

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

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Inquiry Regarding the Commission's	)	Docket No. PL19-4-000
Policy for Determining Return on Equity	)	
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**INITIAL COMMENTS OF  
ALLIANT ENERGY CORPORATE SERVICES, INC.**

Alliant Energy Corporate Services, Inc. ("Alliant Energy") hereby comments on the Notice of Inquiry ("NOI") issued by the Federal Energy Regulatory Commission ("FERC" or the "Commission") in the above-captioned proceeding on March 21, 2019.<sup>1</sup> Alliant Energy submits these answers to some of the questions posed in the Return on Equity NOI to assist the Commission in its assessment of whether, and if so, how the Commission should modify policies concerning the determination of a just and reasonable return on equity ("ROE") for public utilities.

**I. COMMUNICATIONS**

Alliant Energy requests that all communications, correspondence, documents, and other materials related to this proceeding be addressed to the following persons:

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**II. BACKGROUND**

The Commission decided to review its policy for determining ROE as result of the U.S. Court of

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<sup>1</sup> *Inquiry Regarding the Commission's Policy for Determining Return on Equity*, 166 FERC ¶ 61,207, Docket No. PL19-4-000 (March 21, 2019) ("Return on Equity NOI").

Appeals for the District of Columbia Circuit (“DC Circuit”) in *Emera Maine*.<sup>2</sup> In that decision, the DC Circuit found that, among other things, the Commission failed to justify its decision under section 206 of the Federal Power Act (“FPA”)<sup>3</sup> when it set the New England Transmission Owners’ ROE at the midpoint of the upper half of the zone of reasonableness produced by the two-step Discounted Cash-Flow (“DCF”) Analysis. *Emera Maine* overturned the Commission’s new ROE methodology as published in Opinion No. 531.<sup>4</sup> While a final outcome as to how the Commission will determine if an already established ROE is just and reasonable, and, if not, what methodology will be used to determine an appropriate base ROE is litigated in paper hearing procedures,<sup>5</sup> Alliant Energy appreciates the opportunity the Return on Equity NOI provides for other interested parties – outside of those associated with the *Emera Maine* proceeding – to provide feedback to the Commission.

### III. COMMENTS

Alliant Energy respectfully requests that the Commission consider these responses to some of the specific questions posed in the Return on Equity NOI when reexamining its broader ROE policy. Generally, Alliant Energy asserts that the Commission should, when determining a just and reasonable Base ROE, ensure the following: 1) that ROEs remain stable, 2) that Transmission Owners (“TOs”) are provided an appropriate return that balances the need to attract capital with cost impacts to customers, and 3) that any resulting Base ROE is examined in the context of other TOs’ ROEs, retail utility ROEs, or awarded project ROEs and transmission incentive adders. Should the Commission choose to ignore the overall cost impact to customers, the just and reasonableness of the resulting ROE will be called into question, and might lead to more complaints and less regulatory certainty.

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<sup>2</sup> *Emera Maine v. Federal Energy Regulatory Commission*, 854 F.3d 9, 23 (D.C.Cir. 2017) (“*Emera Maine*”).

<sup>3</sup> 16 U.S.C. § 824e.

<sup>4</sup> *Coakley, Mass. Attorney Gen. v. Bangor Hydro-Elec. Co.*, Opinion No. 531, 147 FERC ¶ 61,234 (2014), *order on paper hearing*, 149 FERC ¶ 61,032 (2014), *order on reh’g*, 150 FERC ¶ 61,165 (2015).

<sup>5</sup> *Order Directing Briefs*, 165 FERC ¶ 61,030 (October 16, 2018).

**A. Role and Objectives of the Commission's Base ROE Policy**

- A3. Currently, public utilities in different Independent System Operators ("ISOs") or Regional Transmission Organizations ("RTOs") may receive different ROEs, despite all using national proxy groups, due primarily to differences in when FPA section 205 or 206 proceedings were initiated. Are such variations justified, and, if not, should the Commission consider applying the same ROE to all utilities in RTOs/ISOs based on the most recent proceeding?**

Alliant Energy posits that variations in ROEs of different public utilities – no matter if they are in the same or different Independent System Operators ("ISOs")/Regional Transmission Organizations ("RTOs") – are necessary since the distinct attributes of a TO should influence the base ROE. Alliant Energy previously asserted that potential investors in any Midcontinent Independent System Operator, Inc. ("MISO") TO are not evaluating the MISO TOs as a group; instead, each potential investment in a MISO TO is evaluated on each TO's individual merits. This view aligns with *Petal Gas Storage, LLC v. FERC*,<sup>6</sup> where the DC Circuit indicated that it would be appropriate for the Commission to make a risk appropriate placement of a particular utility whose ROE is at issue within the zone of reasonableness for the proxy group as a whole. Thus, if a particular company faces higher risks than those associated with other companies within the proxy group, the ROE for the riskier company should be placed at the high end of the zone of reasonableness. Likewise, if a particular company faces lower risks than the risks associated with some companies within the proxy group, the ROE for that company should be placed at the low end of the zone of reasonableness for that group.

It is undeniable that there are a number of different risk factors that potential investors consider in making a determination of whether to invest in a specific TO. Such factors include the size of a TO's construction program; its business model and financial structure; whether it is part of a diversified public utility holding company; geographic diversity; incentive adders being received; any power supply obligations; and, the state regulatory environment in which it operates. For a TO that

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<sup>6</sup> See *Petal Gas Storage, LLC v. FERC*, 496 F. 695 (D.C. Cir. 2007).

operates a fleet of generation facilities, the risk evaluation by potential investors may also include consideration of the characteristics of that fleet (e.g. age of generators, fuel type, etc.). This list of factors is not exclusive, therefore, the Commission should consider, at minimum, these listed factors, and consider other potential decision-making inputs when determining a just and reasonable ROE for a specific TO.

**A4. Should the ROE reflect the cost of capital at the time of the investment or be subject to adjustment to reflect the contemporary ROE required by investors?**

The Commission should be cognizant that the cost justification of a proposed major transmission project depends on the cost of capital *at the time of investment*. ROE and capital structure should be evaluated on a project-by-project basis. In other words, there should be an examination of the ROE provided to the developer of the project based on the benefits, costs, and needs of the *project* at the time of investment instead of the circumstances of the *specific TO*.

**B. ROEs for Different Commission-Regulated Industries**

**B1. In Opinion No. 531, the Commission found that the same DCF methodology should be used to determine an ROE for all its regulated industries, including public utilities, as well as gas and oil pipelines. If the Commission departs from our sole use of a two-step DCF methodology for public utilities, should the new method or methods also be used to determine natural gas and oil pipeline ROEs?**

Alliant Energy is concerned with the Commission's proposal to apply a one-size-fits-all approach to all regulated utility ROEs. Since different industries face different challenges and possess differently-structured entities, the Commission should separately investigate what the impact would be if it abandoned the two-step DCF methodology for natural gas and oil pipeline ROEs. A more thorough examination – like that undertaken for electric ROEs – would be prudent before deciding to overturn established Commission policy.

### **C. Proxy Groups**

#### **D2. Should risk be considered both in the proxy group selection and in the placement within the zone of reasonableness?**

Risk should be considered as part of the proxy group selection and placement within the zone of reasonableness processes. The Base ROE determined for the MISO TOs in Opinion No. 551<sup>7</sup> was based on a study of certain proxy companies which presumably have comparable risks. The criteria applied by the Commission in determining which companies to include in the relevant group of proxy companies is 1) a national group of companies considered electric utilities by Value Line Investment Survey; 2) companies with credit ratings no more than one notch above or below the utility or utilities whose rate is at issue; 3) companies that pay dividends and have neither made nor announced a dividend cut during the six-month study period; 4) companies with no major merger activity during the six-month study period which might distort the results; and, 5) companies whose DCF results pass threshold tests of economic logic.

Though the Commission has previously stated its desire to include companies in the proxy group that are relatively comparable to one another,<sup>8</sup> there remains substantial diversity among the companies within a proxy group regarding factors that may be considered by potential investors, including risk. For that reason, it is only appropriate for the Commission to decide on the members of the proxy group in its proposed manner as long as the Commission makes a risk-appropriate determination of the Base ROE to which a particular TO is entitled when determining where within the zone of reasonableness to place that TO.

#### **D2.a. Should the Commission's approach to proxy group selection change depending on which financial models it considers when determining the just and reasonable ROE and, if so, how?**

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<sup>7</sup> *Ass'n of Businesses Advocating Tariff Equity v. Midcontinent Indep. Sys. Operator, Inc.*, Opinion No. 551, 156 FERC ¶ 61,234 (2016) (Opinion No. 551).

<sup>8</sup> See, e.g. Opinion No. 531 at P 96; see also, Opinion No. 551 at P 17.

The Commission's approach to proxy group selection should change depending on the financial models it considers, particularly in instances when the appropriate data is not available to include a specific company in the proxy group determination. Alliant Energy supports the use of different proxy groups for the various models proposed, as long as the companies used in each proxy group is in a similar business. This approach recognizes that not all companies are represented in all financial models. Proxy group selection should be based on access to relevant data and comparability to other proxy group member companies.

**D4. What, if any, are appropriate high- and low-end outlier tests?**

The Commission should continue its practice of removing high- and low-end outliers from proxy groups. In a previous pleading,<sup>9</sup> Alliant Energy argued that one specific company – ITC Holdings Corp. ("ITC Holdings") – was appropriately excluded from the Commission's determination of the proxy group because it was "not representative of the risk profile of a more normal utility."<sup>10</sup> Alliant Energy continues to encourage the Commission to develop proxy groups that consist of companies that are similarly situated and possess similar risk when determining a just and reasonable base ROE. For example, in MISO, most companies rely, in part, on ROEs established by state regulatory authorities; including an entity like ITC Holdings into a proxy group – whose subsidiaries have enjoyed elevated ROEs because of granted transmission incentives faces no generation market risk, and is not beholden to state rate determinations – would skew the calculations. Alliant Energy supports an approach to removing high- and low-end outliers from proxy groups because they do not reflect the operational risks of other members of the proxy group.

**D9. What circumstances or factors, if any, warrant an adjustment from the midpoint/median to other points within the zone of reasonableness (e.g., lower or upper midpoint/median)?**

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<sup>9</sup> See *Reply Brief of Alliant Energy Corporate Services, Inc.*, submitted in Docket Nos. EL14-12-003 and EL15-45-000 (April 10, 2019) at p.8.

<sup>10</sup> See Opinion No. 531 at P 53.

The Commission should consider a company's capital structure when determining if an adjustment within the zone of reasonableness is warranted and also be a factor when determining the ROE level. However, FERC should not incentivize transmission owners to increase debt or equity too far from a reasonable baseline, for example, a 50/50 debt-equity ratio, because of its risk profile. The Commission could institute an adjustment where expected earnings are reduced on both the high and low equity transmission owners so that these entities are not incentivized to move significantly (e.g. 60/40 debt-equity ratio) from the ratio baseline (i.e. 50/50 debt-equity).

#### **D. Financial Model Choice**

##### **E9. How, if at all, should the Commission consider state ROEs?**

The Commission should consider state ROEs as part of its overall analysis in determining a just and reasonable ROE. As the Organization of MISO States ("OMS") noted in their Reply Brief of October 13, 2015, "[a]ny analysis of state ROEs used as a benchmark to assess investors' expectations should take into account the ongoing downward trend in state authorized ROEs."<sup>11</sup> FERC should not approve transmission ROEs that are significantly in excess of those approved by states based on "risks and challenges" because the risks faced by an integrated utility are the same, whether it is FERC or a state commission assessing those risks. The Commission should therefore, as part of a holistic evaluation, consider the state ROEs for those states in which the transmission owner operates to ensure that risks are not over-compensated.

##### **E9.b. How are certain state ROEs more or less comparable to Commission ROEs?**

ROEs granted on a multi-state, RTO-wide basis are less reflective of the operating conditions of the specific states in the RTO. For example, MISO oversees operations in parts or all of fifteen different states. The concern is that "RTO-wide ROEs will over-compensate some transmission owners and

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<sup>11</sup> *Reply Brief of Organization of MISO States*, submitted in Docket No. EL14-12-0002 (October 13, 2015), at p.31.

under-compensate others.”<sup>12</sup> This is why Alliant Energy is supportive of a more holistic approach to determining ROEs, where the Commission considers a company’s specific circumstances, as well as the circumstances of the state in which it operates. Alliant Energy agrees with the concern raised by OMS that “over-compensated utilities under an RTO-wide ROE structure receive windfalls without any corresponding benefit to customers and that capital diverted to these low-risk high-return utilities may diminish the funding that is available for necessary electric utility investments, including investments in generation assets, distribution assets, and new regional/interregional transmission projects.”<sup>13</sup> Moreover, “under-compensated utilities are not incentivized to invest beyond compliance with mandatory reliability and resiliency standards.”<sup>14</sup> Both of these situations result in increased overall customer costs with no corresponding benefit. The Commission should therefore recognize state ROEs as part of a holistic review, as well as the different circumstances and characteristics of that state before rendering a final ROE determination.

**E10. If the Commission considers state ROEs, how should it compare FERC-jurisdictional transmission ROEs with state ROEs that apply to utilities that are (a) distribution and transmission companies; or (b) distribution, generation, and transmission companies?**

Alliant Energy has previously argued that the Commission should compare any base ROE resulting from its proposed methodology to retail utility ROEs.<sup>15</sup> Retail utility ROEs are established by state regulators whose obligation is to ensure that charges for bundled electric service for retail electric service customers are just and reasonable. For that reason, it is appropriate that the ROE permitted by FERC for unbundled transmission service within a state are informed by the ROE permitted by state regulators in setting retail electric service rates in that state. Taking this extra step ensures the

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<sup>12</sup> *Supplemental Comments of the Organization of MISO States, Inc.*, submitted in Docket Nos. EL14-12-003 and EL15-45-000 (February 13, 2019), pp.5-6.

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> *See, e.g., Initial Brief of Alliant Energy Corporate Services, Inc.*, submitted in Docket Nos. EL14-12-003 and EL15-45-000 (February 13, 2019), pp.10-11.



accuracy of the overall methodology and its particular inputs. Substantially higher transmission base ROEs as compared to retail ROEs is neither just nor reasonable, and such higher ROEs should not be imposed on retail electric service customers for no apparent benefit.

For example, in MISO, with respect to ratemaking and ratemaking treatment, most large MISO TOs have cost-of-service formula rates, which permit timely recovery of all prudently-incurred costs allocated to transmission service under the MISO Tariff. In contrast, changes in rates for retail utilities may be delayed pending specific regulatory approval from state regulatory authorities. If the cost of equity for TOs is higher than that for distribution utilities, other things being equal, the added risk for TOs is oftentimes mitigated by various mechanisms such as utilizing a formula rate and/or a true-up mechanism. In making a final ROE determination, the Commission should consider how TOs' base ROEs compare to corresponding retail ROEs as a means of ensuring consistency across jurisdictions, and an ultimately just and reasonable outcome for customers.

#### **E. First Prong of ROE Determination**

##### **G1. How should the Commission determine if existing ROEs are just and reasonable?**

The Commission's proposed methodology for determining if existing ROEs are just and reasonable should be one part of a holistic review of whether an existing ROE is just and reasonable. In order to determine a just and reasonable ROE, the Commission needs to consider other company characteristics – such as the company's debt-equity ratio, the authorized ROEs for utilities in the states the company operates, etc. – in order to fully understand the total financial impact of an ROE on the transmission owners' customers.

Alliant Energy also seeks to caution the Commission on determinations that are *de minimis* in their net result. FERC should consider the administrative costs associated with changing a Base ROE when determining whether such rate is just and reasonable. In some instances, a calculated small increase or decrease in a Base ROE might result in greater administrative costs than the benefit reaped

by the slight change in Base ROE. For these reasons, the Commission should consider the administrative burden and associated administrative costs as part of its determination of whether a Base ROE is no longer just and reasonable.

## **F. Model Mechanics and Implementation – General Issues**

### **H.1.1.b. Should the Commission combine data from multiple sources?**

The Commission should utilize data from multiple sources when considering model mechanics. Alliant Energy recognizes that all models have strengths and weaknesses; utilizing data from multiple sources provides a more complete picture of what constitutes a just and reasonable ROE.

## **G. Model Mechanics and Implementation – Model-Specific Questions**

### **i. Expected Earnings**

#### **H.2.c.1. Should the use of utilities in the proxy group for the Expected Earnings model be predicated on the Expected Earnings analysis being forward-looking?**

While the Commission has previously endorsed use of the Expected Earnings methodology,<sup>16</sup> Alliant Energy agrees with Commission Trial Staff's recommendation that the Commission eliminate its use of a forward-looking Expected Earnings approach. As Commission Trial Staff noted,<sup>17</sup> FERC has traditionally relied on market-based approaches for determining allowable ROEs for regulated companies, as demonstrated by the other three financial models on which the Commission relied in the MISO TO Order. These market-based financial models appropriately enable the FERC to determine the ROE that will meet the test of *Hope*<sup>18</sup> and *Bluefield*<sup>19</sup> of assuring confidence in the financial soundness of each utility and enabling it to attract capital as needed without unduly burdening consumers.<sup>20</sup>

In contrast, the Expected Earnings approach "provides an accounting-based approach that uses

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<sup>16</sup> Opinion No. 551 at P 230.

<sup>17</sup> *Initial Brief of the Commission Trial Staff*, submitted in Docket No. EL14-12-003, (February 13, 2019), at p.2.

<sup>18</sup> 320 U.S. 591, 603 (1944) (*Hope*).

<sup>19</sup> 262 U.S. 679, 692-93 (1923) (*Bluefield*).

investment analyst estimates of return (net earnings) on book value.”<sup>21</sup> Alliant Energy therefore asserts that, because this method is based solely on investor expectations without explicit consideration of regulatory principles, there is no assurance that the expected ROE resulting from that methodology will meet the standards for a just and reasonable ROE set forth in *Hope* and *Bluefield*. Accordingly, the use of an accounting-based methodology to determine a just and reasonable ROE would be an unjustified departure from the FERC’s long-standing practice of its reliance on market-based methodologies.

#### IV. CONCLUSION

In closing, Alliant Energy respectfully requests that the Commission take these comments into consideration when acting on the Return on Equity NOI.

Respectfully submitted,

**Alliant Energy Corporate Services, Inc.**

**/s/ Cortlandt C. Choate, Jr.**

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<sup>21</sup> See Order Directing Briefs re: Association of Businesses Advocating Tariff Equity Coalition of MISO Transmission Customers, et al. v. Midcontinent Independent System Operator, Inc., et al., 165 FERC ¶ 61,118 (November 15, 2018) at P 36.

**CERTIFICATE OF SERVICE**

In accordance with 18 C.F.R. § 385.2010, I hereby certify that I have, on this 26<sup>th</sup> day of June, 2019, caused a copy of the foregoing Comments of Alliant Energy Corporate Services, Inc. to be sent to each person designated on the official service list compiled by the Secretary of the Commission in Docket No. PL19-4-000.

**/s/ Cortlandt C. Choate, Jr.**  
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