Federal Energy Regulatory Commission
March 21, 2019
Open Commission Meeting
Staff Presentation
Item E-2

Good morning Mr. Chairman and Commissioners,

Item E-2 is a Notice of Inquiry that seeks information and stakeholder views regarding whether, and if so how, the Commission should modify how it determines the return on equity (ROE) to be used in designing jurisdictional rates charged by public utilities, as well as interstate natural gas and oil pipelines.

This NOI follows the D.C. Circuit's decision in *Emera Maine v. Federal Energy Regulatory Commission*, reversing and vacating Opinion No. 531. In Opinion 531, the Commission adopted a two-step discounted cash flow (DCF) approach to calculate the base ROE for electric utilities. The court held, among other things, that the Commission inadequately justified its decision under section 206 of the Federal Power Act to set the New England Transmission Owners' ROE at the midpoint of the upper half of the zone of reasonableness produced by its two-step DCF analysis.

In this proceeding, the Commission seeks comments on potential modifications to its approach to determining a just and reasonable base ROE for public utilities, as well as interstate natural gas and oil pipelines. Although the Commission requested briefing on some of the issues below in the other pending ROE proceedings, this NOI will provide a broader opportunity for all interested stakeholders to comment on the Commission's ROE policy in light of the decision in *Emera Maine*.

The Commission seeks comments on eight general topics in this inquiry:

First, the role of the Commission's base ROE in investment decision-making and what objectives should guide the Commission's approach;

Second, whether uniform application of our base ROE policy across the electric, interstate natural gas pipeline and oil pipeline industries is appropriate;

Third, the performance of the DCF model;

Fourth, the composition of proxy groups;

Fifth, the financial model choice;

Sixth, the mismatch between market-based ROE determinations and book-value rate base;

Seventh, how the Commission determines whether an existing ROE is unjust and unreasonable under the first prong of the Federal Power Act section 206; and

Eighth, the mechanics and implementation of the models.

Initial Comments are due **90** days and reply comments are due **120** days after the date of publication in the *Federal Register*. Thank you. This concludes our presentation. We would be happy to address any questions that you may have.