



NEWS RELEASE

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Docket Nos. EL14-12-003, EL15-45-000

FERC Adopts New Base ROE Methodology, Addresses Complaints Against MISO

The Federal Energy Regulatory Commission (FERC) today adopted a new methodology for determining whether a jurisdictional public utility's rate of return on equity (ROE) is just and reasonable under section 206 of the Federal Power Act. Applying the new methodology in a pair of complaints against the Midcontinent Independent System Operator (MISO) transmission owners, the Commission determined that the MISO transmission owners' current base ROE should be 9.88 percent.

In its 2017 decision in *Emera Maine v. FERC* (854 F.3d 9), the U.S. Court of Appeals for the District of Columbia vacated and remanded FERC Opinion No. 531, which had adopted certain changes to the Commission's use of the discounted cash flow (DCF) methodology for evaluating and setting the ROE for the New England transmission owners. The court concluded that FERC failed to sufficiently show that the existing ROE was unjust and unreasonable and that setting the replacement ROE at the midpoint of the upper half of the zone of reasonableness produced by a two-step DCF analysis, rather than the midpoint of the overall zone of reasonableness, was just and reasonable.

In response to the court's ruling, and complaint proceedings against the MISO transmission owners, the Commission said today that it will use the DCF model and capital asset pricing model to determine if an existing base ROE is unjust and unreasonable, and, if so, what replacement ROE is appropriate. The Commission found these models are the two methods investors most commonly use to estimate the cost of equity. The Commission also stated it will use ranges of presumptively just and reasonable ROEs in its analysis of whether existing ROEs have become unjust and unreasonable.

Today's order also implements the Commission's revised methodology in two complaints against the MISO transmission owners' base ROE. Today's order grants rehearing on the first complaint (EL14-12), finds the existing 12.38 percent ROE unjust and unreasonable, and directs the MISO transmission owners to adopt a 9.88 percent ROE, effective September 28, 2016, and to provide refunds. Today's order also dismisses the second complaint (EL15-45) and finds that the record in that proceeding does not support a finding that the 9.88 percent ROE established in the first complaint proceeding has become unjust and unreasonable.

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