

**HOT TOPIC »**

NO TIME TO WASTE IN FILING FOR TRANSMISSION RATE INCENTIVES

The Midcontinent Independent System Operator (MISO) is undergoing the most ambitious transmission expansion in its history. This process, called Long-Range Transmission Planning (LRTP), consists of four project portfolios, or tranches. In July 2022, the MISO Board of Directors approved the first tranche of transmission solutions developed to provide reliable and economic energy delivery to address future reliability needs. Tranche 1 includes 18 projects, also referred to as LRTPs, with an estimated cost of \$10.3 billion. These 18 projects are in the MISO Midwest Subregion and include more than 2,000 miles of transmission lines.

MISO has approved these 18 LRTPs as Multi-Value Projects (MVPs) under its tariff, so the annual transmission revenue requirements for these projects will be recovered through a megawatt-hour surcharge in the MISO Midwest Subregion (aside from some loads shielded by grandfather agreements). This cost-sharing treatment makes MVPs highly sought after and economically beneficial. In addition, these LRTPs are complex, often built in partnership with multiple transmission owners, and may span multiple jurisdictions. This complexity makes them great candidates for transmission rate incentives like hypothetical capital structures, inclusion of construction work in progress (CWIP) in the rate base, and recovery of abandoned plant costs, as evidenced in the 13 Federal Energy Regulatory Commission (FERC) filings already made for this tranche of LRTPs.

MCR directly supported several successful filings by public power and cooperative transmission owners in MISO, including Great River Energy, Missouri River Energy Services, and Dairyland Power Cooperative. Table 1 lists the transmission rate incentive filings for the first tranche of LRTPs.

Table 1: Transmission Incentive Requests by MISO Transmission Owners for L RTPs

Transmission Owner	FERC Docket	MISO LTRP(s) No.	CWIP Incentive	Abandoned Plant Incentive	Hypothetical Capital Structure
Great River Energy	ER23-513	2	No	Yes	No
Great River Energy	ER23-513	3	Yes	Yes	Yes
Otter Tail Power	ER23-1544	1, 2	Yes	Yes	No
Northern Indiana Public Service Company	ER23-1904	15, 16	Yes	Yes	No
Republic Transmission	ER23-1924	17	No	Yes	No
ITC Midwest	ER23-2033	13	No	Yes	No
Missouri River Energy Services	ER23-2284	2	Yes	Yes	Yes
Montana-Dakota Utilities Co.	ER23-2402	1	Yes	Yes	No
American Transmission Company	ER23-2585	4, 5, 6	No	Yes	No
Michigan Electric Transmission Company	ER23-2791	16, 17	No	Yes	No
Dairyland Power Cooperative	ER24-260	4	Yes	Yes	Yes
Northern States Power	ER24-409	2, 4, 5, 6	Yes	Yes	No

Note: Bolded entries indicate filings assisted by MCR.

As the table illustrates, transmission owners can use some common rate incentives to address the risks specific to these projects. These 18 L RTPs range from about \$230 million to over \$1 billion in estimated costs and some have nearly decade-long construction timelines. The capital cost outlay for such long-term projects is a risky proposition for even the largest transmission owners. Approval to include CWIP in the rate base for these projects is a valuable tool to alleviate cash flow constraints. Another commonly requested transmission rate incentive is the ability to recover capital costs for a project abandoned for reasons beyond the transmission owner’s control. This incentive similarly addresses the risks of long construction periods, multiple transmission owner partners, and projects that often span multiple jurisdictions with multiple permit requirements. Transmission owners have told FERC that these abandoned plant incentives are necessary to address the unique risks of these extraordinarily large and complex projects.

The table also shows that three transmission owners requested use of a hypothetical capital structure to calculate return on the L RTP. MCR and its clients have developed an analytical approach to support inclusion of a hypothetical capital structure in incentive requests. This analytical approach pioneered by MCR has directly contributed to FERC’s approval of these filings.



These transmission rate incentives, especially the CWIP-in-rate-base and abandoned plant recovery incentives, are urgently needed. FERC Commissioner Mark Christie has been a consistent critic of these two incentives. Beginning with the FERC Order granting incentives to NextEra Energy Transmission Southwest,¹ Commissioner Christie issued concurring statements criticizing the CWIP incentive for making consumers the “bank” by effectively loaning the transmission developer the funds to finance the project. Additionally, the consumer pays the transmission developer a return on the CWIP incentive while not receiving a fee or interest on the loan.² As for recovery of abandoned plant costs, Commissioner Christie objects that this incentive makes the consumer the insurer of last resort, requiring consumers to pay for these projects while producing no benefit for them.³ Commissioner Christie’s concerns and FERC’s policy for evaluation of transmission rate incentives are currently under review, with FERC Notice of Proposed Rulemaking (NOPR) RM20-10 issued in early 2020. The outcome could dramatically change the approval criteria or even eliminate some incentives available to transmission developers.

In the meantime, MISO continues to plan for LRTP tranches 2 through 4. MISO plans to identify the tranche 2 LRTPs in the first quarter of 2024.⁴ This portfolio will also be in the MISO Midwest Subregion, and indications are that the estimated total cost will be substantially more than that of tranche 1. With a sizable portfolio of LRTPs in tranche 2, transmission owners will need to seek transmission rate incentives to address the risks of developing them. Although the decision date of NOPR RM20-10 is unknown, this NOPR has been under consideration for some time now. Therefore, transmission owners seeking incentives would be well advised not to delay their requests. Until FERC issues a new order in response to RM20-10, the existing policy and slate of available incentives remain intact.

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MCR has been a strong advocate of using transmission investment to manage transmission rate increases in MISO. With costs shared regionally under the MVP rules of the MISO tariff, LRTPs are the gold standard for transmission rate management. The size and complexity of the LRTPs make incentives crucial for public power and cooperative transmission owners to participate in and own a portion of these projects.

It is a great day when public power and cooperative transmission owners learn they have the opportunity to invest in LRTPs. It is also the day the clock starts ticking on their ability to manage the risk of these projects with transmission rate incentives.

1 *NextEra Energy Transmission Sw., LLC*, 178 FERC ¶ 61,082 (2022).

2 *NextEra Energy Transmission Sw., LLC*, 178 FERC ¶ 61,082 (2022).

3 *Great River Energy*, 182 FERC ¶ 61,039.

4 LRTP Tranche 2 Overview and Status, LRTP Workshop, January 26, 2024.

ABOUT MCR'S TRANSMISSION STRATEGY PRACTICE

MCR provides transmission strategy support to public power, cooperatives, and independent developers in various RTOs. Our clients have a goal of optimizing the value of their current and future investments in electric transmission. We help them realize the full revenue potential from these transmission assets.

MCR's Transmission Strategy practice provides the following services:

Transmission Formula Rate Analysis

- Formula Rate Review for Existing Transmission Owners
- Development of ATRR for Transmission Owners
- Review/Challenge to Incumbent IOU Formula Rate Costs
- Staff Education Workshops on Transmission Formula Rates

Strategic Economic Analysis

- Economic Evaluation of New Transmission Projects
- Development of Transmission Business Plans
- Valuation of Potential Asset Purchase/Sale and Resulting Rate Impacts
- Analysis of Joint Zone Investment, Pricing Agreements, and 7-Factor Tests
- RTO Membership Evaluation

FERC Filings

- Transmission Incentive Rate Filings and Testimony
- Section 205 Rate Filings – Testimony and Formula Rate Support
- Cost of Capital Expert Testimony
- Intervention and Settlement Support

Transmission Cost/Rate Competitiveness

- Peer Cost Comparison by FERC Account
- Rate Strategy and Transmission Revenue Forecasting
- Transmission Capital Investment and Metric Comparisons

Through our consulting assignments, MCR has created tens of millions of dollars in value for our clients and broken new regulatory ground for our client base with landmark FERC decisions.



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