Quadrennial Energy Review
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Electricity Transmission, Storage and Distribution – East

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Written Comments on behalf of
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and the Transmission Access Policy Study Group ("TAPS")

Good morning. My name is David Mullett, and I serve as the General Manager of Vermont Public Power Supply Authority ("VPPSA"). VPPSA is a joint action agency established by Vermont statute in 1979, and it supplies wholesale power supply, regulatory services and other services to twelve Vermont municipal electric utilities. I am also here representing TAPS, an informal coalition of Transmission Dependent Utilities located in 35 states that has worked since 1989 to promote open transmission access and competitive wholesale markets.

The comments that I offer today will focus on three transmission issues: **Joint Ownership of Transmission**; **Incentive Rates of Return**; and **FERC's New ROE Methodology**. While these issues may seem initially diverse, addressing and resolving them in an appropriate fashion serves and promotes our common goals of a robust transmission system that maximizes value to the millions of stakeholders who rely upon it. And while these issues may fall within FERC jurisdiction, it is vital that DOE be aware of these issues and our proposed solutions. I hope and respectfully request that the recommendations I make here today will be reflected in the final QER plan.

I will first discuss the significant benefits of **Joint Ownership of Transmission Facilities**. In addition to serving as VPPSA General Manager, I am a member of the Board of Directors of Vermont Electric Power Company. Founded in 1956, VELCO and Vermont TRANSCO, LLC (created in 2006) are jointly owned by Vermont's electric utilities, which include an IOU, fourteen municipal utilities and two cooperatives. VELCO is one of a handful of jointly-owned transmission companies in the United States, and our decades of experience lead us to strongly believe that the *joint ownership model* should be used to address the planning, siting, and financing of transmission facilities throughout the country.

While there are many benefits of, and in my view few or no detriments to, joint ownership of transmission facilities, four key components stand out. First, joint ownership strongly promotes joint planning, and results in a better and more efficient transmission system, planned and sized to meet loads.

Second, joint ownership helps transmission siting. Even where the ownership share of municipal and cooperative utilities may be small, their participation often brings important input into siting determinations, and political support to state approval processes.

Third, joint ownership spreads the risk of major projects broadly, provides additional sources of capital for projects and can facilitate whether avoidance or earlier resolution of the cost allocation disputes that all too often burden our industry and the ratepayers who sustain it.

Fourth, joint ownership benefits consumers, because it results in transmission plans and projects designed to best *meet all needs*, and which can be sited and built more quickly, thereby reducing costs.

In light of these many advantages, FERC has repeatedly voiced support for Joint Ownership, but has thus far taken few concrete steps to turn that support into tangible actions that are essential in order to realize those benefits. TAPS has made several specific recommendations for steps FERC could take, and I am happy to provide those for the record.

My second subject this morning is **Incentive Rates of Transmission.** After strong and repeated urging from APPA, TAPS, state regulators, Members of Congress, and others, FERC in 2012 issued a Policy Statement revising its views on transmission incentives. While we will have to wait to see how the new Policy is applied in specific cases, it suggests a turn at FERC toward risk-reducing incentives, towards encouraging joint ownership arrangements, and away from Return on Equity Adders.

The Policy can be summarized in four points:

1. FERC will expect that those applicants seeking incentive rate of return adders first take all reasonable steps to mitigate risks, after which FERC will look at the total package to determine whether an adder is warranted.

2. Consistent with our discussion of just a minute ago, FERC cites joint ownership as one example of how an applicant can reduce project risks.

3. FERC will treat advanced technology as merely a subset of risks and challenges, and not as a separate basis for incentives;

4. FERC will give strong consideration to approaches that tie incentives more directly to such factors as actual project risk and adherence to project cost estimates and budgets. This important

step can have a potentially strong impact in encouraging the completion of transmission projects both on time and on budget, with the benefit to consumers that those accomplishments entail.

The Policy represents a very positive development given its embodiment of these four things. We look forward to seeing it promptly put into action for new, and needed, transmission, development.

My third and final subject is **FERC's New ROE Methodology** In June of this year, FERC announced a change in its methodology for determining return on equity ("ROE") for electric utilities, applying a two-step Discounted Cash Flow analysis like that which FERC has used for natural gas and oil pipelines since the 1990s. Applying this method in a case challenging the base ROE used to set regional rates for New England transmission owners, including VPPSA, FERC tentatively set the base ROE at 10.57%, with the top end of the range set tentatively at 11.74% (the top end is the cap on the base-plus-adder allowed ROE). This result is tentative pending briefing on the appropriate long-term/GDP growth rate.

The result in this case was higher than the complainants thought reasonable, and higher than the approximate 9.7% that the FERC Administrative Law Judge had recommended in the New England ROE case. While we were pleased the result achieved some reduction in the ROE, we believe that the ROE remains excessive when considered in light of general rates of return within our economy at the present time. Because these costs are passed through to consumers, we have a collective interest, and one which FERC should aggressively embrace, in ensuring that consumers are paying returns appropriate to produce transmission investments, but that are not excessive.

I suspect that all of us here would agree that we face unprecedented challenges in ensuring that electric consumers are well served from reliability, environmental and economic perspectives. It has been my experience that a careful and cogent balancing of our many interests and ideas is the key to effectively addressing our challenges, whether on local, regional or national levels. Concepts of joint ownership, balanced incentives policies and "right sized" rates of return can and will achieve that balance while lessening the consumer hardships, litigation costs and delays and other factors that disrupt it. On behalf of VPPSA and TAPS, I am deeply appreciative of the chance to be here today, and to add my voice to a conversation that I hope and ask will continue with DOE support and involvement.