FEDERAL ENERGY REGULATORY COMMISSION

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NEWS RELEASE

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COMMISSION PROPOSES TRANSMISSION PRICING REFORMS TO INCREASE POWER GRID INVESTMENT

The Federal Energy Regulatory Commission today proposed transmission pricing reforms designed to promote needed investment in energy infrastructure. The proposed rules will benefit energy customers by bolstering power-grid reliability and lowering costs for delivered power by reducing transmission congestion, the Commission said.

The recently enacted Energy Policy Act of 2005 directed the Commission to develop incentive-based rate treatments for transmission of electric energy in interstate commerce. Today's proposal is designed to implement those incentives, provide regulatory certainty, and support expanded and improved transmission infrastructure while ensuring that transmission rates remain just and reasonable, the Commission said.

Transmission investment has declined in real dollar terms for 23 years from 1975 to 1998. Although there was an increase following 1998, investment remains below 1975 levels. Over that same period, electricity demand has more than doubled, resulting in a significant decrease in transmission capacity relative to demand in every North American electric reliability region.

"Underinvestment in transmission is a national problem. Today, the Commission proposes a national solution that encourages investment in all regions of the country, and encourages investment by both vertically integrated utilities and transmission companies. This is something the Commission has been working on for some time," stated Commission Chairman Joseph T. Kelliher.

The Commission is proposing incentives for traditional utilities as well as additional incentives for stand-alone transmission companies, or transcos. For purposes of these proposed regulations, transcos may be independent or they may have some passive ownership interests by affiliated traditional, vertically integrated public utilities. Transcos have made a positive contribution to transmission investment and formation of additional transcos will promote needed investment, the Commission said. To encourage transcos, the Commission would authorize a higher rate of return on equity along with recovery of accumulated deferred income taxes.

Included among the incentives proposed for all jurisdictional utilities, including transcos, are:

- Providing a rate of return on equity sufficient to attract new investment;
- Recovery in rate base of 100 percent of prudent transmission-related construction work in progress, in order to increase cash flow;
- Expensing prudent pre-commercial operation costs instead of capitalizing them, allowing for immediate cash flow for the utility;
- Allowing hypothetical capital structures to provide the flexibility needed to maintain the viability of new capacity projects;
- Accelerating recovery of depreciation expense;
- Recovering all prudent development costs in cases where construction of facilities may be abandoned or canceled due to circumstances beyond the control of the utility;
- Allowing deferred cost recovery; and
- Providing a higher rate of return on equity for utilities that join transmission organizations.

To receive an incentive-based rate of return on equity, a public utility must demonstrate that the new facilities would improve regional reliability and reduce transmission congestion. In addition, the public utility must explain if the planned facilities are part of a regional planning process, how the proposed return on equity was derived and why it is appropriate.

The proposed rules also allow for recovery of costs associated with (1) joining a transmission organization; (2) electric reliability organizations; and (3) infrastructure development in National Interest Transmission Corridors identified by the Department of Energy pursuant to the Energy Policy Act.

The Commission also invited comments, without proposing rules, on performance-based ratemaking, the role of public power and advanced technology.

Comments on the proposed rules, *Promoting Transmission Investment Through Pricing Reforms,* must be filed by January 11, 2006.