UNITED STATES OF AMERICA

BEFORE THE FEDERAL ENERGY REGULATORY COMMISSION

Inquiry Regarding the Commission's	)	
Policy for Determining Return on Equity	)	Docket No. PL19-4-000

COMMENTS OF BLUE RIDGE POWER AGENCY

The Blue Ridge Power Agency, on behalf of the Towns of Bedford and Richlands, the Cities of Martinsville, Radford, and Salem, the Virginia Tech Electric Service, and the Central Virginia Electric Cooperative ("Commenting Members"), appreciates the opportunity to provide these comments in response to the Commission's *Inquiry Regarding the Commission's Policy for Determining Return on Equity.* Blue Ridge is a non-profit corporation established in 1988 under the laws of the Commonwealth of Virginia. Blue Ridge is owned and governed by its membership, and has as its mission to further the members' goals of providing reliable power supplies to the residential customers and businesses that they serve—at the lowest rate possible. The Blue Ridge members are load-serving entities that own and operate their own electric distribution systems. Collectively, the Blue Ridge members serve over 270,000 retail customers in the central and southwestern regions of the Commonwealth.

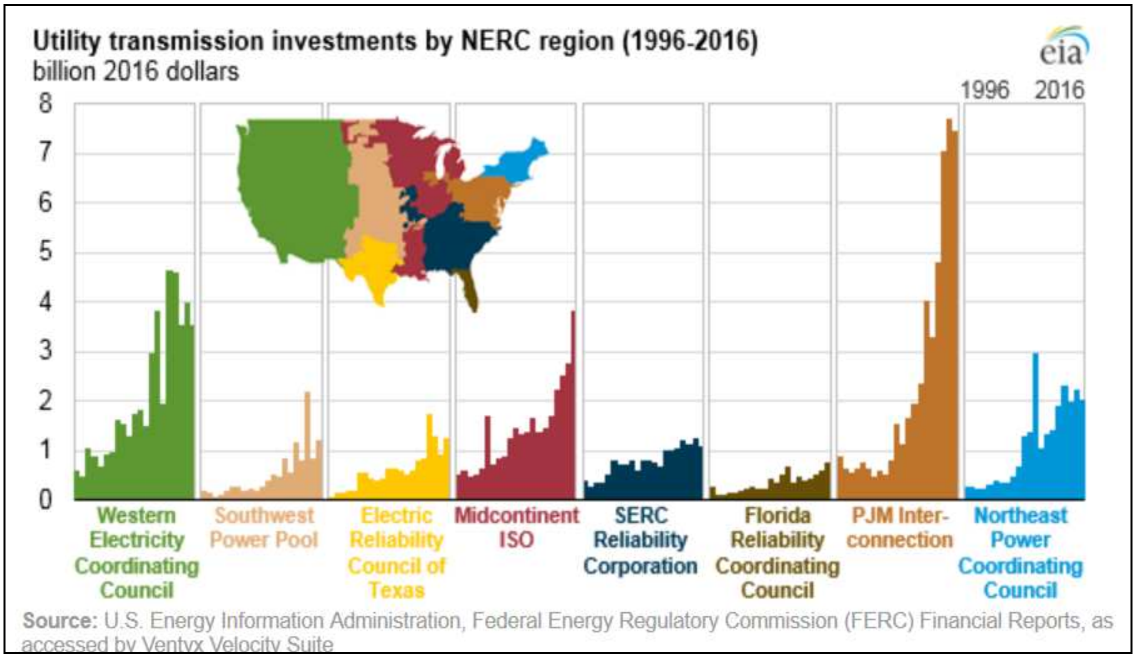
Blue Ridge members are transmission-dependent utilities. While each organization has generation facilities connected to its distribution system, no Blue Ridge member has sufficient generation to meet all of its customer needs. Rather, the members interconnect with American Electric Power (AEP), or for Central Virginia Electric Cooperative, both Dominion and AEP. These interconnections are critical. Through these substations and high voltage transmission lines, power is supplied to Blue Ridge member distribution lines and ultimately flows to each member's retail customers. Should the interconnections fail, customers of Blue Ridge members would have no power.

The transmission system is therefore critical to Blue Ridge members. Service to Blue Ridge member retail customers requires a reliable transmission grid. The members support prudent transmission investment that achieves clearly delineated goals with tangible benefits to customers. Transmission investment must be made with strong oversight and a straight-line view to the benefits consumers receive.

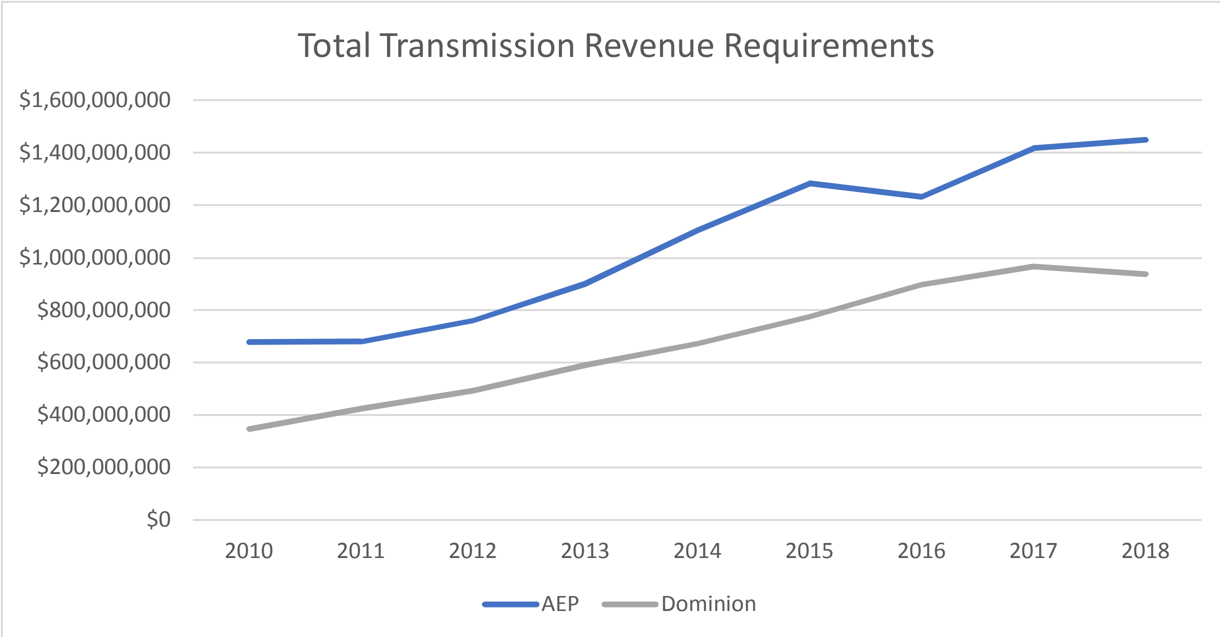
The Commission's inquiry regarding whether, and if so how, to revise its return on equity (ROE) policies is a valid exercise. The base ROE has a significant impact on the transmission costs paid by Blue Ridge members and their customers. The members urge the Commission to approach changes with caution and to keep the costs and benefits to consumers in mind. We note that in *Emera Maine vs. FERC*, 854 F.3d 9 (D.C. Cir. 2017), the U.S. Court of Appeals for the District of Columbia found that the Commission failed to adequately justify setting the ROE at the upper midpoint. However, the Court did not cite any inherently problematic issues with the discounted cash flow (DCF) methodology. Likewise, the Court did not mandate that the Commission change the ROE policy: only that the Commission should delineate its rationale more thoroughly. We find no substantive reason to move away from the DCF method, which has performed well during a period of time that has seen wide variations in interest rates, stock prices, and market conditions. It is the important that the Commission have a robust rationale for changing a method it has relied on since the early 1980s.

We ask the Commission to keep in mind the current transmission investment environment. We are particularly concerned about the addition of the Capital Asset Pricing Model, the Expected Earnings per Book Value, and the Risk Premium analyses. The briefs submitted by the MISO Complainant-Aligned Parties in Docket No. EL14-12-003 and CAPs in Docket No. EL11-66-001 and related dockets demonstrate that these new methods will raise the base ROE rate. It is unclear how addition of these methods will achieve a just and reasonable ROE that could not be achieved by the DCF method. Will the reliability or resilience of the grid be substantially improved? Will congestion or seams costs be substantially reduced? Will consumers accrue new benefits? Will needed transmission investment be increased due to higher returns?

On this last question, Blue Ridge maintains that the higher ROEs are not necessary to increase transmission investment. As the graph below from the Energy Information Agency displays, transmission investment across the country has been increasing since 1996. This is true in all areas of the country, and particularly so in the PJM region. Geographically, PJM is by no means the largest NERC region, but transmission investment was over $7 billion a year in 2014, 2015, and 2016. These levels are incongruent compared to other regions: PJM area investment is almost double the amount in the Midcontinent ISO and the Western Electric Coordinating Council. This investment has been occurring under FERC’s existing ROE policy, relying on the DCF method.



This increased investment has been seen in the revenue collected by AEP and Dominion. Over the past 10 years, AEP's actual total revenue requirement has increased from under $700 million in 2010, to $1.45 billion in 2018 – over two times its starting point, or an 8-year growth rate of 114%. Meanwhile, Dominion's revenue requirement has increased from under $350 million in 2010, to $937 million in 2018. The 2018 number is 2.7 times the 2010 one, or an 8-year growth rate of 170%. As AEP and Dominion's revenue requirements have increased, transmission rates have increased proportionally. *See* Total Transmission Revenue Requirements graph below. In short, the Blue Ridge members pay substantially more for transmission now than just a few years ago.



The transmission investments made by AEP, Dominion, and the industry as a whole should put to rest any suspicion that higher ROEs are necessary to encourage transmission investment. Significant investment is already occurring, and it is seen in the transmission rates paid by the Blue Ridge members. As the Commission evaluates whether to modify the base ROE calculation methodology, the impact to transmission customers must be paramount. Ultimately FERC's base ROE policy must stand on its own merits. We urge the Commission to keep the customer impacts of potential ROE policy changes at the forefront of its decision-making.

Respectfully submitted,

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