



## Organization of PJM States, Inc. (OPSI)

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December 21, 2018

Chairman Neil Chatterjee  
Commissioner Cheryl A. LaFleur  
Commissioner Richard Glick  
Commissioner Kevin J. McIntyre  
Commissioner Bernard L. McNamee

Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426

Re: Transmission ROE Incentive Policy

Dear Commissioners,

The Organization of PJM States Inc. (“OPSI”) is concerned with the level of costs associated with transmission investment. As commissions we recognize the need to balance authorization of sufficient rates of return to encourage investment in needed transmission against concerns about excessive costs to consumers.

The Commission is currently evaluating a new policy for the establishment of the base return on equity. The calculation of the base return on equity, under current practice and as proposed by the Commission, would generally evaluate and incorporate industry-wide risk in its estimation process. As such, the granting of ROE incentives on top of the base ROE for any company or project should reflect specific goals and risks and be truly merited. OPSI has concerns that at least some incentive adders have become overly generous and do not change or incent the intended behavior on the part of the transmission owners, resulting in excessive costs to customers. Such adders may also be an unintended disincentive to development of non-transmission alternative solutions for reliability and congestion concerns.

A prime example of a questionable adder, and one of most concern, is the ROE adder incentive for RTO participation. Currently, transmission owners receive an additional 50 ROE basis points for doing nothing other than being a member of an RTO. While such an incentive may have been necessary to incen-

tivize participation in RTOs, the RTO landscape has changed drastically since 2006 when the Commission first initiated these adders. After more than 15 years of experience with RTOs, the resulting benefits RTO participation provides to utility members are now better understood. Additionally, over the years, FERC has provided regulatory mechanisms such as formula rates, abandoned plant recovery and construction work in progress recovery, all of which reduce transmission owners' risk and the need for this incentive adder.

OPSI appreciates the statements made by Commissioners Chatterjee, Glick, and LaFleur during the Commission's October 18, 2018 open meeting acknowledging that the time is ripe to review ROE incentive policy. To that end, the Commission should open a notice of inquiry for the purpose of examining not only policy around the application of new incentive requests, but also the ability of existing incentives to achieve desired outcomes.

OPSI is encouraged by the Commission's desire to re-evaluate the use of ROE incentives and believe a notice of inquiry would be a useful process. Regardless of the process the Commission selects, we look forward to working with the Commission to ensure that ROE incentive policy achieves its intended goals and produces just and reasonable rates.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael Richard". The signature is fluid and cursive, with the first name being more prominent than the last.

Michael Richard  
OPSI President  
Organization of PJM States, Inc.  
700 Barksdale Road, Suite 1  
Newark, DE 19711  
Tel: 302-266-0914  
Dated December 21, 2018