2008).

<sup>45</sup> RTO Incentive Order, P 44.

<sup>46</sup> *Id.*, P 47.

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with the requested rate change, and testimony and exhibits to support the requested rate change (including the required discounted cash flow analysis). Such information would be duplicative of exhibits and testimony that have been or may be filed in Docket No. EL14-12-000, and is unnecessary here to enable the Commission to judge the justness and reasonableness of the resulting ROE, given ITC Midwest's commitment to adhere to any range of reasonable returns that the Commission may establish in Docket No. EL14-12-000. A comparable waiver was granted in the RTO Incentive Order.<sup>47</sup>

Thus, ITC Midwest respectfully requests waiver of the filing requirements in the Commission's regulations in 18 C.F.R. §§ 35.13 (a), (c), (d), (e), and (h).<sup>48</sup> ITC Midwest further requests waiver of any other applicable requirement of Part 35 to the extent necessary to permit the Commission to accept this filing.

No agreement to the filing of this rate change is required. None of the costs related to this filing has been alleged in any administrative or judicial proceeding to be illegal, duplicative, or unnecessary costs that are demonstrably the product of discriminatory practices.

In accordance with Section 35.2(e) of the Commission's regulations, MISO has served a copy of this filing, including attachments, electronically on all Tariff Customers under the MISO Tariff, MISO Members, Member representatives of Transmission Owners and Non-Transmission Owners, the MISO Advisory Committee participants, as well as state commissions within the MISO region and the Organization of MISO States. In addition, the filing has been posted electronically on the MISO's website at [www.misoenergy.org](http://www.misoenergy.org) for other parties interested in this matter.

#### IV. PROPOSED EFFECTIVE DATE

ITC Midwest requests that the 100 basis point independence incentive be effective 60 days after the date of this filing (or on April 1, 2015).

#### V. COMMUNICATIONS

All communications regarding this filing should be directed to:

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<sup>47</sup> *Id.*, P 45.

<sup>48</sup> Similar waivers were granted by the Commission in *Baltimore Gas & Elec. Co.*, 120 FERC ¶ 61,084 at P 73 (2006); *PEPCO Holdings, Inc.*, 121 FERC ¶ 61,169 at P 19-20 (2007).

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Individuals designated for inclusion on the Commission's official service list in this proceeding are shown with an asterisk (\*).

## VI. CONCLUSION

The Commission consistently has recognized the benefits of the independent transmission company model in awarding return on equity incentives to fully independent, stand-alone transmission-only companies. The Commission's practice was ratified by Congress in the Energy Policy Act of 2005, and the Commission has recently affirmed the ongoing benefits of the independence incentive.

The Commission's policy of awarding incentives for fully independent transmission companies recognizes the significant "cost" to independence. If the burdens and risks of the independent business model are not addressed by incentives, consumers could face the loss of the benefits of structural independence that the Commission has recognized repeatedly for more than a decade. ITC Midwest's ROE, including the independence incentive, will be within the zone of reasonable returns authorized in Docket No. EL14-12-000, and will be just and reasonable.

For the foregoing reasons, the Commission should authorize ITC Midwest to implement a 100 basis point return on equity incentive for independent transmission ownership.

Respectfully submitted,

/s/ Linda G. Stuntz

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/s/ Jacob T. Krouse

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Appendix 5  
Page 13 of 40

TAB A

MISO  
FERC Electric Tariff  
ATTACHMENTS

17  
ITCM Rate Formula Template  
33.0.0

Attachment O-ITCM  
Page 1 of 5

Formula Rate – Non-Levelized

Rate Formula Template  
Utilizing FERC Form 1 Data

For the 12 months ended 12/31/\_\_\_

ITC Midwest LLC

Line No.	(1)	(2)	(3)	(4)	(5)
			Allocated Amount \$0	Adjustments \$0	Adjusted Allocated Amount \$0
1	GROSS REVENUE REQUIREMENT (Page 3, Line 31)				
		12 months			
	<u>Total</u>	<u>Allocator</u>			
2	REVENUE CREDITS (Note T)	TP 0.00000	0	0	0
	Account No. 454 (Page 4, Line 34)	TP 0.00000	0		0
3	Account No. 456.1 (Page 4, Line 37)	TP 0.00000	0		0
4	Revenues from Grandfathered Interzonal Transactions	TP 0.00000	0		0
5	Revenues from service provided by the ISO at a discount	TP 0.00000	0		0
6	TOTAL REVENUE CREDITS (Sum Lines 2-5)		0	0	0
6A	True-Up Adjustment [See Note 1.]		0		0
7	NET REVENUE REQUIREMENT (Line 1 minus Line 6 plus Line 6A)		<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	DIVISOR				
8	Average of 12 coincident system peaks for requirements (RO) service (Note A)		0		0
9	Plus 12 CP of firm bundled sales over one year not in Line 8 (Note B)				0
10	Plus 12 CP of Network Load not in Line 8 (Note C)				0
11	Less 12 CP of firm P-T-P over one year (enter negative) (Note D)				0
12	Plus Contract Demand of firm P-T-P over one year				0
13	Less Contract Demand from Grandfathered Interzonal Transactions over one year (enter negative) (Note S)				0
14	Less Contract Demands from service over one year provided by ISO at a discount (enter negative)				0
15	Divisor (Sum Lines 8-14)		0	0	0
16	Annual Cost (\$ / kW / Yr) (Line 7 / Line 15)	0.000			
17	Network & P-to-P Rate (\$ / kW / Mo) (Line 16 / 12)	0.000			
		Peak Rate	Off-Peak Rate		
18	Point-To-Point Rate (\$ / kW / Wk) (Line 16 / 52; Line 16 / 52)	0.000	\$0.000		
19	Point-To-Point Rate (\$ / kW / Day) (Line 16 / 260; Line 16 / 365)	0.000 Capped at weekly rate	\$0.000		
20	Point-To-Point Rate (\$ / MWh) (Line 16 / 4160; Line 16 / 8760 * 1000)	0.000 Capped at weekly and daily rates	\$0.000		
21	FERC Annual Charge (\$ / MWh) (Note E)	Short Term	\$0.000 Short Term		
22		Long Term	\$0.000 Long Term		

Note 1. Calculated in accordance with the ITC Midwest, LLC Annual Rate Calculation and True-up Procedures in Attachment O-Midwest of this Tariff.

Effective On: April 1, 2015

Attachment O-ITCM  
Page 2 of 5  
For the 12 months ended 12/31/\_\_\_

Formula Rate – Non-Levelized		Rate Formula Template Utilizing FERC Form 1 Data					
		ITC Midwest LLC:					
Line No.	(1) RATE BASE:	(2) Form No. 1 Page, Line, Col.	(3) Company Total	(4) Allocator	(5) Transmission (Col. 3 times Col. 4)	(6) Adjustments	(7) Adjusted Amount
<b>GROSS PLANT IN SERVICE (Note AA)</b>							
1	Production	205.46.g		NA			0
2	Transmission (Note U)	207.58.g	0	TP	0.00000	0	0
3	Distribution	207.75.g		NA			
4	General & Intangible (Note U)	205.5.g & 207.99.g	0	W/S	0.00000	0	0
5	Common	356.1		CE	0.00000	0	0
6	TOTAL GROSS PLANT (Sum Lines 1-5)		0	GP =	0.000%	0	0
<b>ACCUMULATED DEPRECIATION (Note AA)</b>							
7	Production	219.20-24.c		NA			
8	Transmission (Note U)	219.25.c	0	TP	0.00000	0	0
9	Distribution	219.26.c		NA			
10	General & Intangible (Note U)	219.28.c & 209.21.c	0	W/S	0.00000	0	0
11	Common	356.1		CE	0.00000	0	0
12	TOTAL ACCUM. DEPRECIATION (Sum Lines 7-11)		0			0	0
<b>NET PLANT IN SERVICE</b>							
13	Production	(Line 1-Line 7)	0				
14	Transmission	(Line 2-Line 8)	0				
15	Distribution	(Line 3-Line 9)					
16	General & Intangible	(Line 4-Line 10)	0				
17	Common	(Line 5-Line 11)	0				
18	TOTAL NET PLANT (Sum Lines 13-17)		0	NP =	0.000%	0	0
<b>ADJUSTMENTS TO RATE BASE (Note F)</b>							
19	Account No. 281 (enter negative) (Note V)	273.8.k		NA	zero	0	
20	Account No. 282 (enter negative) (Note V)	275.2.k		NP	0.00000	0	0
21	Account No. 283 (enter negative) (Note V)	277.9.k		NP	0.00000	0	0
22	Account No. 190 (Note V) [See Note 2.]	234.8.c		NP	0.00000	0	0
23	Account No. 255 (enter negative) (Note V)	267.8.h		NP	0.00000	0	0
24	TOTAL ADJUSTMENTS (Sum Lines 19-23B)		0			0	0
25	LAND HELD FOR FUTURE USE (Note V)	214.x.d (Note G)		TP	0.00000	0	0
<b>WORKING CAPITAL (Note H)</b>							
26	CWC	calculated	0			0	0
27	Materials & Supplies (Note G) (Note V)	227.8.c & .16.c	0	TE	0.00000	0	0
28	Prepayments (Account 165) (Note V)	111.57.c		GP	0.00000	0	0
29	TOTAL WORKING CAPITAL (Sum Lines 26-28)		0			0	0
30	RATE BASE (Sum Lines 18, 24, 25, & 29)		0			0	0

Note 2. Excludes deferred taxes associated with the True-up Adjustment that are not otherwise included in rate base.

Effective On: April 1, 2015

MISO  
FERC Electric Tariff  
ATTACHMENTS

Formula Rate -- Non-Levelized  
ended 12/31/\_\_\_

Rate Formula Template  
Utilizing FERC Form 1 Data

Attachment O-ITCM  
Page 3 of 5  
For the 12 months

Line No.	(1) Adjusted O&M Amount	(2) Form No. 1 Page, Line, Col.	(3) Company Total	(4) Allocator	(5) Transmission (Col. 3 times Col. 4)	(6) Adjustments
1	Transmission [See Note 3.] 0	321.112.b		TE	0.00000 0	
2	Less Account 565 0	321.96.b		TE	0.00000 0	
3	A&G 0	323.197.b		W/S	0.00000 0	
4	Less FERC Annual Fees 0			W/S	0.00000 0	
5	Less EPRI & Reg. Comm. Exp. & Non-safety Ad. (Note I) 0			W/S	0.00000 0	
5a	Plus Transmission Related Reg. Comm. Exp. (Note I) 0			TE	0.00000 0	
6	Common 0	356.1		CE	0.00000 0	
7	Transmission Lease Payments 0				1.00000 0	
8	TOTAL O&M (Sum Lines 1, 3, 5a, 6, 7 less Lines 2, 4, 5) 0		0		0	0
DEPRECIATION & AMORTIZATION EXPENSE (Note AA)						
9	Transmission 0	336.7.b&c		TP	0.00000 0	
10	General & Intangible 0	336.10.f & 336.1.f		W/S	0.00000 0	
11	Common 0	336.11.b&c		CE	0.00000 0	
12	TOTAL DEPRECIATION (Sum Lines 9-11B) 0		0		0	0
TAXES OTHER THAN INCOME TAXES (Note J)						
LABOR RELATED						
13	Payroll 0	263.i	0	W/S	0.00000 0	
14	Highway and vehicle 0	263.i		W/S	0.00000 0	
PLANT RELATED						
16	Property 0	263.i	0	GP	0.00000 0	
17	Gross Receipts 0	263.i		NA	zero 0	
18	Other 0	263.i		GP	0.00000 0	

Effective On: April 1, 2015

MISO  
FERC Electric Tariff  
ATTACHMENTS

19	Payments in lieu of taxes		GP	0.00000	0	
	0					
20	TOTAL OTHER TAXES (Sum Lines 13-19)	0			0	0
	0					
	INCOME TAXES (Note K)					
21	$T = 1 - \{[(1 - SIT) * (1 - FIT)] / (1 - SIT * FIT * p)\} =$	0.00%				
22	$CIT = (T/1-T) * (1 - (WCLTD/R)) =$	0.00%				
	where WCLTD <sup>26</sup> (Page 4, Line 27) and R <sup>27</sup> (Page 4, Line 30)					
	and FIT, SIT & p are as given in footnote K.					
23	$1 / (1 - T) =$ (from Line 21)	0.0000				
24	Amortized Investment Tax Credit (266.8f) (enter negative)					
25	Income Tax Calculation = Line 22 * Line 23	0	NA		0	0
	0					
26	ITC adjustment (Line 25 * Line 24)		NP	0.00000	0	
	0					
27	Total Income Taxes (Line 25 + Line 26)	0			0	0
	0					
28	RETURN	0	NA		0	0
	0					
	[Rate Base (Page 2, Line 30) * Rate of Return (Page 4, Line 30)]					
29	REV. REQUIREMENT (Sum Lines 8, 12, 20, 27, 28)	0			0	0
	0					
30	LESS ATTACHMENT GG ADJUSTMENT [Attachment GG, Page 2, Line 3, Column 10] (Note W)	0			0	0
	[Revenue Requirement for facilities included on Page 2, Line 2, and also included in Attachment GG]					
	0					
30a	LESS ATTACHMENT MM ADJUSTMENT [Attachment MM, Page 2, Line 3, Column 14] (Note Y)	0			0	0
	[Revenue Requirement for facilities included on Page 2, Line 2, and also included in Attachment MM]					
	0					
31	REV. REQUIREMENT TO BE COLLECTED UNDER ATTACHMENT O (Line 29 - Line 30 - Line 30a)	0			0	0
	0					

Note 3. Adjustments to Line 1 will equal the sum of the amounts on ITC's Report on FERC Form No. 1 for Customer Accounts Expenses [FERC Form No. 1, 323.164.b], Customer Service and Informational Expenses [FERC Form No. 1, 323.171.b], and Sales Expenses [FERC Form No. 1, 323.178.b] that are not otherwise recoverable through some other tariff. Adjustments to be made before calculation of allocator for Line 1, Column (4).

Formula Rate -- Non-Levelized

Rate Formula Template  
Utilizing FERC Form 1 Data

For the 12 months ended 12/31 \_\_

ITC Midwest LLC  
SUPPORTING CALCULATIONS AND NOTES

<u>Line No.</u>	TRANSMISSION PLANT INCLUDED IN ISO RATES							
1	Total transmission plant (Page 2, Line 2, Column 3)							0
2	Less transmission plant excluded from ISO rates (Note M)							
3	<u>Less transmission plant included in OATT Ancillary Services (Note N)</u>							
4	Transmission plant included in ISO rates (Line 1 less Lines 2 & 3)							0
5	Percentage of transmission plant included in ISO Rates (Line 4 divided by Line 1)				TP =			0.00000
	TRANSMISSION EXPENSES							
6	Total transmission expenses (Page 3, Line 1, Column 3)							0
7	<u>Less transmission expenses included in OATT Ancillary Services (Note L)</u>							0
8	Included transmission expenses (Line 6 less Line 7)							0
9	Percentage of transmission expenses after adjustment (Line 8 divided by Line 6)							0.00000
10	Percentage of transmission plant included in ISO Rates (Line 5)				TP			0.00000
11	Percentage of transmission expenses included in ISO Rates (Line 9 times Line 10)				TE =			0.00000
	WAGES & SALARY ALLOCATOR (W&S)							
		<u>Form 1 Reference</u>	<u>\$</u>	<u>TP</u>	<u>Allocation</u>			
12	Production	354.20.b		0.00	0			
13	Transmission	354.21.b	0	0.00	0			
14	Distribution	354.23.b		0.00	0			
15	Other	354.24, 25, 26.b		0.00	0			
16	Total (Sum Lines 12-15)		0		0			
	COMMON PLANT ALLOCATOR (CE) (Note O)		<u>\$</u>		<u>% Electric</u>			
17	Electric	200.3.c	0		(Line 17 / Line 20)		CE	
18	Gas	201.3.d			0.00000		* 0.00000	
19	Water	201.3.e	0					
20	Total (Sum Lines 17-19)		0					(7)
	RETURN (R)							
21	Long Term Interest (117, sum of 62.c through 67.c)							0
22	Preferred Dividends (118.29c) (positive number)							0
	Development of Common Stock:							
23	Proprietary Capital (112.16.c) (Note U)							0
24	Less Preferred Stock (Line 28) (Note U)							0
25	Less Account 216.1 (112.12.c) (enter negative) (Note U)							0
26	Common Stock (Sum Lines 23-25)							0
			<u>\$</u>	<u>%</u>	<u>Cost (Note P)</u>			
27	Long Term Debt (112, sum of 18.c through 21.c) (Note U)		0	0%	0.0000		0.0000 = WCLTD	
28	Preferred Stock (112.3.c) (Note U)			0%	0.0000		0.0000	
29	Common Stock (Line 26) [See Note 4.]		0	0%	0.0000		0.0000	
30	Total (Sum Lines 27-29)		0				0.0000 = R	
	REVENUE CREDITS							
	ACCOUNT 447 (SALES FOR RESALE) (310-311) (Note Q)							<u>Load</u>
31	a. Bundled Non-RQ Sales for Resale (311.x.h)							
32	b. Bundled Sales for Resale included in Divisor on Page 1							
33	Total of (a)-(b)							0

Effective On: April 1, 2015

Appendix 5  
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FERC Electric Tariff  
ATTACHMENTS

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ITCM Rate Formula Template  
33.0.0

34	ACCOUNT 454 (RENT FROM ELECTRIC PROPERTY) (Note R)	0
	ACCOUNT 456.1 (OTHER ELECTRIC REVENUES) (330.x.n)	
35	a. Transmission charges for all transmission transactions	\$0
36	b. Transmission charges for all transmission transactions included in Divisor on Page 1	\$0
36a	c. Transmission charges from Schedules associated with Attachment GG (Note X)	\$0
36b	d. <u>Transmission charges from Schedules associated with Attachment MM (Note Z)</u>	<u>\$0</u>
37	Total of (a)-(b)-(c)-(d)	\$0

Note 4. Allowed ROE set to 12.58%

Effective On: April 1, 2015

Formula Rate – Non-Levelized  
months ended 12/31/\_\_\_

Rate Formula Template

Utilizing FERC Form 1 Data

ITC Midwest LLC

General Note: References to pages in this formulary rate are indicated as: (Page #, Line #, Col. #)  
References to data from FERC Form 1 are indicated as: #, y, x (Page, Line, Column)

Note Letter

- A Peak as would be reported on Page 401, Column d of Form 1 at the time of the applicable pricing zone coincident monthly peaks.
  - B Labeled LF, LU, IF, IU on Pages 310-311 of Form 1 at the time of the applicable pricing zone coincident monthly peaks.
  - C Labeled LF on Page 328 of Form 1 at the time of the applicable pricing zone coincident monthly peaks.
  - D Labeled LF on Page 328 of Form 1 at the time of the applicable pricing zone coincident monthly peaks.
  - E The FERC's annual charges for the year assessed the Transmission Owner for service under this tariff.
  - F The balances in Accounts 190, 281, 282 and 283, as adjusted by any amounts in contra accounts identified as regulatory assets or liabilities related to FASB 106 or 109. Balance of Account 255 is reduced by prior flow throughs and excluded if the utility chose to utilize amortization of tax credits against taxable income as discussed in Note K. Account 281 is not allocated.
  - G Identified in Form 1 as being only transmission related.
  - H Cash Working Capital assigned to transmission is one-eighth of O&M allocated to transmission at Page 3, Line 8, Column 5. Prepayments are the electric related prepayments booked to Account No. 165 and reported on Pages 110-111 Line 57 in the Form 1.
  - I Line 5 - EPRI Annual Membership Dues listed in Form 1 at 353.f, all Regulatory Commission Expenses itemized at 351.h, and non-safety related advertising included in Account 930.1. Line 5a - Regulatory Commission Expenses directly related to transmission service, ISO filings, or transmission siting itemized at 351.h.
  - J Includes only FICA, unemployment, highway, property, gross receipts, and other assessments charged in the current year. Taxes related to income are excluded. Gross receipts taxes are not included in transmission revenue requirement in the Rate Formula Template, since they are recovered elsewhere.
  - K The currently effective income tax rate, where FIT is the Federal income tax rate; SIT is the State income tax rate, and p = "the percentage of federal income tax deductible for state income taxes." If the utility is taxed in more than one state it must attach a work paper showing the name of each state and how the blended or composite SIT was developed. Furthermore, a utility that elected to utilize amortization of tax credits against taxable income, rather than book tax credits to Account No. 255 and reduce rate base, must reduce its income tax expense by the amount of the Amortized Investment Tax Credit (Form 1, 266.8.f) multiplied by (1/1-T) (Page 3, Line 26).
- |                  |       |   |
|------------------|-------|---|
| Inputs Required: | FIT = | 0.00%   |
|                  | SIT = | 0.00% (State Income Tax Rate or Composite SIT)                      |
|                  | p =   | 0.00% (percent of federal income tax deductible for state purposes) |
- L Removes dollar amount of transmission expenses included in the OATT ancillary services rates, including Account Nos. 561.1, 561.2, 561.3, and 561.BA.
  - M Removes transmission plant determined by Commission order to be state-jurisdictional according to the seven-factor test (until Form 1 balances are adjusted to reflect application of seven-factor test).
  - N Removes dollar amount of transmission plant included in the development of OATT ancillary services rates and generation step-up facilities, which are deemed included in OATT ancillary services. For these purposes, generation step-up facilities are those facilities at a generator substation on which there is no through-flow when the generator is shut down.
  - O Enter dollar amounts.
  - P Debt cost rate = long-term interest (Line 21) / long term debt (Line 27). Preferred cost rate = preferred dividends (Line 22) / preferred outstanding (Line 28). ROE will be supported in the original filing and no change in ROE may be made absent a filing with FERC. A 50 basis point adder for RTO participation and 100 basis point adder for independence may be added to the allowed ROE up to the upper end of the zone of reasonableness established by FERC.
  - Q Line 33 must equal zero since all short-term power sales must be unbundled and the transmission component reflected in Account No. 456.1 and all other uses are to be included in the divisor.
  - R Includes income related only to transmission facilities, such as pole attachments, rentals and special use.
  - S Grandfathered agreements whose rates have been changed to eliminate or mitigate pancaking - the revenues are included in Line 4, Page 1 and the loads are included in Line 13, Page 1. Grandfathered agreements whose rates have not been changed to eliminate or mitigate pancaking - the revenues are not included in Line 4, Page 1 nor are the loads included in Line 13, Page 1.
  - T The revenues credited on Page 1 Lines 2-5 shall include only the amounts received directly (in the case of grandfathered agreements) or from the ISO (for service under this tariff) reflecting the Transmission Owner's integrated transmission facilities. They do not include revenues associated with FERC annual charges, gross receipts taxes, ancillary services, facilities not included in this template (e.g., direct assignment facilities and GSUs) which are not recovered under this Rate Formula Template.
  - U Calculate using 13 month average balance.
  - V Calculate using average of beginning and end of year balances.
  - W Pursuant to Attachment GG of the Midwest ISO Tariff, removes dollar amount of revenue requirements calculated pursuant to Attachment GG.
  - X Removes from revenue credits revenues that are distributed pursuant to Schedules associated with Attachment GG of the Midwest ISO Tariff, since the Transmission Owner's Attachment O revenue requirements have already been reduced by the Attachment GG revenue requirements.
  - Y Pursuant to Attachment MM of the Midwest ISO Tariff, removes dollar amount of revenue requirements calculated pursuant to Attachment MM.

Appendix 5

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FERC Electric Tariff  
ATTACHMENTS

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ITCM Rate Formula Template  
33.0.0

- Z Removes from revenue credits revenues that are distributed pursuant to Schedules associated with Attachment MM of the Midwest ISO Tariff, since the Transmission Owner's Attachment O revenue requirements have already been reduced by the Attachment MM revenue requirements.
- AA Plant in Service, Accumulated Depreciation, and Depreciation Expense amounts exclude Asset Retirement Obligation amounts unless authorized by FERC.

Effective On: April 1, 2015

TAB B

Formula Rate – Non-Levelized

Rate Formula Template  
Utilizing FERC Form 1 Data

For the 12 months ended 12/31/\_\_\_

		ITC Midwest LLC		(3)	(4)	(5)
Line No.		(1)	(2)	Allocated Amount	Adjustments	Adjusted Allocated Amount
			12 months	\$0	\$0	\$0
1	GROSS REVENUE REQUIREMENT (Page 3, Line 31)					
	REVENUE CREDITS (Note T)	Total	Allocator			
2	Account No. 454 (Page 4, Line 34)	0	TP 0.00000	0	0	0
3	Account No. 456.1 (Page 4, Line 37)	0	TP 0.00000	0	0	0
4	Revenues from Grandfathered Interzonal Transactions	0	TP 0.00000	0	0	0
5	Revenues from service provided by the ISO at a discount	0	TP 0.00000	0	0	0
6	TOTAL REVENUE CREDITS (Sum Lines 2-5)	0		0	0	0
6A	True-Up Adjustment [See Note I.]			0	0	0
7	NET REVENUE REQUIREMENT (Line 1 minus Line 6 plus Line 6A)			\$0	\$0	\$0
	DIVISOR					
8	Average of 12 coincident system peaks for requirements (RQ) service (Note A)			0		0
9	Plus 12 CP of firm bundled sales over one year not in Line 8 (Note B)					0
10	Plus 12 CP of Network Load not in Line 8 (Note C)					0
11	Less 12 CP of firm P-T-P over one year (enter negative) (Note D)					0
12	Plus Contract Demand of firm P-T-P over one year					0
13	Less Contract Demand from Grandfathered Interzonal Transactions over one year (enter negative) (Note S)					0
14	Less Contract Demands from service over one year provided by ISO at a discount (enter negative)					0
15	Divisor (Sum Lines 8-14)			0	0	0
16	Annual Cost (\$ / kW / Yr) (Line 7 / Line 15)	0.000				
17	Network & P-to-P Rate (\$ / kW / Mo) (Line 16 / 12)	0.000				
18	Point-To-Point Rate (\$ / kW / Wk) (Line 16 / 52; Line 16 / 52)		Peak Rate	Off-Peak Rate		
19	Point-To-Point Rate (\$ / kW / Day) (Line 16 / 260; Line 16 / 365)		0.000	\$0.000		
20	Point-To-Point Rate (\$ / MWh) (Line 16 / 4160; Line 16 / 8760 * 1000)		0.000 Capped at weekly rate	\$0.000		
			0.000 Capped at weekly and daily rates	\$0.000		
21	FERC Annual Charge (\$ / MWh) (Note E)		Short Term	\$0.000 Short Term		
22			Long Term	\$0.000 Long Term		

Note 1. Calculated in accordance with the ITC Midwest, LLC Annual Rate Calculation and True-up Procedures in Attachment O-Midwest of this Tariff.

Effective On: April 1, 2015

MISO  
FERC Electric Tariff  
ATTACHMENTS

17  
ITCM Rate Formula Template  
~~32.0-0~~, 33.0.0

Attachment O-ITCM  
Page 2 of 5  
For the 12 months ended 12/31/\_\_\_

Formula Rate - Non-Levelized

Rate Formula Template  
Utilizing FERC Form 1 Data

ITC Midwest LLC

Line No.	(1)	(2) Form No. 1 Page, Line, Col.	(3) Company Total	(4) Allocator	(5) Transmission (Col. 5 times Col. 4)	(6) Adjustments	(7) Adjusted Amount
	<b>RATE BASE:</b>						
	<b>GROSS PLANT IN SERVICE (Note AA)</b>						
1	Production	205.46.g		NA			0
2	Transmission (Note U)	207.58.g	0	TP	0.00000	0	0
3	Distribution	207.75.g		NA			0
4	General & Intangible (Note U)	205.5.g & 207.99.g	0	W/S	0.00000	0	0
5	Common	356.1		CE	0.00000	0	0
6	TOTAL GROSS PLANT (Sum Lines 1-5)		0	GP =	0.000%	0	0
	<b>ACCUMULATED DEPRECIATION (Note AA)</b>						
7	Production	219.20-24.c		NA			0
8	Transmission (Note U)	219.25c	0	TP	0.00000	0	0
9	Distribution	219.26c		NA			0
10	General & Intangible (Note U)	219.28c & 206.21.c	0	W/S	0.00000	0	0
11	Common	356.1		CE	0.00000	0	0
12	TOTAL ACCUM. DEPRECIATION (Sum Lines 7-11)		0			0	0
	<b>NET PLANT IN SERVICE</b>						
13	Production	(Line 1-Line 7)	0				0
14	Transmission	(Line 2-Line 8)	0				0
15	Distribution	(Line 3-Line 9)					0
16	General & Intangible	(Line 4-Line 10)	0				0
17	Common	(Line 5-Line 11)	0				0
18	TOTAL NET PLANT (Sum Lines 13-17)		0	NP =	0.000%	0	0
	<b>ADJUSTMENTS TO RATE BASE (Note F)</b>						
19	Account No. 281 (enter negative) (Note V)	273.8.k		NA	zero	0	0
20	Account No. 282 (enter negative) (Note V)	275.2.k		NP	0.00000	0	0
21	Account No. 283 (enter negative) (Note V)	277.9.k		NP	0.00000	0	0
22	Account No. 190 (Note V) [See Note 2.]	234.8.c		NP	0.00000	0	0
23	Account No. 255 (enter negative) (Note V)	267.8.h		NP	0.00000	0	0
24	TOTAL ADJUSTMENTS (Sum Lines 19-23B)		0			0	0
25	LAND HELD FOR FUTURE USE (Note V)	214.x.d (Note G)		TP	0.00000	0	0
	<b>WORKING CAPITAL (Note H)</b>						
26	CWC	calculated	0			0	0
27	Materials & Supplies (Note G) (Note V)	227.8.c & .16.c	0	TE	0.00000	0	0
28	Prepayments (Account 165) (Note V)	111.57.c		GP	0.00000	0	0
29	TOTAL WORKING CAPITAL (Sum Lines 26-28)		0			0	0
30	RATE BASE (Sum Lines 18, 24, 25, & 29)		0			0	0

Note 2. Excludes deferred taxes associated with the True-up Adjustment that are not otherwise included in rate base.

Effective On: April 1, 2015

FERC Electric Tariff  
ATTACHMENTS

Formula Rate -- Non-Levelized  
ended 12/31/\_\_\_\_

Rate Formula Template

Attachment O-ITCM  
Page 3 of 5  
For the 12 months

Utilizing FERC Form 1 Data

ITC Midwest LLC

Line No.	(1) Adjusted O&M Amount	(2) Form No. 1 Page, Line, Col.	(3) Company Total	(4) Allocator	(5) Transmission (Col. 3 times Col. 4)	(6) Adjustments
1	Transmission [See Note 3.] 0	321.112.b		TE	0.00000 0	
2	Less Account 565 0	321.96.b		TE	0.00000 0	
3	A&G 0	323.197.b		W/S	0.00000 0	
4	Less FERC Annual Fees 0			W/S	0.00000 0	
5	Less EPRI & Reg. Comm. Exp. & Non-safety Ad. (Note I) 0			W/S	0.00000 0	
5a	Plus Transmission Related Reg. Comm. Exp. (Note I) 0			TE	0.00000 0	
6	Common 0	356.1		CE	0.00000 0	
7	Transmission Lease Payments				1.00000 0	
8	TOTAL O&M (Sum Lines 1, 3, 5a, 6, 7 less Lines 2, 4, 5) 0		0		0	0
DEPRECIATION & AMORTIZATION EXPENSE (Note AA)						
9	Transmission 0	336.7.b&c		TP	0.00000 0	
10	General & Intangible 0	336.10.f & 336.1.f		W/S	0.00000 0	
11	Common 0	336.11.b&c		CE	0.00000 0	
12	TOTAL DEPRECIATION (Sum Lines 9-11B) 0		0		0	0
TAXES OTHER THAN INCOME TAXES (Note J)						
LABOR RELATED						
13	Payroll 0	263.i	0	W/S	0.00000 0	
14	Highway and vehicle 0	263.i		W/S	0.00000 0	
PLANT RELATED						
16	Property 0	263.i	0	GP	0.00000 0	
17	Gross Receipts 0	263.i		NA	zero 0	
18	Other 0	263.i		GP	0.00000 0	

Effective On: April 1, 2015

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FERC Electric Tariff  
ATTACHMENTS

19	Payments in lieu of taxes 0		GP	0.00000	<u>0</u>	<u>0</u>
20	TOTAL OTHER TAXES (Sum Lines 13-19) 0	0			0	0
21	INCOME TAXES (Note K) $T=1 - \{[(1 - SIT) * (1 - FIT)] / (1 - SIT * FIT * p)\} =$	0.00%				
22	$CIT= (T/1-T) * (1-(WCLTD/R)) =$ where WCLTD= (Page 4, Line 27) and R= (Page 4, Line 30) and FIT, SIT & p are as given in footnote K. $1 / (1 - T) =$ (from Line 21)	0.00%				
23	Amortized Investment Tax Credit (266.8¢) (enter negative)	0.0000				
24	Income Tax Calculation = Line 22 * Line 23	0	NA		0	0
25	ITC adjustment (Line 25 * Line 24)		NP	0.00000	<u>0</u>	<u>0</u>
26	Total Income Taxes (Line 25 + Line 26)	0			0	0
27	RETURN 0 [Rate Base (Page 2, Line 30) * Rate of Return (Page 4, Line 30)]	0	NA		0	0
29	REV. REQUIREMENT (Sum Lines 8, 12, 20, 27, 28) 0	0			0	0
30	LESS ATTACHMENT GG ADJUSTMENT [Attachment GG, Page 2, Line 3, Column 10] (Note W) [Revenue Requirement for facilities included on Page 2, Line 2, and also included in Attachment GG] 0	0			0	0
30a	LESS ATTACHMENT MM ADJUSTMENT [Attachment MM, Page 2, Line 3, Column 14] (Note Y) [Revenue Requirement for facilities included on Page 2, Line 2, and also included in Attachment MM] 0	0			0	0
31	REV. REQUIREMENT TO BE COLLECTED UNDER ATTACHMENT O (Line 29 – Line 30 – Line 30a) 0	<u>0</u>			<u>0</u>	<u>0</u>

Note 3. Adjustments to Line 1 will equal the sum of the amounts on ITC's Report on FERC Form No. 1 for Customer Accounts Expenses [FERC Form No. 1, 323.164.b], Customer Service and Informational Expenses [FERC Form No. 1, 323.171.b], and Sales Expenses [FERC Form No. 1, 323.178.b] that are not otherwise recoverable through some other tariff. Adjustments to be made before calculation of allocator for Line 1, Column (4).

FERC Electric Tariff  
ATTACHMENTS

Attachment  
O-ITCM  
Page 4 of 5

Formula Rate – Non-Levelized

Rate Formula Template  
Utilizing FERC Form 1 Data

For the 12 months ended 12/31\_\_

ITC Midwest LLC  
SUPPORTING CALCULATIONS AND NOTES

Line No.	TRANSMISSION PLANT INCLUDED IN ISO RATES							
1	Total transmission plant (Page 2, Line 2, Column 5)							0
2	Less transmission plant excluded from ISO rates (Note M)							
3	<u>Less transmission plant included in OATT Ancillary Services (Note N)</u>							
4	Transmission plant included in ISO rates (Line 1 less Lines 2 & 3)							0
5	Percentage of transmission plant included in ISO Rates (Line 4 divided by Line 1)				TP =			0.00000
6	TRANSMISSION EXPENSES							
6	Total transmission expenses (Page 3, Line 1, Column 3)							0
7	<u>Less transmission expenses included in OATT Ancillary Services (Note L)</u>							0
8	Included transmission expenses (Line 6 less Line 7)							0
9	Percentage of transmission expenses after adjustment (Line 8 divided by Line 6)							0.00000
10	Percentage of transmission plant included in ISO Rates (Line 5)				TP			0.00000
11	Percentage of transmission expenses included in ISO Rates (Line 9 times Line 10)				TE =			0.00000
	WAGES & SALARY ALLOCATOR (W&S)							
		Form 1 Reference	\$	TP	Allocation			
12	Production	354.20.b		0.00	0			
13	Transmission	354.21.b	0	0.00	0			
14	Distribution	354.23.b		0.00	0			
15	Other	354.24, 25, 26.b		0.00	0			
16	Total (Sum Lines 12-15)		0		0			
	COMMON PLANT ALLOCATOR (CE) (Note O)		\$		% Electric	W&S Allocator		
17	Electric	200.3.c	0		(Line 17 / Line 20)	(Line 16)	CE	
18	Gas	201.3.d			0.00000	* 0.00000	=	0.00000
19	Water	201.3.e						
20	Total (Sum Lines 17-19)		0					
	RETURN (R)							
21	Long Term Interest (117, sum of 62.c through 67.c)					(5)	(6)	(7)
22	Preferred Dividends (118.29c) (positive number)					\$	Adjustments	Adjusted
	Development of Common Stock:							Amount
23	Proprietary Capital (112.16.c) (Note U)					0		0
24	Less Preferred Stock (Line 28) (Note U)					0		0
25	Less Account 216.1 (112.12.c) (enter negative) (Note U)							0
26	Common Stock (Sum Lines 23-25)					0	0	0
			\$	%	Cost (Note P)	Weighted		
27	Long Term Debt (112, sum of 18.c through 21.c) (Note U)		0	0%	0.0000	0.0000	=	WCLTD
28	Preferred Stock (112.3.c) (Note U)			0%	0.0000	0.0000		
29	Common Stock (Line 26) [See Note 4.]		0	0%	0.0000	0.0000		
30	Total (Sum Lines 27-29)		0			0.0000	=	R
	REVENUE CREDITS							
	ACCOUNT 447 (SALES FOR RESALE) (310-311) (Note Q)							
31	a. Bundled Non-RQ Sales for Resale (311.x.h)							
32	b. Bundled Sales for Resale included in Divisor on Page 1							
33	Total of (a)-(b)							0

Effective On: April 1, 2015

MISO  
FERC Electric Tariff  
ATTACHMENTS

17  
ITCM Rate Formula Template  
~~32.0.0~~, 33.0.0

34	ACCOUNT 454 (RENT FROM ELECTRIC PROPERTY) (Note R)	0
	ACCOUNT 456.1 (OTHER ELECTRIC REVENUES) (530.x.n)	
35	a. Transmission charges for all transmission transactions	\$0
36	b. Transmission charges for all transmission transactions included in Divisor on Page 1	\$0
36a	c. Transmission charges from Schedules associated with Attachment GG (Note X)	\$0
36b	d. <del>Transmission charges from Schedules associated with Attachment MM (Note Z)</del>	<del>\$0</del>
37	Total of (a)-(b)-(c)-(d)	<u>\$0</u>

Note 4. Allowed ROE set to 12.38%

Effective On: April 1, 2015

Formula Rate – Non-Levelized  
months ended 12/31/\_\_\_

Rate Formula Template

Utilizing FERC Form 1 Data

ITC Midwest LLC

General Note: References to pages in this formulary rate are indicated as: (Page #, Line #, Col. #)  
References to data from FERC Form 1 are indicated as: #.y.x (Page, Line, Column)

Note Letter

- A Peak as would be reported on Page 401, Column d of Form 1 at the time of the applicable pricing zone coincident monthly peaks.
- B Labeled LF, LU, IF, IU on Pages 310-311 of Form 1 at the time of the applicable pricing zone coincident monthly peaks.
- C Labeled LF on Page 328 of Form 1 at the time of the applicable pricing zone coincident monthly peaks.
- D Labeled LF on Page 328 of Form 1 at the time of the applicable pricing zone coincident monthly peaks.
- E The FERC's annual charges for the year assessed the Transmission Owner for service under this tariff.
- F The balances in Accounts 190, 281, 282 and 283, as adjusted by any amounts in contra accounts identified as regulatory assets or liabilities related to FASB 106 or 109. Balance of Account 255 is reduced by prior flow throughs and excluded if the utility chose to utilize amortization of tax credits against taxable income as discussed in Note K. Account 281 is not allocated.
- G Identified in Form 1 as being only transmission related.
- H Cash Working Capital assigned to transmission is one-eighth of O&M allocated to transmission at Page 3, Line 8, Column 5. Prepayments are the electric related prepayments booked to Account No. 165 and reported on Pages 110-111 Line 57 in the Form 1.
- I Line 5 - EPRI Annual Membership Dues listed in Form 1 at 353.f, all Regulatory Commission Expenses itemized at 351.h, and non-safety related advertising included in Account 950.I. Line 5a - Regulatory Commission Expenses directly related to transmission service, ISO filings, or transmission siting itemized at 351.h.
- J Includes only FICA, unemployment, highway, property, gross receipts, and other assessments charged in the current year. Taxes related to income are excluded. Gross receipts taxes are not included in transmission revenue requirement in the Rate Formula Template, since they are recovered elsewhere.
- K The currently effective income tax rate, where FIT is the Federal income tax rate; SIT is the State income tax rate, and p = "the percentage of federal income tax deductible for state income taxes." If the utility is taxed in more than one state it must attach a work paper showing the name of each state and how the blended or composite SIT was developed. Furthermore, a utility that elected to utilize amortization of tax credits against taxable income, rather than book tax credits to Account No. 255 and reduce rate base, must reduce its income tax expense by the amount of the Amortized Investment Tax Credit (Form 1, 266.8.f) multiplied by (1/1-T) (Page 3, Line 26).  

Inputs Required:	FIT =	0.00%
	SIT =	0.00% (State Income Tax Rate or Composite SIT)
	p =	0.00% (percent of federal income tax deductible for state purposes)
- L Removes dollar amount of transmission expenses included in the OATT ancillary services rates, including Account Nos. 561.1, 561.2, 561.3, and 561.BA.
- M Removes transmission plant determined by Commission order to be state-jurisdictional according to the seven-factor test (until Form 1 balances are adjusted to reflect application of seven-factor test).
- N Removes dollar amount of transmission plant included in the development of OATT ancillary services rates and generation step-up facilities, which are deemed included in OATT ancillary services. For these purposes, generation step-up facilities are those facilities at a generator substation on which there is no through-flow when the generator is shut down.
- O Enter dollar amounts.
- P Debt cost rate = long-term interest (Line 21) / long term debt (Line 27). Preferred cost rate = preferred dividends (Line 22) / preferred outstanding (Line 28). ROE will be supported in the original filing and no change in ROE may be made absent a filing with FERC. A 50 basis point adder for RTO participation and 100 basis point adder for independence may be added to the allowed ROE up to the upper end of the zone of reasonableness established by FERC.
- Q Line 35 must equal zero since all short-term power sales must be unbundled and the transmission component reflected in Account No. 456.1 and all other uses are to be included in the divisor.
- R Includes income related only to transmission facilities, such as pole attachments, rentals and special use.
- S Grandfathered agreements whose rates have been changed to eliminate or mitigate pancaking - the revenues are included in Line 4, Page 1 and the loads are included in Line 13, Page 1. Grandfathered agreements whose rates have not been changed to eliminate or mitigate pancaking - the revenues are not included in Line 4, Page 1 nor are the loads included in Line 13, Page 1.
- T The revenues credited on Page 1 Lines 2-5 shall include only the amounts received directly (in the case of grandfathered agreements) or from the ISO (for service under this tariff) reflecting the Transmission Owner's integrated transmission facilities. They do not include revenues associated with FERC annual charges, gross receipts taxes, ancillary services, facilities not included in this template (e.g., direct assignment facilities and GSUs) which are not recovered under this Rate Formula Template.
- U Calculate using 15 month average balance.
- V Calculate using average of beginning and end of year balances.
- W Pursuant to Attachment GG of the Midwest ISO Tariff, removes dollar amount of revenue requirements calculated pursuant to Attachment GG.
- X Removes from revenue credits revenues that are distributed pursuant to Schedules associated with Attachment GG of the Midwest ISO Tariff, since the Transmission Owner's Attachment O revenue requirements have already been reduced by the Attachment GG revenue requirements.
- Y Pursuant to Attachment MM of the Midwest ISO Tariff, removes dollar amount of revenue requirements calculated pursuant to Attachment MM.

Effective On: April 1, 2015

- Z Removes from revenue credits revenues that are distributed pursuant to Schedules associated with Attachment MM of the Midwest ISO Tariff, since the Transmission Owner's Attachment O revenue requirements have already been reduced by the Attachment MM revenue requirements.
- AA Plant in Service, Accumulated Depreciation, and Depreciation Expense amounts exclude Asset Retirement Obligation amounts unless authorized by FERC.

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FERC rendition of the electronically filed tariff records in Docket No. ER15-00945-000

Filing Data:  
 CID: C001344  
 Filing Title: 2015-01-30\_IJC Midwest Adder Filing  
 Company Filing Identifier: 10421  
 Type of Filing Code: 10  
 Associated Filing Identifier:  
 Tariff Title: FERC Electric Tariff  
 Tariff ID: 9  
 Payment Confirmation:  
 Suspension Motion:

Tariff Record Data:  
 Record Content Description, Tariff Record Title, Record Version Number, Option Code:  
 17, ITCM Rate Formula Template, 33.0.0, A  
 Record Narrative Name:  
 Tariff Record ID: 4485  
 Tariff Record Collation Value: 1079779840 Tariff Record Parent Identifier: 3803  
 Proposed Date: 2015-04-01  
 Priority Order: 1000000000  
 Record Change Type: CHANGE  
 Record Content Type: 1  
 Associated Filing Identifier:

Attachment O-ITCM  
Page 1 of 5

Formula Rate -- Non-Levelized  
For the 12 months ended 12/31/\_\_\_

Rate Formula Template

Utilizing FERC Form 1 Data

ITC Midwest LLC

Line No.	Adjusted			(1)	(2)
	(3) Allocated	(4) Adjustments	(5) Allocated		
1	Amount GROSS REVENUE REQUIREMENT (Page 3, Line 31) \$0	Adjustments (Page 3, Line 31) \$0	Amount (Page 3, Line 31) \$0		12 months
2	REVENUE CREDITS (Note T) Account No. 454 (Page 4, Line 34) 0		0	Total 0	Allocator TP 0.00000
3	Account No. 456.1 (Page 4, Line 37) 0		0	0	TP 0.00000
4	Revenues from Grandfathered Interzonal Transactions 0		0	0	TP 0.00000
5	Revenues from service provided by the ISO at a discount 0		0	0	TP 0.00000
6	TOTAL REVENUE CREDITS (Sum Lines 2-5) 0				
6A	True-Up Adjustment (See Note 1.) 0				
7	NET REVENUE REQUIREMENT (Line 1 minus Line 6 plus Line 6A) \$0				
8	DIVISOR Average of 12 coincident system peaks for requirements (RQ) service (Note A) 0				
9	Plus 12 CP of firm bundled sales over one year not in Line 8 (Note B) 0				
10	Plus 12 CP of Network Load not in Line 8 (Note C) 0				
11	Less 12 CP of firm P-T-P over one year (enter negative) (Note D) 0				
12	Plus Contract Demand of firm P-T-P over one year 0				
13	Less Contract Demand from Grandfathered Interzonal Transactions over one year (enter negative) (Note S) 0				

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14	Less Contract Demands from service over one year provided by ISO at a discount (enter negative)	0	
		0	
15	Divisor (Sum Lines 8-14)	0	0
16	Annual Cost (\$/kW / Yr) (Line 7 / Line 15)		0.000
17	Network & P-to-P Rate (\$/kW / Mo) (Line 16 / 12)		0.000
			Peak Rate
18	Off-Peak Rate Point-To-Point Rate (\$/kW / Wk) (Line 16 / 52; Line 16 / 52)		0.000
	\$0.000		
19	Point-Fo-Point Rate (\$/kW / Day) (Line 16 / 260; Line 16 / 365)		0.000 Capped at weekly rate
	\$0.000		
20	Point-To-Point Rate (\$/MWh) (Line 16 / 4160; Line 16 / 8760 * 1000)		0.000 Capped at weekly and daily rates
	\$0.000		
21	FERC Annual Charge (\$/MWh) (Note E)		Short Term
	\$0.000 Short Term		
22			Long Term
	\$0.000 Long Term		

Note 1. Calculated in accordance with the ITC Midwest, LLC Annual Rate Calculation and True-up Procedures in Attachment O-Midwest of this Tariff.

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Attachment O-ITCM  
Page 2 of 5  
Rate Formula Template

Formula Rate - Non-Levelized

For the 12 months ended 12/31/  
Utilizing FERC Form 1 Data

ITC Midwest LLC

Line No.	(1) (5)	(6)	(2) (7)	(3)	(4)
	Transmission RATE BASE (Col. 3 times Col. 4)	Adjustments	Adjusted Amount	Form No. 1 Page, Line, Col.	Company Total Allocator
1	GROSS PLANT IN SERVICE (Note AA)				
	Production	0	205.46.g		NA
2	Transmission (Note U)		207.58.g	0	TP 0.00000
3	Distribution		207.75.g		NA
4	General & Intangible (Note U)		205.5.g & 207.99.g	0	W/S 0.00000
5	Common		356.1		CE 0.00000
6	TOTAL GROSS PLANT (Sum Lines 1-5)	0		0	GP = 0.000%
7	ACCUMULATED DEPRECIATION (Note AA)				
	Production		219.20-24.c		NA
8	Transmission (Note U)		219.25c	0	TP 0.00000
9	Distribution		219.26c		NA
10	General & Intangible (Note U)		219.28c & 200.21.c	0	W/S 0.00000
11	Common		356.1		CE 0.00000
12	TOTAL ACCUM. DEPRECIATION (Sum Lines 7-11)	0		0	
13	NET PLANT IN SERVICE				
	Production		(Line 1-Line 7)	0	
14	Transmission		(Line 2-Line 8)	0	
15	Distribution		(Line 3-Line 9)		
16	General & Intangible		(Line 4-Line 10)	0	
17	Common		(Line 5-Line 11)	0	
18	TOTAL NET PLANT (Sum Lines 13-17)	0		0	NP = 0.000%
19	ADJUSTMENTS TO RATE BASE (Note F)				
	Account No. 281 (enter negative) (Note V)		273.8.k		NA zero
20	Account No. 282 (enter negative) (Note V)		275.2.k		NP 0.00000
21	Account No. 283 (enter negative) (Note V)		277.9.k		NP 0.00000
22	Account No. 199 (Note V) [See Note 2.]		234.8.c		NP 0.00000
23	Account No. 255 (enter negative) (Note V)		267.8.h		NP 0.00000
24	TOTAL ADJUSTMENTS (Sum Lines 19-23B)	0		0	
25	LAND HELD FOR FUTURE USE (Note V)		214.x.d (Note G)		TP 0.00000
26	WORKING CAPITAL (Note H)				
	CWC		calculated	0	
27	Materials & Supplies (Note G) (Note V)		227.8.c & .16.c	0	TE 0.00000
28	Prepayments (Account 165) (Note V)		111.57.c		GP 0.00000
29	TOTAL WORKING CAPITAL (Sum Lines 26-28)	0		0	
30	RATE BASE (Sum Lines 18, 24, 25, & 29)			0	



Formula Rate -- Non-Levelized				Rate Formula Template	
For the 12 months ended 12/31/____					
Utilizing FERC Form 1 Data					
ITC Midwest LLC					
Line	(1) (5)	(6)	(2) (7)	(3)	(4)
No.	O&M (Col. 3 times Col. 4)	Adjustments	Amount	Company Total	Allocator
1	Transmission [See Note 3.]		321,112.b		TE
	0.00000	0	0		
2	Less Account 565		321,96.b		TE
	0.00000	0	0		
3	A&G		323,197.b		WS
	0.00000	0	0		
4	Less FERC Annual Fees		0		WS
	0.00000	0	0		
5	Less EPRI & Reg. Comm. Exp. & Non-safety Ad. (Note 1)		0		WS
	0.00000	0	0		
5a	Plus Transmission Related Reg. Comm. Exp. (Note 1)		0		TE
	0.00000	0	0		
6	Common		356.1		CE
	0.00000	0	0		
7	Transmission Lease Payments				
	1.00000	0			
8	TOTAL O&M (Sum Lines 1, 3, 5a, 6, 7 less Lines 2, 4, 5)			0	
	0	0	0		
DEPRECIATION & AMORTIZATION EXPENSE (Note AA)					
9	Transmission		336.7.b&c		TP
	0.00000	0	0		
10	General & Intangible		336.10.f & 336.1.f		WS
	0.00000	0	0		
11	Common		336.11.b&c		CE
	0.00000	0	0		
12	TOTAL DEPRECIATION (Sum Lines 9-11B)			0	
	0	0	0		
TAXES OTHER THAN INCOME TAXES (Note J)					
LABOR RELATED					
13	Payroll		263.i	0	WS
	0.00000	0	0		
14	Highway and vehicle		263.i		WS
	0.00000	0	0		
PLANT RELATED					
16	Property		263.i	0	GP
	0.00000	0	0		
17	Gross Receipts		263.i		NA
	zero	0			
18	Other		263.i		GP

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Page 36 of 40

19	0.00000	0	0		
	Payments in lieu of taxes				GP
	0.00000	0	0		
20	TOTAL OTHER TAXES (Sum Lines 13-19)			0	
	0	0	0		
	INCOME TAXES (Note K)				
21	T=1 - {(1 - SIT) + (1 - FIT)} / (1 - SIT * FIT * p) =			0.00%	
22	CIT= (171-T) * (1-(WCLTD/R)) =			0.00%	
	where WCLTD= (Page 4, Line 27) and R= (Page 4, Line 30)				
	and FIT, SIT & p are as given in footnote K.				
23	1 / (1 - T) = (from Line 21)			0.0000	
24	Amortized Investment Tax Credit (266.3f) (enter negative)				
25	Income Tax Calculation = Line 22 * Line 23			0	NA
	0	0	0		
26	ITC adjustment (Line 23 * Line 24)				NP
	0.00000	0	0		
27	Total Income Taxes (Line 25 + Line 26)			0	
	0	0	0		
28	RETURN			0	NA
	0	0	0		
	[Rate Base (Page 2, Line 30) * Rate of Return (Page 4, Line 30)]				
29	REV. REQUIREMENT (Sum Lines 8, 12, 20, 27, 28)			0	
	0	0	0		
30	LESS ATTACHMENT GG ADJUSTMENT [Attachment GG, Page 2, Line 3, Column 10] (Note W)				
	[Revenue Requirement for facilities included on Page 2, Line 2, and also included in Attachment GG]			0	
	0	0	0		
30a	LESS ATTACHMENT MM ADJUSTMENT [Attachment MM, Page 2, Line 3, Column 14] (Note Y)				
	[Revenue Requirement for facilities included on Page 2, Line 2, and also included in Attachment MM]			0	
	0	0	0		
31	REV. REQUIREMENT TO BE COLLECTED UNDER ATTACHMENT O (Line 29 - Line 30 - Line 30a)			0	
	0	0	0		

Note 3. Adjustments to Line 1 will equal the sum of the amounts on ITC's Report on FERC Form No. 1 for Customer Accounts Expenses [FERC Form No. 1, 323.164.b], Customer Service and Informational Expenses [FERC Form No. 1, 323.171.b], and Sales Expenses [FERC Form No. 1, 323.178.b] that are not otherwise recoverable through some other tariff. Adjustments to be made before calculation of allocator for Line 1, Column (4).

Formula Rate -- Non-Levelized

For the 12 months ended 12/31/\_\_\_\_  
Utilizing FERC Form 1 Data

Rate Formula Template

ITC Midwest LLC  
SUPPORTING CALCULATIONS AND NOTES

<u>Line No.</u>	<u>TRANSMISSION PLANT INCLUDED IN ISO RATES</u>				
1	Total transmission plant (Page 2, Line 2, Column 3)				
	0				
2	Less transmission plant excluded from ISO rates (Note M)				
3	<u>Less transmission plant included in OATT Ancillary Services (Note N)</u>				
4	Transmission plant included in ISO rates (Line 1 less Lines 2 & 3)				
	0				
5	Percentage of transmission plant included in ISO Rates (Line 4 divided by Line 1)				TP =
	0.00000				
	<u>TRANSMISSION EXPENSES</u>				
6	Total transmission expenses (Page 3, Line 1, Column 3)				
	0				
7	<u>Less transmission expenses included in OATT Ancillary Services (Note L)</u>				
	0				
8	Included transmission expenses (Line 6 less Line 7)				
	0				
9	Percentage of transmission expenses after adjustment (Line 8 divided by Line 6)				
	0.00000				
10	Percentage of transmission plant included in ISO Rates (Line 5)				TP
	0.00000				
11	Percentage of transmission expenses included in ISO Rates (Line 9 times Line 10)				TE =
	0.00000				
	<u>WAGES &amp; SALARY ALLOCATOR (W&amp;S)</u>				
		<u>Form 1 Reference</u>	<u>\$</u>	<u>TP</u>	<u>Allocation</u>
12	Production	354.20.b		0.00	0
13	Transmission	354.21.b	0	0.00	0
14	Distribution	354.23.b		0.00	0
	W&S Allocator				
15	Other	354.24, 25, 26.b		0.00	0
	<u>(\$/Allocation)</u>				
16	Total (Sum Lines 12-15)		0		0
	= 0.00000 = WS				
	<u>COMMON PLANT ALLOCATOR (CE) (Note O)</u>		<u>\$</u>		<u>% Electric</u>
	W&S Allocator				
17	Electric	200.3.c	0		(Line 17 / Line 20)
	(Line 16) CE				
18	Gas	201.3.d			0.00000
	* 0.00000 = 0.00000				
19	Water	201.3.e	0		
	(7)				
20	Total (Sum Lines 17-19)		0		
	(5) (6) Adjusted				
	<u>RETURN (R)</u>				
	<u>\$</u> <u>Adjustments</u> <u>Amount</u>				
21	Long Term Interest (117, sum of 62.c through 67.c)		0		
	0				
22	Preferred Dividends (118.29c) (positive number)		0		
	0				
	Development of Common Stock:				
23	Proprietary Capital (112.16.c) (Note U)		0		
	0				

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24	Less Preferred Stock (Line 28) (Note U)	0	0	
25	Less Account 216.1 (112.12.c) (enter negative) (Note U)	0		
26	Common Stock (Sum Lines 23-25)	0	0	
	<u>Weighted</u>			<u>Cost (Note P)</u>
27	Long Term Debt (112, sum of 18.c through 21.c) (Note U)	0.0000	0%	0.0000
	= WCLTD			
28	Preferred Stock (112.3.c) (Note U)	0.0000	0%	0.0000
29	Common Stock (Line 26) [See Note 4.]	0.0000	0%	0.0000
30	Total (Sum Lines 27-29)	0.0000		
	= R			
	REVENUE CREDITS			
	ACCOUNT 447 (SALES FOR RESALE) (310-311) (Note Q)			
	<u>Load</u>			
31	a. Bundled Non-RQ Sales for Resale (311.x.h)			
32	b. Bundled Sales for Resale included in Divisor on Page 1			
33	Total of (a)-(b)	0		
34	ACCOUNT 454 (RENT FROM ELECTRIC PROPERTY) (Note R)	0		
	ACCOUNT 456.1 (OTHER ELECTRIC REVENUES) (330.x.n)			
35	a. Transmission charges for all transmission transactions	50		
36	b. Transmission charges for all transmission transactions included in Divisor on Page 1	30		
36a	c. Transmission charges from Schedules associated with Attachment GG (Note X)	30		
36b	d. Transmission charges from Schedules associated with Attachment MM (Note Z)	30		
37	Total of (a)-(b)-(c)-(d)	50		

Note 4. Allowed ROE set to 12.38%

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Formula Rate – Non-Levelized  
Formula Template

Attachment O-ITCM  
Page 5 of 5  
Rate

For the 12 months ended 12/31/\_\_\_\_

Utilizing FERC Form 1 Data

ITC Midwest LLC

General Note: References to pages in this formula rate are indicated as: (Page #, Line #, Col. #)  
References to data from FERC Form 1 are indicated as: #.y.x (Page, Line, Column)

Note Letter:

- A Peak as would be reported on Page 401, Column d of Form 1 at the time of the applicable pricing zone coincident monthly peaks.
- B Labeled LF, LU, HF, HU on Pages 310-311 of Form 1 at the time of the applicable pricing zone coincident monthly peaks.
- C Labeled LF on Page 328 of Form 1 at the time of the applicable pricing zone coincident monthly peaks.
- D Labeled LF on Page 328 of Form 1 at the time of the applicable pricing zone coincident monthly peaks.
- E The FERC's annual charges for the year assessed the Transmission Owner for service under this tariff.
- F The balances in Accounts 190, 281, 282 and 283, as adjusted by any amounts in contra accounts identified as regulatory assets or liabilities related to FASB 106 or 109. Balance of Account 255 is reduced by prior flow throughs and excluded if the utility chose to utilize amortization of tax credits against taxable income as discussed in Note K. Account 281 is not allocated.
- G Identified in Form 1 as being only transmission related.
- H Cash Working Capital assigned to transmission is one-eighth of O&M allocated to transmission at Page 3, Line 8, Column 5. Prepayments are the electric related prepayments booked to Account No. 165 and reported on Pages 110-111 Line 57 in the Form 1.
- I Line 5 - EPRI Annual Membership Dues listed in Form 1 at 353.f, all Regulatory Commission Expenses itemized at 351.h, and non-safety related advertising included in Account 930.f. Line 5a - Regulatory Commission Expenses directly related to transmission service, ISO filings, or transmission siting itemized at 351.h.
- J Includes only FICA, unemployment, highway, property, gross receipts, and other assessments charged in the current year. Taxes related to income are excluded. Gross receipts taxes are not included in transmission revenue requirement in the Rate Formula Template, since they are recovered elsewhere.
- K The currently effective income tax rate, where FIT is the Federal income tax rate; SIT is the State income tax rate, and p = "the percentage of federal income tax deductible for state income taxes." If the utility is taxed in more than one state it must attach a work paper showing the name of each state and how the blended or composite SIT was developed. Furthermore, a utility that elected to utilize amortization of tax credits against taxable income, rather than book tax credits to Account No. 255 and reduce rate base, must reduce its income tax expense by the amount of the Amortized Investment Tax Credit (Form 1, 266.8.f) multiplied by (1/1-F) (Page 3, Line 26).  
Inputs Required: FIT = 0.00%  
SIT = 0.00% (State Income Tax Rate or Composite SIT)  
p = 0.00% (percent of federal income tax deductible for state purposes)
- L Removes dollar amount of transmission expenses included in the OATT ancillary services rates, including Account Nos. 561.1, 561.2, 561.3, and 561.BA.
- M Removes transmission plant determined by Commission order to be state-jurisdictional according to the seven-factor test (until Form 1 balances are adjusted to reflect application of seven-factor test).
- N Removes dollar amount of transmission plant included in the development of OATT ancillary services rates and generation step-up facilities, which are deemed included in OATT ancillary services. For these purposes, generation step-up facilities are those facilities at a generator substation on which there is no through-flow when the generator is shut down.
- O Enter dollar amounts.
- P Debt cost rate = long-term interest (Line 21) / long term debt (Line 27). Preferred cost rate = preferred dividends (Line 22) / preferred outstanding (Line 28). ROE will be supported in the original filing and no change in ROE may be made absent a filing with FERC. A 50 basis point adder for RTO participation and 100 basis point adder for independence may be added to the allowed ROE up to the upper end of the zone of reasonableness established by FERC.
- Q Line 33 must equal zero since all short-term power sales must be unbundled and the transmission component reflected in Account No. 456.1 and all other uses are to be included in the divisor.
- R Includes income related only to transmission facilities, such as pole attachments, rentals and special use.
- S Grandfathered agreements whose rates have been changed to eliminate or mitigate pancaking - the revenues are included in Line 4, Page 1 and the loads are included in Line 13, Page 1. Grandfathered agreements whose rates have not been changed to eliminate or mitigate pancaking - the revenues are not included in Line 4, Page 1 nor are the loads included in Line 13, Page 1.
- T The revenues credited on Page 1 Lines 2-5 shall include only the amounts received directly (in the case of grandfathered agreements) or from the ISO (for service under this tariff) reflecting the Transmission Owner's integrated transmission facilities. They do not include revenues associated with FERC annual charges, gross receipts taxes, ancillary services, facilities not included in this template (e.g., direct assignment facilities and GSUs) which are not recovered under this Rate Formula Template.
- U Calculate using 13 month average balance.
- V Calculate using average of beginning and end of year balances.
- W Pursuant to Attachment GG of the Midwest ISO Tariff, removes dollar amount of revenue requirements calculated pursuant to Attachment GG.
- X Removes from revenue credits revenues that are distributed pursuant to Schedules associated with Attachment GG of the Midwest ISO Tariff, since the Transmission Owner's Attachment O revenue requirements have already been reduced by the Attachment GG revenue requirements.
- Y Pursuant to Attachment MM of the Midwest ISO Tariff, removes dollar amount of revenue requirements calculated pursuant to Attachment MM.
- Z Removes from revenue credits revenues that are distributed pursuant to Schedules associated with Attachment MM of the Midwest ISO Tariff, since the Transmission Owner's Attachment O revenue requirements have already been reduced by the Attachment MM revenue requirements.
- AA Plant in Service, Accumulated Depreciation, and Depreciation Expense amounts exclude Asset Retirement Obligation amounts unless authorized by FERC.

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Document Content(s)

FINAL ITC MW Independence 205 Trans Ltr.PDF.....1-12  
Clean Tariff.PDF.....13-21  
Marked Tariff.PDF.....22-30  
FERC GENERATED TARIFF FILING.RTF.....31-39

**Appendix 6 – February 20, 2015 IPL Comments on ITC-M Request to Implement a 100 Basis Point Adder to its ROE for its Status as an Independent Transmission Company (Docket No. ER15-945-000)**

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

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<b>Midcontinent Independent Transmission</b> ) <b>System Operator, Inc. on behalf of</b> ) <b>ITC Midwest LLC</b> )	<b>Docket No. ER15-945-000</b>
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**MOTION TO INTERVENE AND COMMENTS OF  
INTERSTATE POWER AND LIGHT COMPANY**

Pursuant to Rules 212 and 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“FERC” or “Commission”), 18 C.F.R. §§ 385.212 and 385.214, Interstate Power and Light Company (“IPL” or “Company”) respectfully files this motion to intervene and provide comments in the above-captioned docket. IPL supports transmission investment that provides benefits to customers through effective and purposeful planning along with the proper alignment of costs and benefits. IPL generally supports incentives that transparently encourage needed investment which ultimately benefits customers. IPL does not object to the Commission’s standing policy of providing transmission owners with incentives to encourage particular practices and to meet specific policy goals where and when needed. The Company, however, proffers that the most efficient and effective way to achieve such policy is for the Commission to take a holistic approach to its transmission investment policy in general and Return on Equity (“ROE”) treatment in particular.

IPL respectfully requests that the Commission reevaluate its overall transmission ROE incentive policies to ensure the policies are meeting the intended goals of encouraging transmission investment in a manner that is efficient and which considers cost impacts to customers, *before* considering the instant proceeding. Specifically, when determining whether or

Docket No. ER15-945-000

not to grant transmission ROE incentives, IPL requests that the Commission establish policy that requires the Commission to,

1. Evaluate the existing application and effectiveness of the type of adder requested (e.g. Independence Adder);
2. Require applicants to demonstrate the need for the incentive requested;
3. Evaluate the request specific to the situation of the applicant;
4. Require applicants to provide a cost-benefit analysis; and,
5. Consider the impact of the incentive on customer rates.

In the alternative, IPL requests consolidation of the instant proceeding with the broader evaluation of the Midcontinent Independent System Operator (“MISO”) transmission owners (“TOs”) ROE in Docket No. EL14-12-000, as the most efficient, holistic, and expeditious means to resolve the ITC Midwest, LLC (“ITC Midwest”) ROE matter.

## I. COMMUNICATIONS

IPL requests that all communications regarding this motion to intervene and comments be addressed to the following persons:

Cortlandt C. Choate, Jr.  
Senior Attorney  
Alliant Energy Corporate Services, Inc.  
Street: 4902 North Biltmore Lane  
Madison, WI 53718  
Telephone: 608-458-6217  
Facsimile: 608-786-4553  
E-Mail: CortlandtChoate@alliantenergy.com

John W. Weyer II  
Manager, Transmission Services  
Alliant Energy Corporate Services, Inc.  
Street: 200 First Street Southeast  
Cedar Rapids, IA 52401  
Telephone: 319-786-7112  
Facsimile: 319-786-4834  
E-Mail: JohnWeyer@alliantenergy.com

IPL also requests that Messrs. Choate and Weyer be placed on the Commission’s official service list for this docket.

Docket No. ER15-945-000

## II. MOTION TO INTERVENE

IPL is a load-serving entity (“LSE”) that owns and operates electric facilities engaged in the generation, purchase, distribution, and sale of electric power and energy in Iowa and Minnesota.<sup>1</sup> IPL does not own transmission facilities, so IPL is a Transmission Dependent Utility (“TDU”). As a TDU and a market participant of MISO, IPL incurs costs associated with the purchase of transmission, capacity, energy, and ancillary market services within the MISO market.

IPL has a direct and substantial interest in this docket, and requests participation because IPL and its customers will be directly affected by the outcome. IPL’s participation is in the public interest due to IPL’s unique obligation as a public utility providing the sole source of electric service its service territories. No other party can adequately represent IPL’s interests before the Commission.

## III. BACKGROUND

On January 30, 2015, pursuant to Sections 205 and 219 of the Federal Power Act (“FPA”),<sup>2</sup> and Section 35.13 of the regulations of the Commission,<sup>3</sup> ITC Midwest and MISO submitted a revision to the ITC Midwest formula rate in Attachment O of the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff (“Tariff”) to implement a 100 basis point ROE incentive for independent transmission ownership (“Independence

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<sup>1</sup> IPL is a subsidiary of Alliant Energy Corporation (“Alliant Energy”), along with affiliates Wisconsin Power and Light Company (“WPL”) and Alliant Energy Corporate Services, Inc. (“AECS”).

<sup>2</sup> 16 U.S.C. §§ 824d, 824s (2014).

<sup>3</sup> 18 C.F.R. § 35.13 (2014).

Appendix 6  
Page 4 of 15

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Adder”).<sup>4</sup> ITC Midwest requests that the Independence Adder be effective as of April 1, 2015, but that its collection be deferred until the issuance of a final order in Docket No. EL14-12-002.<sup>5</sup> ITC Midwest asserts that such deferral would avoid unnecessary rate volatility and the potential for increased refund liability if the Commission orders its Base ROE to be changed.<sup>6</sup> ITC Midwest agrees that it will be bound by the outcome of the Complaint Proceeding with respect to the zone of reasonableness.<sup>7</sup>

On November 12, 2013, a group of MISO customers filed a complaint against the MISO TOs that sought, among other things; to reduce the base return on equity (“Base ROE”) used in the MISO TOs’ formula transmission rates from 12.38 percent to 9.15 percent. On October 16, 2014, the Commission issued an order on complaint,<sup>8</sup> stating that the complaint raised issues of material fact that could not be resolved based upon the record and set the matter for hearing and settlement judge procedures and established a refund effective date.<sup>9</sup> The Commission denied the complaint’s request to 1) limit capital structures used by the MISO TOs to no more than 50 percent common equity,<sup>10</sup> and 2) terminate the 50-basis point RTO participation incentive collected by certain ITC

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<sup>4</sup> MISO is a party to the filing as administrator of the MISO Tariff; it takes no position on the filing.

<sup>5</sup> *Association of Businesses Advocating Tariff Equity, et al. v. MISO, et al., Order Adopting Rules for the Conduct of the Hearing*, issued in Docket No. EL14-12-002 (February 5, 2015) (“Complaint Proceeding”).

<sup>6</sup> ITC Midwest Transmittal Letter at 9.

<sup>7</sup> *Id.* at 8.

<sup>8</sup> *Association of Businesses Advocating Tariff Equity, et al. v. MISO, et al.*, 148 FERC ¶ 61,049 (2014) (“Complaint Order”).

<sup>9</sup> Complaint Order at P 183.

<sup>10</sup> *Id.* at P 190.

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subsidiaries.<sup>11</sup> Parties could not reach a settlement and are currently engaged in hearing procedures to establish a zone of reasonableness and a Base ROE.

On November 6, 2014, MISO and the MISO TOs (including ITC Midwest) filed a request, pursuant to Section 205 of the FPA, seeking Commission approval of a 50-basis point incentive adder to the Base ROE for each of the MISO TOs in recognition of their participation in MISO, a Commission-approved regional transmission organization (“RTO”) (“RTO Adder”).<sup>12</sup> On January 5, 2015, the Commission accepted and suspended the MISO TOs’ requested Attachment O formula rate templates that would incorporate the RTO Adder to the authorized ROE.<sup>13</sup> The Commission found the MISO TOs’ request for a 50-basis point adder to be consistent with section 219 of the FPA and Commission precedent.<sup>14</sup> The Commission made the application of the RTO Adder subject to the Base ROE and zone of reasonableness that will be determined in the Complaint Proceeding.<sup>15</sup>

#### IV. COMMENTS

As a TDU, IPL and its customers receive transmission service from ITC Midwest and incur costs related to this service through ITC Midwest’s Attachment O rates, which include existing applicable and potential ROE components such as the proposed Independence Adder. IPL supports transmission investment that provides benefits to customers through effective and

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<sup>11</sup> *Id.* at P 200.

<sup>12</sup> See *MISO Transmission Owners Request for Incentive Adder to Return on Equity for Participation in Regional Transmission Organization*, filed in Docket No. ER15-358-000 (November 6, 2014) (“November RTO Adder Filing”).

<sup>13</sup> *Midcontinent Independent System Operator, Inc.*, 150 FERC ¶ 61,004 (January 5, 2015) (“RTO Adder Order”).

<sup>14</sup> RTO Adder Order at P 39.

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purposeful planning along with the proper alignment of costs and benefits. IPL generally supports incentives that transparently encourage needed investment which ultimately benefits customers. IPL does not object to the Commission's standing policy of providing transmission owners with incentives to encourage particular practices and to meet specific policy goals where and when needed. IPL supports the proposition that incentives should be requested when prudent, and granted when the applicant transparently demonstrates that such incentives are needed for necessary transmission investment that provides benefits to customers. Further, IPL strongly believes that the Commission should view any determination that impacts transmission ROE on a holistic basis. With these principles as a foundation, IPL provides the following comments to aid in the Commission's decision-making in this proceeding.<sup>16</sup>

**A. IPL submits that Commission policy regarding transmission ROE incentives should be reevaluated.**

In Order No. 679<sup>17</sup> and in *Promoting Transmission Investment Through Pricing Reform*,<sup>18</sup> the Commission discussed the need for transmission incentives to encourage transmission infrastructure investment. At the time, incentives were introduced to encourage, among other things, Commission policy related to regional transmission organizations and further the Congressional mandate to undertake transmission projects that have the potential to reduce the

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<sup>15</sup> RTO Adder Order at P 45.

<sup>16</sup> AECS, on behalf of IPL and WPL, made similar comments in the November RTO Adder Filing. See *Comments of Alliant Energy Corporate Services, Inc.*, filed in Docket No. ER15-358-000 (November 26, 2014) at 3.

<sup>17</sup> See, *Promoting Transmission Investment through Pricing Reform*, 116 FERC ¶ 61,057 (July 20, 2006) ("Order No. 679") at P 14 and 19-20.

<sup>18</sup> *Promoting Transmission Investment Through Pricing Reform Policy Statement*, 141 FERC ¶ 61,129 (November 15, 2012) ("Transmission Policy Statement").

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cost of delivered power and ensure reliability.<sup>19</sup> Additionally, the Commission argued that previous policy was not sufficient to meet the goals of section 219 of the FPA to encourage transmission investment and thus introduced the Independence Adder.

**1. The Independence Adder has not been widely utilized.**

The limited application of an Independence Adder has not hindered transmission investment in MISO. The MISO footprint has seen numerous independent transmission companies (“Transcos”) form as a result of established Commission policy. Yet, only two Transcos – International Transmission Company (d/b/a *ITC Transmission*) and Michigan Electric Transmission Company, LLC (“METC”) – have petitioned and received the Independence Adder in the almost nine years since the policy was established.<sup>20</sup> This indicates that the Independence Adder incentive is not, by itself, sufficient to incent the formation of Transcos, nor is it required to foster transmission investment of those Transcos that currently exist. Instead, it appears that Transcos in the current MISO market have not, for the most part, needed the incentive adder to incent transmission investment. In addition, in response to more recent Commission policy,<sup>21</sup> the MISO region has witnessed an increase in the number of affiliate transmission companies and transmission developers, as opposed to Transcos, all of whom are sufficiently engaged in transmission investment.

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<sup>19</sup> 16 U.S.C. § 824s (2006)

<sup>20</sup> See, *ITC Holdings Corp.*, 102 FERC ¶ 61,182, at P 68, *reh’g denied*, 104 FERC ¶ 61,033 (2003); and, see *Michigan Electric Transmission Co., LLC and Midwest Indep. Transmission Sys. Operator, Inc.*, 116 FERC ¶ 61,164, at PP 17, 20-21 (2006); *Michigan Electric Transmission Co., LLC and Midwest Indep. Transmission Sys. Operator, Inc.*, 113 FERC ¶ 61,343, at PP 15-19 (2005).

<sup>21</sup> For example, *Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities*, 136 FERC ¶ 61,051 (July 21, 2011) (“Order No. 1000”).

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**2. Incentive levels in general should only be considered according to the *specifics* of the applicant, not generically; and, the 100 basis-point Independence Adder may not reflect an appropriate magnitude of incentive for ITC Midwest in this particular situation.**

IPL recognizes that the Commission employs certain policies to incent transmission infrastructure investment. However, there is no need to apply such policies as a matter of course. IPL believes that Transcos that request such incentive adders should, at a minimum, be required to show a need or basis for such request. In the instant proceeding, ITC Midwest has not demonstrated why it needs to incorporate an incentive for being an independent transmission company into the rate it charges its customers in order to continue its transmission infrastructure investments. Simply granting an incentive adder because another Transco with different circumstances was granted the adder in a prior proceeding is in direct contradiction to the Commission's policy of examining incentive adder requests on a case-by-case basis.<sup>22</sup>

The Commission should carefully consider an appropriate ROE incentive value given the specific circumstances of the applicant. The Commission should determine an appropriate value specific to ITC Midwest, rather than award a generic value based merely on precedent. The Commission indicated in Order No. 679 that it would not grant a generic incentive, stating the Commission would,

“not establish a specific methodology to factor the level of independence into any request for ROE-based incentives for Transcos. We will also not specify additional incentive levels that remain within the zone of reasonableness, to correspond to certain levels of independence. While not quantifying a precise formula or method, we will consider the level of independence of a Transco as part of our analysis when we determine the proper ROE for the Transco, and

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<sup>22</sup> See, Order No. 679 at P 43 (“The Commission will, on a case-by-case basis, require each applicant to justify the incentives it requests.”).

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evaluate the specific attributes of a particular proposal, including the level of independence, to determine appropriate incentives.”<sup>23</sup>

**3. A meaningful cost-benefit analysis should be required for ROE incentive requests.**

IPL has previously submitted<sup>24</sup> that it is important for the Commission to require a meaningful cost-benefit analysis for requested ROE incentives. While IPL readily acknowledges that the Commission has previously affirmed,<sup>25</sup> and recently re-affirmed,<sup>26</sup> that a cost-benefit analysis is not required in a request for incentive adders, IPL proffers that such an analysis is necessary in order for applicants to fully demonstrate the benefits to customers of each incentive adder requested. A cost-benefit analysis is also consistent with existing Commission policy that incentive applicants are required to show a need or basis for each such request.<sup>27</sup>

**4. Any determination to grant or deny a request for an incentive adder should include considerations for how the incentive, in conjunction with other incentives, could impact customer rates.**

IPL submits that the Commission should not grant an incentive unless an applicant can demonstrate that the entire package of incentives employed, including the incentive requested, is commensurate with risk and will not unnecessarily increase customer costs. The Commission

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<sup>23</sup> Order No. 679 at P 239.

<sup>24</sup> See, *Comments of Interstate Power and Light Company* (Filed September 12, 2011) in response to the Commission’s Notice of Inquiry, “Promoting Transmission Investment Through Pricing Reform,” in Docket No. RM11-26-000.

<sup>25</sup> See, Order No. 679 at P 65 (“We affirm the NOPR’s determination not to require applicants for incentive-based rate treatments to provide cost-benefit analysis.”).

<sup>26</sup> See, *Midcontinent Independent System Operator, Inc.*, 150 FERC ¶ 61,004 (January 5, 2015) at P 41.

<sup>27</sup> Order No. 679 at P 43.

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has previously acknowledged that it recognizes all incentives must be considered together as a “package”:

“Consistent with Order No. 679-A, the Commission will continue to require applicants seeking incentives to demonstrate how the total package of incentives requested is tailored to address demonstrable risks and challenges. Applicants ‘must provide sufficient explanation and support to allow the Commission to evaluate each element of the package and the interrelationship of all elements of the package. If some of the incentives would reduce the risks of the project, that fact will be taken into account in any request for an enhanced ROE.’”<sup>28</sup>

IPL requests that the Commission, in its decision-making process, take into consideration the impact of the resulting overall ROE on customer costs. That is, the Commission should balance the reliability of the system with the cost impacts to customers before making a determination.

IPL acknowledges that ITC Midwest has made needed transmission investments which have improved reliability in IPL’s service territory. However, transmission expense now comprises 20 percent of IPL large industrial customer energy costs,<sup>29</sup> as compared to a national average of 11 percent for all customers in 2013.<sup>30</sup>

IPL does not object to the Commission’s policy of providing transmission owners with incentives to encourage particular practices and to meet specific Commission policy goals. IPL does, however, question whether this specific incentive adder and its addition to the yet-to-be-

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<sup>28</sup> See Transmission Policy Statement at P 10, citing, Order No. 679-A, FERC Stats. & Regs. ¶ 31,236 at P 27.

<sup>29</sup> See, “Interstate Power and Light Company Semi-Annual Report to the Iowa Utilities Board Regarding Transmission-Related Activities, Part 1 of 3,” p. 218 (filed December 24, 2014), found at: <https://efs.iowa.gov/cs/groups/external/documents/docket/mdaw/mjcw/~edisp/270453.pdf>.

<sup>30</sup> See, “Major Components of the U.S. Average Price of Electricity, 2013”, found at [http://www.eia.gov/energyexplained/index.cfm?page=electricity\\_factors\\_affecting\\_prices](http://www.eia.gov/energyexplained/index.cfm?page=electricity_factors_affecting_prices).

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determined Base ROE, in conjunction with the inclusion of the 50-basis point RTO Adder results in an appropriate overall ROE that balances consumer and investor needs.

Using the ITC Midwest 2015 projected Attachment O formula rate template,<sup>31</sup> IPL estimates the addition of 100 basis points to the Base ROE for the Independence Adder would increase the 2015 ITC Midwest revenue requirement by over \$18 million, or approximately 6 percent. IPL customers are subject to approximately 90 percent of the ITC Midwest revenue requirement through the MISO Schedule 9 ITC Midwest rate zone rate. Granting the Independence Adder would result in an annual increase of approximately \$16.5 million in transmission costs to IPL customers, regardless of the Base ROE determination or RTO Adder impacts. The current network service rate for ITC Midwest, without the addition of an Independence Adder or the previously granted RTO Adder, is almost twice that of the next highest rate in MISO,<sup>32</sup> and almost three times the MISO footprint-wide average rate zone rate.<sup>33</sup>

**5. If the Commission does not reevaluate its overall transmission ROE incentive policies before considering the instant proceeding, in the alternative, IPL respectfully requests that the Independence Adder proceeding be consolidated with the Base ROE proceeding.**

The Commission should view any determination that impacts ROE on a holistic basis. The overall ROE is impacted by a number of factors: the base ROE, the capital structure employed, and any incentive adders granted. All of these components are interrelated; therefore,

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<sup>31</sup> See, "ITC Midwest 2015 Projected Rate Reporting Package," found on ITC Midwest OASIS at <http://www.oasis.oati.com/woa/docs/ITCM/ITCMdocs/ITCM2015Projected.html>.

<sup>32</sup> See, "2015 Dairyland Forward Looking Transmission Rates," found on Dairyland Power Cooperative OASIS at [http://www.oasis.oati.com/woa/docs/DPC/DPCdocs/Transmission\\_Rate.html](http://www.oasis.oati.com/woa/docs/DPC/DPCdocs/Transmission_Rate.html).

<sup>33</sup> See, "MISO Historical Rates," found at [http://www.oasis.oati.com/woa/docs/MISO/MISOdocs/Historical\\_Rate.html](http://www.oasis.oati.com/woa/docs/MISO/MISOdocs/Historical_Rate.html).

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IPL urges the Commission to be cognizant of the *overall* potential impact to resulting ITC Midwest customer rates in its consideration of the Independence Adder in the instant proceeding.

IPL further requests that the Commission carefully consider overall customer impact in its determination of the zone of reasonableness in the related Complaint Proceeding, given the total ROE awarded to ITC Midwest (the sum of the Base ROE, the RTO Adder, and the Independence Adder, if granted) will be capped at the upper end of the zone of reasonableness.<sup>34</sup> IPL views consolidation of the instant proceeding with the broader evaluation of the MISO TOs' ROE in Docket No. EL14-12-000, as the most efficient, holistic, and expeditious means to resolve the ROE matter.

## V. CONCLUSION

WHEREFORE, for the reasons discussed above, IPL respectfully requests that the Commission grant its motion to intervene in this proceeding and reevaluate its overall transmission ROE incentive policies to ensure the policies are meeting the intended goals, including consideration of cost impacts to customers, *before* considering the instant proceeding.

In the alternative, IPL requests consolidation of the instant proceeding with the broader evaluation of the MISO TO ROE in Docket No. EL14-12-000, as the most efficient, holistic, and expeditious means to resolve the ITC Midwest ROE matter.

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<sup>34</sup> See *Martha Coakley, et al. v. Bangor Hydro-Electric Company et al.*, 147 FERC ¶ 61,234 (June 19, 2014) (“Opinion No. 531”) at P 165; see also Complaint Order at PP 186 and 205.

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Respectfully submitted,

**Interstate Power and Light Company**

/s/ Cortlandt C. Choate Jr.

Cortlandt C. Choate, Jr.  
Senior Attorney  
Alliant Energy Corporate Services, Inc.

February 20, 2015

**CERTIFICATE OF SERVICE**

In accordance with 18 C.F.R. § 385.2010, I hereby certify that I have on this 20th day of February, 2015, caused a copy of the foregoing Motion to Intervene and Supporting Comments of Interstate Power and Light Company to be sent to each person designated on the official service list compiled by the Secretary of the Commission in Docket Number ER15-945-000.

*/s/ Cortlandt C. Choate Jr.*

Cortlandt C. Choate, Jr.  
Senior Attorney  
Alliant Energy Corporate Services, Inc.

Document Content(s)

ER15-945\_IPL-Intervention-Comments 2-20-2015.PDF.....1-14

**Appendix 7 – March 31, 2015 FERC Order Granting 50 Basis Point ROE Incentive Adder to ITC-M for its Status as an Independent Transmission Company (Docket No. ER15-945-000)**

150 FERC ¶ 61,252  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Chairman;  
Philip D. Moeller, Tony Clark,  
Norman C. Bay, and Colette D. Honorable.

Midcontinent Independent System  
Operator, Inc.

Docket No. ER15-945-000

ORDER CONDITIONALLY ACCEPTING AND SUSPENDING TARIFF FILING

(Issued March 31, 2015)

1. On January 30, 2015, pursuant to sections 205 and 219 of the Federal Power Act (FPA)<sup>1</sup> and section 35.13 of the Commission's regulations,<sup>2</sup> ITC Midwest LLC (ITC Midwest) submitted revisions to the ITC Midwest formula rate in Attachment O of the Midcontinent Independent System Operator, Inc. (MISO) Open Access Transmission, Energy and Operating Reserve Markets Tariff (Tariff) to implement an incentive adder (Transco Adder) of 100-basis points to the authorized rate of return on equity (ROE) for independent transmission ownership.<sup>3</sup>

2. In this order, we conditionally accept ITC Midwest's request to implement the Transco Adder, subject to it being reduced to 50-basis points and applied to a base ROE that has been shown to be just and reasonable based on an updated discounted cash-flow (DCF) analysis and subject to the resulting ROE being within the zone of reasonableness determined by that updated DCF analysis, as those may be determined in the pending complaint proceeding in Docket No. EL14-12-000 (Complaint Proceeding).<sup>4</sup> We conditionally accept the proposed revisions for filing and suspend them for a nominal period, to become effective April 1, 2015, subject to refund, and subject to the outcome

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<sup>1</sup> 16 U.S.C. §§ 824e, 824s (2012).

<sup>2</sup> 18 C.F.R. § 35.13 (2014).

<sup>3</sup> MISO is also a party to the filing but states that it joins the filing solely as the administrator of its Tariff.

<sup>4</sup> See *Ass'n of Bus. Advocating Tariff Equity v. Midcontinent Indep. Sys. Operator, Inc.*, 149 FERC ¶ 61,049 (2014) (Complaint Hearing Order).

of the Complaint Proceeding. We also accept ITC Midwest's request to defer collection of the Transco Adder pending the outcome of the Complaint Proceeding.

## I. Background

3. On November 12, 2013, a group of large industrial customers (Complainants) filed a complaint against MISO and certain of its transmission-owning members (including ITC Midwest) in the Complaint Proceeding.<sup>5</sup> Complainants contended that the current 12.38 percent base ROE allowed for MISO Transmission Owners is unjust and unreasonable. Complainants also contended that the ROE incentive adders received by ITC Transmission (ITC) for being a member of an RTO and by both ITC and Michigan Electric Transmission Company, LLC (METC) for being independent transmission owners are unjust and unreasonable and should be eliminated.

4. In the Complaint Hearing Order, the Commission granted in part the complaint with respect to the ROE and established hearing and settlement judge procedures.<sup>6</sup> The Commission denied Complainants' challenges to ITC's and METC's incentive adders.<sup>7</sup> In the Complaint Hearing Order, the Commission established a refund effective date of November 12, 2013 for MISO Transmission Owners' base ROE.

5. On November 6, 2014, MISO Transmission Owners<sup>8</sup> and MISO submitted in Docket No. ER15-358-000 revisions to the Attachment O formula rate template of the

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<sup>5</sup> Complainants are: Association of Businesses Advocating Tariff Equity (ABATE); Coalition of MISO Transmission Customers; Illinois Industrial Energy Consumers; Indiana Industrial Energy Consumers, Inc.; Minnesota Large Industrial Group; and Wisconsin Industrial Energy Group.

<sup>6</sup> Complaint Hearing Order, 149 FERC ¶ 61,049 at P 183.

<sup>7</sup> *Id.* P 200.

<sup>8</sup> The MISO Transmission Owners for the filing in Docket No. ER15-358-000 consist of the following: ALLETE, Inc. for its operating division Minnesota Power (and its subsidiary Superior Water, L&P); Ameren Services Company, as agent for Union Electric Company d/b/a Ameren Missouri, Ameren Illinois Company d/b/a Ameren Illinois, and Ameren Transmission Company of Illinois; American Transmission Company LLC; Cleco Power LLC; Duke Energy Corporation for Duke Energy Indiana, Inc.; Entergy Arkansas, Inc.; Entergy Louisiana, LLC; Entergy Gulf States Louisiana, L.L.C.; Entergy Mississippi, Inc.; Entergy New Orleans, Inc.; Entergy Texas, Inc.; Indianapolis Power & Light Company; ITC; ITC Midwest; METC; MidAmerican Energy Company; Montana-Dakota Utilities Co.; Northern Indiana Public Service Company;

(continued ...)

Tariff to implement a 50-basis point adder (RTO Adder) to the Commission-approved ROE for MISO Transmission Owners' participation in MISO.<sup>9</sup> For purposes of that filing, MISO Transmission Owners proposed to rely on the zone of reasonableness to be established by the Commission in the Complaint Proceeding and committed to restrict their total ROE in accordance with any new range of reasonable returns adopted by the Commission in the Complaint Proceeding. MISO Transmission Owners requested waiver of the portion of the Commission's rules that requires cost of service information and statements regarding the tariff changes, testimony, and exhibits to support the tariff changes, because the information would duplicate the exhibits and testimony that have been or may be filed in the Complaint Proceeding.<sup>10</sup> In addition, MISO Transmission Owners requested to defer collection, but not the effectiveness, of the RTO Adder until after the outcome of the Complaint Proceeding.<sup>11</sup>

6. On January 5, 2015, the Commission accepted MISO Transmission Owners' request to implement the RTO Adder and the proposed Tariff revisions for filing and suspended them for a nominal period, to become effective January 6, 2015, subject to refund. The Commission granted the RTO Adder subject to it being applied to a base ROE that has been shown to be just and reasonable based on an updated DCF analysis and subject to the resulting ROE being within the zone of reasonableness determined by that updated DCF analysis, as those elements may be determined in the Complaint Proceeding.<sup>12</sup> The Commission also granted MISO Transmission Owners' request for

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Northern States Power Company, a Minnesota corporation, and Northern States Power Company, a Wisconsin corporation, subsidiaries of Xcel Energy Inc.; Northwestern Wisconsin Electric Company; Otter Tail Power Company; Southern Indiana Gas & Electric Company (d/b/a Vectren Energy Delivery of Indiana); and Wolverine Power Supply Cooperative, Inc.

<sup>9</sup> The MISO Transmission Owners' filing consisted of a revision to Note P of Attachment O of the Tariff, which describes how the base ROE is established, and provides notice that the RTO Adder may be added to the base ROE up to the upper end of the zone of reasonableness approved by the Commission. The filing also contained company-specific Attachment O formulas for each MISO Transmission Owner that has a company-specific formula rate.

<sup>10</sup> MISO Transmission Owners, Transmittal Letter, Docket No. ER15-358-000, at 11 (filed Nov. 6, 2014).

<sup>11</sup> *Id.* at 10-11.

<sup>12</sup> *Midcontinent Indep. Sys. Operator, Inc.*, 150 FERC ¶ 61,004, at P 39 (2015) (RTO Incentive Order).

waiver of the portions of the Commission's section 35.13 requirements that require the submission of cost of service information, statements, testimony, and exhibits to support the requested tariff changes, including the required DCF analysis.<sup>13</sup> The Commission also accepted MISO Transmission Owners' request to defer collection of the RTO Adder pending the outcome of the Complaint Proceeding.<sup>14</sup>

7. On February 12, 2015, Arkansas Electric Cooperative Corporation; Mississippi Delta Energy Agency and its two members, Clarksdale Public Utilities Commission of the City of Clarksdale, Mississippi and Public Service Commission of Yazoo City of the City of Yazoo City, Mississippi; and Hoosier Energy Rural Electric Cooperative, Inc. filed a complaint against certain MISO Transmission Owners (including ITC Midwest) in Docket No. EL15-45-000 alleging that the MISO Transmission Owners' base ROE is unjust and unreasonable and should be reduced.

## II. Filing

8. On January 30, 2015, ITC Midwest submitted revisions to its formula rate in Attachment O of the Tariff to allow the Transco Adder in addition to the Commission-approved base ROE.<sup>15</sup> ITC Midwest requests a 100-basis point adder as an incentive for independent transmission ownership, which it states is consistent with FPA section 219 and Order No. 679.<sup>16</sup> ITC Midwest states that Order No. 679 determined that independent transmission companies (Transcos) satisfy section 219 of the FPA because the transmission-only business model promotes increased investment in new transmission, which in turn reduces cost and increases competition.<sup>17</sup> ITC Midwest states

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<sup>13</sup> *Id.* P 45.

<sup>14</sup> *Id.* P 48.

<sup>15</sup> The proposed Tariff revisions consist of a revision to Note P of ITC Midwest's formula rate template in Attachment O of the Tariff, which describes how the base ROE is established, and provides notice that the Transco Adder may be added to the base ROE up to the upper end of the zone of reasonableness approved by the Commission.

<sup>16</sup> ITC Midwest Transmittal Letter at 4-6 (citing *Promoting Transmission Investment through Pricing Reform*, Order No. 679, FERC Stats. & Regs. ¶ 31,222, at PP 221-223, 231 (2006), *order on reh'g*, Order No. 679-A, FERC Stats. & Regs. ¶ 31,236, at P 77, *order on reh'g*, 119 FERC ¶ 61,062 (2007)).

<sup>17</sup> *Id.* at 4-5 (citing *N.Y. Regional Interconnect, Inc.*, 124 FERC ¶ 61,259, at P 41 (2008)).

that the Commission's additional guidance in the November 2012 policy statement demonstrated the Commission's continuing obligation to provide transmission incentives.<sup>18</sup>

9. ITC Midwest states that it understands that the overall ROE, including any incentives, must remain within the zone of reasonable returns for rates to be just and reasonable.<sup>19</sup> ITC Midwest states that the requested Transco Adder will be added to the MISO-wide base ROE to be determined in the Complaint Proceeding and that it understands that its ROE, including the Transco Adder requested here, will be bound by the upper end of the zone of reasonableness as determined in the Complaint Proceeding and commits to the ROE being bound as such.<sup>20</sup>

10. ITC Midwest states that in 2007 it sought authorization for the Transco Adder based on its status as an independent transmission company. ITC Midwest notes that the Commission declined to award the incentive, based on its finding that ITC Midwest had not demonstrated that its proposed ROE, including the 100-basis point Transco Adder, fell within the range of reasonable returns due to "a number of difficulties" with ITC Midwest's analysis.<sup>21</sup> ITC Midwest further states that the Commission denied ITC Midwest's proposal without prejudice to ITC Midwest making a new section 205 filing seeking to change its ROE supported by a DCF analysis of a proxy group of companies with comparable risks. However, ITC Midwest states that the Commission confirmed ITC Midwest's independence, based on ITC Midwest's showing that it would not be

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<sup>18</sup> *Id.* at 5-6 (citing *Promoting Transmission Investment Through Pricing Reform*, 141 FERC ¶ 61,129 (2012)).

<sup>19</sup> *Id.* at 8 (citing *Commonwealth Edison Co. and Commonwealth Edison Co. of Indiana, Inc.*, 119 FERC ¶ 61,238, at P 77 (2007); *So. Cal. Edison Co.*, 121 FERC ¶ 61,168, at P 158 (2007), *reh'g denied*, 123 FERC ¶ 61,293 (2008); *Potomac-Appalachian Transmission Highline, L.L.C.*, 122 FERC ¶ 61,188, at P 28 (2008)).

<sup>20</sup> *Id.* at 8-10.

<sup>21</sup> *Id.* at 7 (citing *ITC Holdings Corp.*, 121 FERC ¶ 61,229, at PP 42-44 (2007) (2007 Order)). ITC Midwest also notes that the Complaint Hearing Order confirmed that the earlier denial of ITC Midwest's request for the Transco Adder was not a substantive rejection, but rather based on "ITC Midwest's failure to demonstrate that the resulting ROE, including the incentives, would be within the zone of reasonableness, and not because ITC Midwest was ineligible for such incentives or that such incentives would provide less value to consumers than their costs." *Id.* (citing Complaint Hearing Order, 149 FERC ¶ 61,049 at P 202).

affiliated with a traditional public utility company that engages in sales and distribution of electric power to captive retail customers, or with a traditional public utility company that owns and operates generation assets. Thus, ITC Midwest asserts that the Commission's denial of the Transco Adder in 2007 is not a bar to the Commission authorizing the incentive in this proceeding.<sup>22</sup>

11. ITC Midwest states that, in connection with its commitment to restrict its total ROE in accordance with any new range of reasonable returns adopted by the Commission in a final order in the Complaint Proceeding, ITC Midwest requests a waiver of the portions of the Commission's section 35.13 rules that require the submission of cost of service information and statements, and testimony and exhibits to support the requested tariff changes, including the required DCF analysis.<sup>23</sup> ITC Midwest argues that it is unnecessary to submit this information at this time because it would merely duplicate the exhibits and testimony that have been or may be filed in the Complaint Proceeding, given that ITC Midwest has agreed, for the purpose of implementing the Transco Adder, to adhere to any range of reasonable returns that the Commission may establish in the Complaint Proceeding.<sup>24</sup> Thus, ITC Midwest requests a waiver of section 35.13(a), (c), (d), (e), and (h), and any other portions of 18 C.F.R. § 35.13 necessary to allow the Commission to accept ITC Midwest's addition of the Transco Adder to its formula rate template contained in Attachment O of the Tariff based on the final outcome of the Complaint Proceeding.<sup>25</sup> ITC Midwest also notes that the Commission recently granted a comparable waiver to the MISO Transmission Owners in connection with their proposal to implement the RTO Adder.<sup>26</sup>

12. ITC Midwest also requests Commission approval to defer collection of the Transco Adder until the Commission issues an order on the Complaint Proceeding, in which the Commission will establish a zone of reasonableness for ITC Midwest's ROE.<sup>27</sup> ITC Midwest states that, as proposed, the deferral would not modify the effective date of the Transco Adder, but would merely impact the timing of collection of the Transco

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<sup>22</sup> *Id.* at 7-8.

<sup>23</sup> *Id.* at 9-10.

<sup>24</sup> *Id.* at 10.

<sup>25</sup> *Id.* (citing 18 C.F.R. § 35.13(a), (c), (d), (e), (h) (2014)).

<sup>26</sup> *Id.* (citing RTO Incentive Order, 150 FERC ¶ 61,004 at P 44).

<sup>27</sup> *Id.* at 9.

Adder.<sup>28</sup> ITC Midwest states that deferring the collection, from the effective date, of the Transco Adder until the outcome of the Complaint Proceeding will avoid unnecessary rate volatility that would result if the incentive is collected now but then the base ROE is modified by the outcome of the Complaint Proceeding.<sup>29</sup> Further, ITC Midwest argues that deferring collection of the Transco Adder would also avoid the potential for increased refund liability, should the current MISO base ROE be reduced. ITC Midwest also argues that the Commission approved a similar request for deferral of collection of an approved ROE incentive in the RTO Incentive Order in the interests of administrative efficiency.<sup>30</sup>

### III. Notice and Responsive Pleadings

13. Notice of ITC Midwest's filing was published in the *Federal Register*, 80 Fed. Reg. 7452 (2015), with interventions and protests due on or before February 20, 2015.

14. Timely motions to intervene were filed by: American Transmission Company LLC; Midcontinent MCN, LLC; Great River Energy; Great Lakes Utilities; and Midwest TDUs.<sup>31</sup> The Mississippi Public Service Commission (Mississippi Commission) filed a notice of intervention. Timely motions to intervene and protests were filed by: the Iowa Utilities Board and Iowa Consumer Advocate (together, the Iowa Parties); Jo-Carroll Energy, Inc. (Jo-Carroll Energy); the Iowa Consumers Coalition; Resale Power Group of Iowa; the Minnesota Department of Commerce, Division of Energy Resources (Minnesota Department of Commerce)<sup>32</sup>; and Interstate Power and Light Company (Interstate). The Mississippi Commission and Midwest TDUs filed a joint protest. On

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<sup>28</sup> *Id.*

<sup>29</sup> *Id.*

<sup>30</sup> *Id.* (citing RTO Incentive Order, 150 FERC ¶ 61,004 at P 47).

<sup>31</sup> For purposes of this filing, the City of Columbia, Missouri; Midwest Municipal Transmission Group; Missouri River Energy Services; WPPI Energy; and the Missouri Joint Municipal Electric Utility Commission collectively (and in conjunction with Great Lakes Utilities, which intervening separately through its own counsel) constitute "Midwest TDUs." On February 23, 2015, the Missouri Joint Municipal Electric Utility Commission filed an errata explaining that it was inadvertently omitted from the joint protest filed by the Mississippi Commission and Midwest TDUs.

<sup>32</sup> The Minnesota Department of Commerce states it agrees with and supports the Iowa Parties' Protest.

March 9, 2015, ITC Midwest filed an answer. On March 24, 2015, the Mississippi Commission and Midwest TDUs, and Resale Power Group of Iowa each filed an answer.

**A. Appropriateness of Transco Adder**

15. A number of commenters argue that the proposed Transco Adder lacks sufficient justification. The Iowa Parties state that they recognize that ITC Midwest makes the same arguments in its request for a 100-basis point Transco Adder that the MISO Transmission Owners made in their recently approved request for the 50-basis point RTO Adder.<sup>33</sup> However, the Iowa Parties contend that in approving the RTO Adder, the Commission found that membership in MISO is an “objective criterion” that is beneficial to ratepayers and, since membership is voluntary, a 50-basis point adder for that membership was determined to be reasonable.<sup>34</sup> The Iowa Parties argue that approval of a 100-basis point Transco Adder is not based on a region-wide objective standard such as continuing membership in MISO and should require a determination by the Commission that the individual company is eligible for a Transco Adder and has provided evidentiary support for that adder.<sup>35</sup>

16. The Iowa Parties also contend that, although the Commission found that a cost-benefit analysis is not necessary to grant MISO-wide adders for RTO membership because the consumer benefits provided by RTO membership in MISO are well-documented, this justification does not extend to the Transco Adder.<sup>36</sup> They contend that the Commission has had few opportunities to consider the validity of the policy underpinnings for the Transco Adder in part because very few independent transmission companies have requested an independence adder, and that ITC Midwest does not offer any evidence that such an adder would provide additional value to customers.<sup>37</sup>

17. Resale Power Group of Iowa also contends that the outcome in the Complaint Hearing Order is not dispositive of ITC Midwest’s proposal. According to Resale Power Group of Iowa, the two proceedings are distinct because in the Complaint Hearing Order the Commission confirmed the continued effectiveness of independence adders for two

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<sup>33</sup> Iowa Parties Protest at 5-6.

<sup>34</sup> *Id.* at 6.

<sup>35</sup> *Id.*

<sup>36</sup> *Id.* at 9.

<sup>37</sup> *Id.*

MISO Transmission Owners that had been authorized when the companies were formed, whereas here ITC Midwest seeks the Transco Adder for a Transco that has successfully financed a large transmission modernization program for seven years.<sup>38</sup>

18. The Mississippi Commission and Midwest TDUs contend that approval of the Transco Adder requires a case-specific, evidentiary showing and that ITC Midwest can neither waive such requirements nor rely on the Complaint Proceeding to meet those requirements. In the Complaint Proceeding, the burden of proof to show that the 100-basis point adders previously granted to ITC Midwest's affiliates should be eliminated was on Complainants, and the Commission held that Complainants had failed to carry it. However, the Mississippi Commission and Midwest TDUs argue that this case is a section 205 case, in which the burden of proof resides with the filing utility.<sup>39</sup>

19. Further, Interstate argues that simply granting an incentive adder because another Transco with different circumstances was granted the incentive in a prior proceeding is in direct contradiction to the Commission's policy of examining incentive adder requests on a case-by-case basis.<sup>40</sup>

20. Protesters further contend that ITC Midwest presents no evidence in this case that demonstrates that, without the Transco Adder, ITC Midwest has limited ability to attract capital to meet customer demands or to comply with the requirements for expansion of the MISO transmission system in the MISO Transmission Expansion Plans.<sup>41</sup> The Iowa Parties assert that ITC Midwest has the burden to show that, without this adder, it is not able to attract investors or that any inability to get capital investment is impacting reliability of the grid or ITC Midwest's ability to meet MISO transmission expansion requirements.<sup>42</sup> The Iowa Parties state that they do not believe that ITC Midwest can meet this burden because the dramatic increase in ITC Midwest's rate base since it acquired Interstate's transmission facilities in 2006, accomplished without a Transco

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<sup>38</sup> Resale Power Group of Iowa Protest at 22-24.

<sup>39</sup> Mississippi Commission and Midwest TDUs Protest at 3-4.

<sup>40</sup> Interstate Protest at 8 (citing Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 43 ("The Commission will, on a case-by-case basis, require each applicant to justify the incentive it requests.")).

<sup>41</sup> Iowa Parties Protest at 8-9; *see also* Interstate Protest at 8; Mississippi Commission and Midwest TDUs Protest at 2-4.

<sup>42</sup> Iowa Parties Protest at 10-11.

Adder, shows that the lack of that adder has not negatively impacted ITC Midwest's access to capital or grid reliability.<sup>43</sup>

21. Similarly, Resale Power Group of Iowa argues that ITC Midwest has not provided any specific evidence of how the incentive would encourage transmission investment or lead to an ROE that attracts transmission investment. Resale Power Group of Iowa also argues that, given the 275 percent increase in ITC Midwest's Network Integration Transmission Service Rates since 2008, ITC Midwest has not met its section 205 burden to show the justness and reasonableness of the Transco Adder.<sup>44</sup> Other parties argue that the Commission should consider incentives' effects on customer rates.<sup>45</sup> Jo-Carroll Energy also notes that increasing the ROE in ITC Midwest's rates has a particularly large effect on the rates paid by ITC Midwest's customers due to ITC Holdings' practice of using double leverage, i.e., using holding company debt to fund the equity of the new ITC operating companies such as ITC Midwest.<sup>46</sup>

22. The Iowa Consumers Coalition contends that, based on ITC Midwest's rate base and a 60 percent equity ratio in ITC Midwest's capital structure, the overall impact on ITC Midwest's rates from the 100-basis point Transco Adder requested here is about an \$18 million annual increase, which, when passed through in retail rates by Interstate to its retail customers, represents about 1.4 percent of a typical large end user's bill.<sup>47</sup> The Iowa Consumers Coalition further contends that the impact on retail customers' rates from the requested Transco Adder is compounded by ITC Midwest's growing rate base.<sup>48</sup> The Iowa Consumers Coalition asserts that the cost increases that result from any such adders, which are ultimately borne by load, must be justified by a corresponding increase in benefits. Protesters, including the Iowa Consumers Coalition, argue that ITC Midwest has not demonstrated any net benefit from its capital investments in transmission or a

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<sup>43</sup> *Id.* at 11. According to Resale Power Group of Iowa, the value of ITC Midwest's projected gross plant has grown from \$698.7 million in January 2008 to \$2.39 billion in 2015, exceeding the percentage increase of all other MISO Transmission Owners over that period. Retail Power Group of Iowa Protest at 8.

<sup>44</sup> Retail Power Group of Iowa Protest at 19-21.

<sup>45</sup> Interstate Protest at 10; *see also* Iowa Consumers Coalition at 3-4.

<sup>46</sup> Jo-Carroll Energy Protest at 6.

<sup>47</sup> Iowa Consumers Coalition Protest at 3.

<sup>48</sup> *Id.*

need for the Transco Adder to attract capital investment or to maintain or improve its current level of service.<sup>49</sup>

23. The Iowa Parties assert that the Iowa Utilities Board has approved a transmission rider for Interstate that allows a direct pass-through of the Commission approved transmission costs charged by ITC Midwest.<sup>50</sup> The Iowa Parties further assert that Interstate is ITC Midwest's largest customer and most of any rate increase approved by the Commission for the 100-basis point Transco Adder will be flowed directly to Iowa customers.<sup>51</sup> The Iowa Parties contend that this regulatory treatment reduces the uncertainty of revenue flow and cost recovery for ITC Midwest and should be taken into account by the Commission in its own decision as to how much equity return to allow given the risks faced by ITC Midwest.<sup>52</sup>

24. Jo-Carroll Energy and the Iowa Parties assert that ITC Midwest files for rate increases using the forward-looking formula rates, under which ROE is treated as a guaranteed expense. They assert that this approach removes much of the risk associated with equity investment and, therefore, much of the traditional rationale for an ROE in excess of the return on debt.<sup>53</sup> The Iowa Parties further assert that granting ITC Midwest another 100 basis points just because of its business structure takes the reward allowance well beyond the risk incurred and well beyond what is needed in order to incentivize ITC Midwest to invest in additional transmission.<sup>54</sup> The Iowa Parties argue that such an excessive reward would be a windfall to ITC Midwest and translate into customer rates that would no longer be just and reasonable.<sup>55</sup>

25. The Iowa Parties assert that, while the Commission has rejected theoretical concerns about increased transmission company prices, biases in grid investment, and the

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<sup>49</sup> *Id.* at 4; Interstate Protest at 8; Jo-Carroll Energy Protest at 6.

<sup>50</sup> Iowa Parties Protest at 9 (citing *In re Interstate Power and Light Company*, No. RPU-2010-0001, 2011 WL 121159 (Iowa U.B. Jan. 11, 2011)).

<sup>51</sup> *Id.* at 9-10.

<sup>52</sup> *Id.*

<sup>53</sup> Jo-Carroll Energy Protest at 3; Iowa Parties Protest at 10.

<sup>54</sup> Iowa Parties Protest at 10.

<sup>55</sup> *Id.*

absence of risk analysis for adder returns for transmission companies, the Commission has left open the door to consider these issues in section 205 processes. The Iowa Parties contend that “it is not clear that ITC Midwest’s business and financial risk justifies ITC Midwest’s ROE and adder falling in the upper end of the proxy group distribution zone of reasonableness.”<sup>56</sup> Further, they assert that, arguably, ITC Midwest’s business and financial risk justify an ROE in the lower end of risk comparability because ITC Midwest’s operating subsidiaries are not exposed to generation investment risk like that faced by pure play generation investment and fully integrated utilities. The Iowa Parties continue that fully integrated utilities have more capital intensive generation asset investment and are exposed to significant environmental compliance, fuel price volatility, and other exogenous investment risks not germane to transmission-only investment, and that transmission companies such as ITC Midwest are of lower financial risk than typical fully integrated utilities. The Iowa Parties argue that higher equity ratios, such as ITC Midwest’s 60 percent, increase the probability of meeting fixed charge obligation, reduce the possibility of insolvency risk, reduce the volatility in residual earnings, and lower the risk of meeting earning targets.<sup>57</sup> The Iowa Parties contend that ITC Midwest’s lower risk criteria would justify a total ROE that is well below the upper end of the distribution of comparable risk companies and that an independence adder should not be granted without fully investigating these issues in a section 205 proceeding.<sup>58</sup>

26. Jo-Carroll Energy also questions the completeness of ITC Midwest’s adherence to the independence model. Jo-Carroll Energy asserts that, while ITC Midwest states that ITC Holdings adheres to “rigorous provisions to secure its independence, including restrictions on Market Participants holding 5 percent or more of the common stock of ITC Holdings,” ITC Holdings’ ownership is indirectly at least partly in the hands of entities with investments in market participants, some of which own more than 5 percent of the outstanding shares of ITC Holding’s common stock. Specifically, Jo-Carroll Energy states that Baron Capital Group, Inc. owns 7.3 percent of ITC Midwest, and Black Rock and Vanguard own more than 5 percent of ITC Midwest and also have more than 5 percent ownership of other MISO transmission owners.<sup>59</sup>

27. The Iowa Parties assert that ITC Midwest’s reliance on anticipated analysis in the Complaint Proceeding is presumptuous since the Commission has no information in this

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<sup>56</sup> *Id.* at 13.

<sup>57</sup> *Id.*

<sup>58</sup> *Id.* at 13-14.

<sup>59</sup> Jo-Carroll Energy Protest at 3-4 (citing ITC Midwest Transmittal at 8).

docket on which it can support a decision to grant ITC Midwest's request.<sup>60</sup> The Iowa Parties assert that, since the effective date of April 1, 2015 for the Transco Adder precedes the filing date for MISO Transmission Owners' testimony in the Complaint Proceeding, there is no assurance that the testimony and analysis in the Complaint Proceeding will contain the evidentiary support necessary for ITC Midwest to be granted the 100-basis point Transco Adder in this docket.<sup>61</sup>

28. Resale Power Group of Iowa also argues that ITC Midwest's application for the Transco Adder is premature. Resale Power Group of Iowa argues that the Commission has determined that the rate incentives must encourage new transmission investment and not just serve as a "bonus for good behavior."<sup>62</sup> Resale Power Group of Iowa contends that, given this rationale for incentives and ITC Midwest's success in financing transmission projects with only its base ROE, the Commission cannot rationally tailor the Transco Adder incentive in this case without knowing what ITC Midwest's base ROE will be on a going forward basis. Resale Power Group of Iowa asserts that the base ROE may end up being sufficient on its own to provide an incentive to develop transmission.<sup>63</sup>

29. The Iowa Parties consider it unreasonable and unlawful to allow rates to be retroactively charged to ITC Midwest customers without any evidentiary support.<sup>64</sup> In addition, the Iowa Parties argue that approval of the independence adder before the new ROE is determined in the Complaint Proceeding reverses the correct order of reviewing these issues and renders the determination of a reasonable ROE meaningless.<sup>65</sup> The Iowa Parties also argue that, if the Transco Adder is allowed without the supporting DCF analysis and other information, ITC Midwest's ROE could end up at the upper end of the zone of reasonableness and thus, in effect, make the upper end of the zone the ROE for ITC Midwest without an evidentiary finding that ITC Midwest's ROE is just and reasonable.

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<sup>60</sup> Iowa Parties Protest at 7.

<sup>61</sup> *Id.*

<sup>62</sup> Resale Power Group of Iowa Protest at 17 (citing *Trans-Elect, Inc.*, 98 FERC ¶ 61,368 (2002)).

<sup>63</sup> *Id.* at 19.

<sup>64</sup> Iowa Parties Protest at 12.

<sup>65</sup> *Id.*

30. As a threshold matter, the Mississippi Commission and Midwest TDUs contend that ITC Midwest's commitment to be bound by the upper end of the ROE zone determined in the Complaint Proceeding is insufficient and likely tied to the wrong docket. The Mississippi Commission and Midwest TDUs assert that a subsequent MISO ROE complaint case was filed on February 12, 2015 in Docket No. EL15-45-000 and that ITC Midwest should be directed to clarify that, with respect to the zone of reasonableness, it also agrees to be bound by the outcome of the MISO ROE complaint case in Docket No. EL15-45-000.<sup>66</sup>

31. Further, while the Mississippi Commission and Midwest TDUs believe such clarification is necessary, they do not feel it is sufficient to resolve another matter that could result from the interaction of this filing on both of the MISO ROE complaint proceedings. They argue that ITC Midwest's request for a 100-basis point Transco Adder made effective now but with delayed collection could distort upwards the to-be-determined ROE zone ceiling on which ITC Midwest relies to justify its proposal. They explain that, if ITC Midwest's delayed billing is approved, analyst projections published during 2015 for ITC Holdings' long-term earnings growth would likely rest on a comparison of ITC Holdings' actual 2014 earnings to its projected 2017 earnings, and that ITC Holdings' 2017 earnings projection would likely include earnings from both billing and back-billing of ITC Midwest's 100-basis point Transco Adder, atop billing and back-billing of the 50-basis point RTO Adder for all three MISO-area ITC operating companies, atop recovery of the cost-based revenue requirement. According to the Mississippi Commission and Midwest TDUs, ITC Midwest proposes a feedback loop under which the nominal ceiling on its requested incentives would lift itself upwards, which would be unjust and unreasonable.<sup>67</sup>

32. Resale Power Group of Iowa disputes the use of a 100-basis point Transco Adder and contends that 25 or 50 basis points may be sufficient for ITC Midwest, depending on the overall context of the risks and challenges ITC Midwest faces in constructing new transmission.<sup>68</sup>

33. Interstate requests that the Commission reevaluate its overall transmission ROE incentives policies to ensure the policies are meeting the intended goals of encouraging transmission investment in a manner that is efficient and which considers cost impacts to customers, before considering the instant proceeding. In the alternative, Interstate

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<sup>66</sup> Mississippi Commission and Midwest TDUs Protest at 11-12.

<sup>67</sup> *Id.* at 11-13.

<sup>68</sup> Resale Power Group of Iowa Protest at 22-24.

requests consolidation of the instant proceeding with the Complaint Proceeding as the most efficient, holistic, and expeditious means to resolve the ITC Midwest ROE matter.<sup>69</sup>

### **B. Procedures for Implementation and Request for Waivers**

34. Some protesters assert that the ITC Midwest application raises issues of material fact regarding ITC Midwest's demonstration of the reasonableness of the proposed incentive and the weight of business and consumer interests that require the Commission to set the proceeding for hearing and be suspended for five months.<sup>70</sup>

35. The Iowa Parties assert that ITC Midwest's filing is a premature attempt to circumvent the Commission's requirements by attempting to tie the 100-basis point Transco Adder to the Complaint Proceeding and should be rejected as not compliant with section 35.13 and the Commission's 2007 Order.<sup>71</sup> The Iowa Parties assert that once a just and reasonable base ROE is determined in the Complaint Proceeding, then ITC Midwest can file for the 100-basis point Transco Adder and, if evidence in the Complaint Proceeding supports the 100-basis point Transco Adder as alleged by ITC Midwest, the Commission can decide whether to waive the filing requirements in section 35.13 at that time.<sup>72</sup>

36. The Iowa Parties assert that the Commission in the 2007 Order previously denied the 100-basis point Transco Adder because the DCF analysis presented by ITC Midwest failed to show that the resulting ROE would result in just and reasonable rates.<sup>73</sup> The Iowa Parties further assert that the Commission stated that it would permit adders only if the adders resulted in just and reasonable rates and if ITC Midwest filed an updated DCF analysis to support the adder.<sup>74</sup>

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<sup>69</sup> Interstate Protest at 1-2.

<sup>70</sup> Resale Power Group of Iowa Protest at 22-24; Mississippi Commission and Midwest TDUs Protest at 11.

<sup>71</sup> Iowa Parties Protest at 12.

<sup>72</sup> *Id.* at 12-13.

<sup>73</sup> *Id.* at 6 (citing 2007 Order, 121 FERC ¶ 61,229 at P 15).

<sup>74</sup> *Id.* (citing 2007 Order, 121 FERC ¶ 61,229 at P 15; Order No. 679, FERC Stats. & Regs. ¶ 31,222 at PP 2, 93).

37. The Iowa Parties also contend that the 100-basis point Transco Adder is a company-specific adder and ITC Midwest should be required to comply with the filing requirements in section 35.13 before the request is considered. The Iowa Parties contend that the Commission's rejection of ITC Midwest's Transco Adder in 2007 shows that ITC Midwest must do more than just file for approval of the adder; it must file evidentiary support for the adder.<sup>75</sup>

38. The Iowa Parties argue that the Commission has approved a capital structure for ITC Midwest of 60 percent equity and 40 percent debt, unlike some other transmission owners in MISO, and that this distinction demonstrates the importance of the Commission not approving an independence adder for ITC Midwest until the Commission has determined the base ROE in the Complaint Proceeding and after ITC Midwest has filed the evidence required by section 35.13 to support approval of the adder.<sup>76</sup>

#### IV. Discussion

##### A. Procedural Matters

39. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2014), the notice of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

40. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2014), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We are not persuaded to accept the answers filed by ITC Midwest, the Mississippi Commission and Midwest TDUs, and Resale Power Group of Iowa and will, therefore, reject them.

##### B. Substantive Matters

##### 1. ITC Midwest's Request for the Transco Adder

41. We grant ITC Midwest's request for a Transco Adder to its base ROE, subject to it being reduced to 50-basis points for forming a Transco, consistent with section 219 of the FPA. Additionally, we grant the Transco Adder, consistent with Commission

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<sup>75</sup> *Id.* at 8.

<sup>76</sup> *Id.*

precedent,<sup>77</sup> subject to it being applied to a base ROE that has been shown to be just and reasonable based on an updated DCF analysis and subject to the resulting ROE being within the zone of reasonableness determined by that updated DCF analysis, subject to the outcome of the Complaint Proceeding.

42. In the Energy Policy Act of 2005, Congress added section 219 to the FPA, directing the Commission to establish, by rule, incentive-based rate treatments for the transmission of electric energy in interstate commerce by public utilities for the purpose of benefiting consumers by ensuring reliability or reducing the cost of delivered power by reducing transmission congestion.<sup>78</sup> The purpose of section 219 is, *inter alia*, to promote reliable and economically efficient transmission and generation of electricity by promoting capital investment in electric transmission infrastructure.<sup>79</sup> The Commission subsequently issued Order No. 679,<sup>80</sup> which sets forth processes by which a public utility may seek transmission rate incentives, pursuant to section 219 of the FPA, including the incentives requested here by ITC Midwest.

43. As a preliminary matter, we continue to find that ITC Midwest is a fully independent, stand-alone transmission company member of MISO pursuant to Appendix I of MISO's Tariff. In the 2007 Order, the Commission found that ITC Holdings' ownership structure would prevent market participants from being able to influence or control ITC Holdings and thus undermine ITC Midwest's independence. As a result, the Commission found that ITC Midwest, as proposed, would be a fully independent, stand-alone transmission company eligible for an Appendix I relationship with MISO.<sup>81</sup> While Jo-Carroll Energy observes that several large investors control more than five percent of ITC Holdings, we find that Jo-Carroll Energy has not demonstrated how such control could undermine or influence ITC Holdings' independence or how any issue related to ITC Midwest's independence would cause us to deviate from our previous findings. We also note that there are protections to ensure the independence of transmission companies such as ITC Midwest. For example, ITC Holdings notifies the Commission whenever

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<sup>77</sup> See, e.g., *N.Y. Regional Interconnect Inc.*, 124 FERC ¶ 61,259 (2008); *Green Power Express LP*, 127 FERC ¶ 61,031 (2009), *order denying clarification and reh'g*, 135 FERC ¶ 61,141 (2011).

<sup>78</sup> 16 U.S.C. § 824s(a), (b) (2012).

<sup>79</sup> *Id.*

<sup>80</sup> Order No. 679, FERC Stats. & Regs. ¶ 31,222.

<sup>81</sup> See 2007 Order, 121 FERC ¶ 61,229 at P 87.

any shareholder owns five percent or more of ITC Holdings' common stock and initiates an investigation to determine if that entity is a market participant and takes actions if necessary to remediate any conflicts by purchasing back stock.<sup>82</sup>

44. In Order No. 679, the Commission observed that the Transco business model responds more rapidly and precisely to market signals. Accordingly, the Commission determined that Transcos satisfy section 219 of the FPA because this business model promotes increased investment in new transmission, which in turn reduces costs and increases competition.<sup>83</sup> Thus, in Order No. 679, the Commission concluded that ROE incentives are appropriate to encourage Transco formation and new transmission infrastructure investment.<sup>84</sup> Indeed, the Commission has previously granted ROE transmission incentives to Transcos to encourage their formation and in recognition of the benefits of their business model to customers.<sup>85</sup>

45. We continue to find that the Transco business model provides the benefits that the Commission recognized in Order No. 679.<sup>86</sup> However, we note that the Commission did not specify the size of the Transco Adder in Order No. 679. In previous instances where the Commission granted a 100-basis point adder,<sup>87</sup> the Commission found 100-basis points to be the appropriate size adder based on the specific circumstances of the applicants and market conditions at the time of their applications. In the Complaint Hearing Order, the Commission dismissed requests that it eliminate the Transco Adder for ITC and METC. However, upon review, we find 100-basis points to be excessive for the Transco Adder at this time. We conclude that 50-basis points is an appropriate size for the Transco Adder, taking into account the interests of consumers and applicants, as well as current market conditions. Granting this 50-basis point adder strikes the right balance by appropriately encouraging independent transmission consistent with Order

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<sup>82</sup> See *ITC Holdings Corp. and International Transmission Company*, 111 FERC ¶ 61,149, at PP 23-27 (2005).

<sup>83</sup> Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 224.

<sup>84</sup> *Id.* PP 221, 224.

<sup>85</sup> See, e.g., *ITC Holdings Corp.*, 102 FERC ¶ 61,182, at P 68, *reh'g denied*, 104 FERC ¶ 61,033 (2003); *Michigan Elec. Transmission Co., LLC*, 113 FERC ¶ 61,343, at P 17 (2005), *order on reh'g*, 116 FERC ¶ 61,164 (2006).

<sup>86</sup> See *supra* note 84.

<sup>87</sup> See *supra* note 77.

No. 679, while acknowledging protestors' concerns regarding the rate impacts of such adders. Therefore, we grant ITC Midwest a 50-basis point adder for forming a Transco, subject to it being applied to a base ROE that has been shown to be just and reasonable based on an updated DCF analysis and subject to the resulting ROE being within the zone of reasonableness determined by that updated DCF analysis, as those may be determined in the Complaint Proceeding. Accordingly, we direct ITC Midwest to revise its proposed Tariff provisions to modify the Transco Adder from 100 to 50 basis points. We direct ITC Midwest to revise Note P of its proposed formula rate in its compliance filing due within 30 days of the date of this order.

46. We reject protestors' arguments that the Transco Adder is not *needed* for ITC Midwest, for reasons including ITC Midwest's increasing rate base, capital structure, or seven-year status as a Transco. Similar to the Commission's recent finding with respect to the RTO Adder for the MISO Transmission Owners,<sup>88</sup> we find that utilities are eligible for the Transco Adder if they can demonstrate their status as Transcos. Applicants need not provide additional justification as to the necessity or benefits of the incentive or pass a cost-benefit analysis.<sup>89</sup> Specifically, as the Commission found in Order No. 679, applicants need not demonstrate that they would not make investments but for the Transco Adder or that the adder will ultimately serve to reduce rates or improve reliability.<sup>90</sup>

47. We disagree with protestor arguments that the Transco Adder is held to a different standard than the RTO Adder, which the Commission grants based on "objective criterion." We also disagree with protestors' arguments that the relatively small number of instances of utilities receiving the Transco Adder somehow undermines this standard. As the Commission found in Order No. 679, Transcos are appropriate structures for investment in infrastructure and accomplishment of the objectives of section 219. The Commission stated in Order No. 679 that Transcos are entitled to transmission incentives based on their independent status.<sup>91</sup> We find that ITC Holdings' business model and independence safeguards have adequately protected the independence of ITC Holdings, and its subsidiary ITC Midwest. As discussed above, we find that ITC Midwest qualifies as an independent Transco.

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<sup>88</sup> RTO Incentive Order, 150 FERC ¶ 61,004 at P 41.

<sup>89</sup> See Order No. 679, FERC Stats. & Regs. ¶ 31,222 at P 65.

<sup>90</sup> See *id.* n.63.

<sup>91</sup> See *id.* PP 221-226.

48. We also disagree with concerns about the appropriateness of reliance on the anticipated analysis in the Complaint Proceeding. The Commission has already found that the Complaint Proceeding is an appropriate vehicle for determining the base ROE and zone of reasonableness.<sup>92</sup>

49. We disagree with the Iowa Parties' concern that approving the Transco Adder before approving the base ROE and zone of reasonableness could result in a premature determination that the ITC Midwest ROE and adder are within the zone of reasonableness and are just and reasonable. The Commission has, in the past, approved transmission incentives prior to the determination of the base ROE and zone of reasonableness and recently did so in response to the MISO Transmission Owners' request for the RTO Adder.<sup>93</sup> Additionally, the Commission first considers where the *base* ROE is within the zone of reasonableness, provided the total ROE is within the zone of reasonableness.

50. Regarding Mississippi Commission and Midwest TDUs' request that the Commission clarify that the zone of reasonableness should be bound by the outcome of the Docket No. EL15-45-000 complaint proceeding, the Commission has not ruled on the complaint. However, we note that if that proceeding results in an updated zone of reasonableness, ITC Midwest's ROE will be bound by the zone of reasonableness established in that proceeding.

51. With respect to the Mississippi Commission and Midwest TDUs' contention that granting ITC Midwest the Transco Adder in this proceeding could influence the DCF analysis in the Complaint Proceeding, we find that such concerns can be addressed in the Complaint Proceeding. Participants in that proceeding can raise concerns about the appropriateness of DCF model proxy group members or propose adjustments to the DCF analysis. This proceeding relates solely to the determination of the appropriateness of the Transco Adder for ITC Midwest and not the determination of the base ROE or the zone of reasonableness.

52. Finally, with respect to Interstate's request that the Commission reevaluate its overall transmission ROE incentive policies to ensure the policies are meeting the intended goals of encouraging transmission investment in a manner that is efficient and which considers cost impacts to customers, as noted above, this proceeding relates solely to the determination of the appropriateness of the Transco Adder for ITC Midwest. Such requests are beyond the scope of this proceeding.

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<sup>92</sup> RTO Incentive Order, 150 FERC ¶ 61,004 at P 44.

<sup>93</sup> *Id.*

## 2. Procedures for Implementation and Request for Waivers

53. We disagree with protestors who contend that ITC Midwest's request for the Transco Adder should be set for hearing and settlement procedures. This proceeding pertains to the independence incentive and not to the total ROE. As discussed above, we find that ITC Midwest merits the 50-basis point Transco Adder and disagree with arguments that it must show that the incentive is needed to encourage investment or passes a cost-benefit test. Consequently, we find that there are no material issues of fact in this proceeding that are not being addressed in the Complaint Proceeding, such that this matter should be set for hearing and settlement procedures or formally consolidated with the Complaint Proceeding.

54. Based upon a review of the filing and the comments, our preliminary analysis indicates that the overall ROE resulting from application of the 50-basis point Transco Adder has not been shown to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory, or otherwise unlawful (i.e., it has not been shown that the overall ROE resulting from the application of the 50-basis point Transco Adder is just and reasonable). Accordingly, we conditionally accept the revisions to Attachment O of the Tariff, suspend them for a nominal period to become effective April 1, 2015, subject to refund, and subject to the 50-basis point Transco Adder being applied to a base ROE that has been shown to be just and reasonable based on an updated DCF analysis and the resulting ROE being within the zone of reasonableness determined by that updated DCF analysis, as those may be determined in the Complaint Proceeding, and make the proposed revisions subject to the outcome of the Complaint Proceeding. Because we are accepting the proposed revisions subject to the outcome of the Complaint Proceeding for the purpose of determining the just and reasonable base ROE and the zone of reasonableness, we grant ITC Midwest's request for waiver of the portions of the Commission's section 35.13 requirements that require the submission of cost of service information, statements, testimony, and exhibits to support the requested tariff changes, including the required DCF analysis.

## 3. ITC Midwest's Request to Defer Collection of the Transco Adder

55. We accept ITC Midwest's commitment to defer collection of the Transco Adder pending the outcome of the Complaint Proceeding, noting that the Transco Adder will be effective as of April 1, 2015. We believe this will promote administrative efficiency.

### The Commission orders:

(A) The proposed Tariff revisions are hereby conditionally accepted for filing, subject to the Transco Adder being reduced to 50-basis points, subject to refund, and suspended for a nominal period to become effective April 1, 2015, subject to the proposed Transco Adder being applied to a base ROE that has been shown to be just and

reasonable based on an updated DCF analysis and subject to the resulting ROE being within the zone of reasonableness determined by that updated DCF analysis, as those may be determined in the Complaint Proceeding, and subject to the outcome of the Complaint Proceeding, as discussed in the body of this order.

(B) Note P of the proposed formula rate must be revised to reflect a 50-basis point Transco Adder in a compliance filing due within 30 days of the date of this order, as discussed in the body of this order.

By the Commission. Commissioners Moeller and Clark are dissenting with a joint separate statement attached.

( S E A L )

Nathaniel J. Davis, Sr.,  
Deputy Secretary.

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Midcontinent Independent System Operator, Inc.

Docket No. ER15-945-000

(Issued March 31, 2015)

CLARK, Commissioner, and MOELLER, Commissioner, *dissenting*:

This order marks the first time that the Commission has reduced a requested ROE Transco Adder, in this case from 100-basis points to 50-basis points. We cannot support this order because the majority has not based their decision to reduce the ROE Transco Adder for ITC Midwest on an adequate record.

Although this order notes that ITC Midwest is a fully independent, stand-alone transmission company member of MISO and provides all of the benefits contemplated in Order No. 679, it nonetheless determines that ITC Midwest is not entitled to its requested 100-basis point Transco Adder. Transco incentives went unaddressed in the Policy Statement on Transmission Incentives,<sup>1</sup> and the majority has not provided any guidance as to what showing is necessary to support a 100-basis point adder moving forward.

This order also sends the wrong message at a time when new regulations, such as the Clean Power Plan, will likely drive the need for more transmission investment. We also find it puzzling that the Commission would reduce transmission incentives for a Transco business model when it is just beginning to see the effects of competitive solicitation under Order No. 1000. These mixed messages from the Commission on the value of innovative business models and transmission investment decrease regulatory certainty at a time when it is most needed.

Accordingly, we respectfully dissent.

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Tony Clark  
Commissioner

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Philip D. Moeller  
Commissioner

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<sup>1</sup> “In Order No. 679 and subsequent cases applying incentives policies, the Commission has addressed the granting of incentive ROEs that are not based on the risks and challenges of a project, such as incentive ROEs for RTO membership or Transco formation. With respect to aspects of the Commission’s incentives policies not addressed in this policy statement, we decline to provide additional guidance at this time.” *Promoting Transmission Investment Through Pricing Reform*, 141 FERC ¶ 61,129, at P 5 (2012).

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**Appendix 8 – March 31, 2015 Joint Statement of Commissioners Moeller and Clark  
on ITC-M's ROE Incentive Adder for Status as Independent Transmission  
Company (Docket No. ER15-945-000)**



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March 31, 2015

Commissioner Philip D. Moeller

FEDERAL ENERGY REGULATORY COMMISSION

STATEMENT

Docket No. ER15-945-000

## Joint Statement of Commissioners Philip D. Moeller and Tony Clark on ITC Midwest ROE Transco Adder

"This order marks the first time that the Commission has reduced a requested ROE Transco Adder, in this case from 100-basis points to 50-basis points. We cannot support this order because the majority has not based their decision to reduce the ROE Transco Adder for ITC Midwest on an adequate record.

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"Accordingly, we respectfully dissent."

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Document Content(s)

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