Cost Containment: 
The Role of ROE Caps

Special PC - Consideration of Cost Commitment for Evaluation of Competitive Transmission Proposals
April 27, 2018
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Value of ROE and Capital Structure Caps

- Help control growing transmission costs
- Provide for long-term cost stability and certainty
- Allow the evaluation to focus on the technical strengths of a proposal
- These are important benefits not just for consumers, but other stakeholders – including PJM itself
ROE Proposal Submittal Language

- Standardized language for both Total ROE and Percent Equity in Capital Structure will allow for greater ease of comparison among proposals and acceptance by FERC.

- Developers will be able to tailor the following terms to the individual project and business model:
  - Commitment period – set number of years or the “depreciable life” of the project
  - ROE
  - Capital structure
ROE Proposal Submittal Language

- Initial rate filing must contain:
  - All commitments and the term of the commitments
  - Conspicuously show the numerical value of each commitment

- Developer agrees that it will make no voluntary, additional rate filing inconsistent with its commitments unless ordered by FERC

- Any Formula Rate must specifically reflect the commitments
Determination of ROE

For any ROE cap to be considered binding it must be lower than the PJM-wide average ROE.

- The average authorized return on equity for PJM companies in 2017 with formula rates for transmission was 11.23%, including a 50 basis point ROE incentive adder for membership in an RTO – S&P Global.

An ROE cap is limited to the lesser of the amount reflected in the binding cost commitment proposal or the amount FERC deems to be just and reasonable.
Retaining the Primacy of FERC in Ratemaking

- FERC retains the authority to adjust any ROE provision that it deems not just and reasonable.

- No ratepayer, stakeholder or federal, state, or local government commission or agency is limited in its rights to protest or challenge the justness and reasonableness of the proposed ROE cap, or appeal a decision of FERC.