Transmission Infrastructure Investment

THE NEED FOR CAPITAL INVESTMENT AND SOUND RATEMAKING POLICIES

Electric transmission infrastructure is the backbone of the energy grid and is one of the nation’s most capital-intensive assets. The energy grid provides a range of benefits to customers, including reliable electricity, congestion relief, robust wholesale market competition, and access to a diverse and changing energy portfolio. New transmission investments also deploy advanced monitoring systems and other technologies designed to ensure a more flexible and resilient energy grid.

Consistent with the goals of the Administration, Congress, and the Federal Energy Regulatory Commission (“Commission” or “FERC”), members of the Edison Electric Institute (“EEI”) are committed to investing in the smarter energy infrastructure needed to deliver America’s energy future. EEI’s member companies invested $20.8 billion in transmission infrastructure in 2016 and expect to invest an additional $90 billion in the transmission system through 2020 to make it more efficient, more dynamic, and more secure and to continue to provide customers with the affordable, reliable, safe, and increasingly clean energy they need.

EEI member companies require shareholder support in the form of capital investment and regulatory support in the form of sound ratemaking policy in order to build, own, and operate the transmission infrastructure that ensures reliable and affordable service to customers. Consistent with long-standing Supreme Court precedent established in Hope and Bluefield, the Commission is required to set a return on shareholder investment at a level that is “commensurate with returns on investments in other enterprises having corresponding risks,” and that is “sufficient to assure confidence in the financial soundness of the utility, and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise capital necessary for the proper discharge of its public duties.” ¹

THE ENERGY GRID IS EVOLVING

Because the majority of the U.S. transmission system was built in the 1960s and 1970s, significant replacements and/or upgrades are required now and in coming years to maintain and to improve system performance. Extensive investments also are needed to integrate new renewable and distributed energy resources and to respond to a rapidly changing energy mix.

To facilitate this changing energy landscape and to meet customers’ changing needs, EEI’s member companies continue to introduce innovative transmission technologies, such as fiber optic communications, advanced conductor technology, enhanced power device monitoring, and energy storage devices in transmission projects. At the same time, EEI’s members continue to invest in the transmission system to maintain and to improve its resiliency against both cyber and physical threats. These transmission investments help to save customers money over the long term by connecting them with lower-cost generation, reducing overall system costs, and providing a variety of economic benefits at the regional and local levels.

¹ Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm’n, 262 U.S. 679, 693 (1923) (“Bluefield”); see also FPC v. Hope, 320 U.S. 591, 603 (1944). (“Commensurate with returns on investments in other enterprises having corresponding risks . . . [and] sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.”)
REGULATORY STABILITY IS NEEDED OVER THE LONG LIFE OF TRANSMISSION INFRASTRUCTURE

Transmission infrastructure is a long-term commitment, often serving the public for 50 years or more. Accordingly, investors need adequate and stable returns over the life of this infrastructure. The stability and predictability of authorized returns are of paramount importance to investors, who must commit capital to long-lived assets with multi-year development cycles.

However, the method by which the Commission establishes allowed shareholder returns on equity (“ROEs”)—and, therefore influences private investment in transmission infrastructure—may not adequately support the level of investment needed to maintain and enhance the energy grid. Consistently and historically low interest rates have led customers, state regulators and consumer advocates to challenge the ROEs included in transmission owners’ rates under section 206 of the Federal Power Act (“FPA”). Several utilities have been subject to years of “pancaked” litigation, with new complaints filed before the Commission has fully resolved earlier complaints, resulting in rates remaining unsettled for at least six years.

Regulatory certainty is needed to obtain and to maintain financing for both new projects and continuous infrastructure re-investments at reasonable cost. Moreover, adequate shareholder returns serve to maintain the transmission owner’s financial integrity, ultimately helping to keep debt rates low to the benefit of customers. The authorized ROE affects not only the cash flows and credit metrics that support the financial strength of the transmission owner, it also provides an indication of the regulatory support—and risk—associated with a given electric company and the jurisdiction in which it operates. Just and reasonable returns strengthen investors’ perception of the regulatory environment and support an electric company’s ability to attract capital efficiently throughout various market cycles. Accordingly, it is essential that the Commission’s methodology for determining the allowed ROE provide stable, predictable, and adequate returns that will attract the investment needed to expand and to modernize the transmission system.

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December 2017