

**HOT TOPIC »**

GRE TRANSMISSION INCENTIVE ORDER

More Transmission Incentives for Public Power and Cooperatives on the Horizon

On January 31, 2023, the Federal Energy Regulatory Commission (FERC) approved transmission incentives for Great River Energy (GRE) in Docket ER23-513-000. This was an important ruling because FERC had been discussing the possibility of eliminating two incentives: (a) 100% construction work in progress (CWIP) in rate base and (b) abandoned plant cost recovery—the ability to recover prudently incurred abandoned costs in the event that a project was abandoned for reasons outside the control of the transmission owner.¹

Based on the merits of its filing, GRE was granted a hypothetical capital structure (HCS) of 50% equity, 100% CWIP in rate base, and abandoned plant cost recovery for its MISO long-range transmission planning project-3 (LRTP-3), the Iron Range–Benton County–Cassie’s Crossing project. GRE was also granted abandoned plant cost recovery for a project in which it had a smaller investment, the Big Stone South–Alexandria–Cassie’s Crossing project.²

The Iron Range project is one of MISO’s 18 Tranche 1 projects, with a total capital cost of \$10.4 billion (in 2022 dollars), and it has been assigned to be a multi-value project (MVP), which allows its costs to be spread across MISO Midwest (formerly known as MISO North). Most of these Tranche 1 projects, including the Iron Range project, are intended to be in service by 2030.

¹ For a discussion of the potential threat of eliminating these incentives, see Commissioner Mark C. Christie’s concurring opinion in the GRE incentive order: *Midcontinent Independent System Operator, Inc., Order on Transmission Rate Incentives and Accepting Tariff Revisions*, 182 FERC ¶ 61,039, Docket no. ER23-513-000, January 31, 2023.

² GRE did not apply for CWIP in rate base and HCS for Big Stone because its investment is relatively small.



Iron Range, which will be jointly owned with Minnesota Power (Allete), involves the construction of a new, approximately 150-mile-long, double-circuit 345/345-kV transmission line from Minnesota Power's existing Iron Range substation to GRE's existing Benton County substation in Minnesota. The project also includes the replacement of GRE's existing 230-kV transmission line with double-circuit 345/345-kV transmission lines from Benton County to the new Cassie's Crossing substation to be located in Sherburne County, Minnesota, and the replacement of GRE's existing 345/69-kV double-circuit transmission line with a higher-capacity 345-kV capability from Benton County to the existing Sherburne County substation in Sherburne County, Minnesota. As part of the Iron Range Project, both Minnesota Power and GRE will also need to expand their respective Iron Range and Benton County substations to accommodate the new 345-kV line.

FERC approved GRE's request for an HCS of 50% equity on GRE's \$507.6 million of capital expenditures for the length of the debt (instead of GRE using its actual equity ratio, which is 22.7% in GRE's projected 2023 Attachment O). The HCS, in combination with CWIP in rate base, substantially improved GRE's projected debt service coverage (DSC) ratio on the

Iron Range project from 0.86 to 1.13, which is much closer to the minimum 1.20 DSC value that would be consistent with their Moody's A3 (A-) rating. FERC stated:

We find that GRE has demonstrated that the requested incentives are tailored to the risks and challenges faced by the Iron Range Project. We also find that the approval of the Hypothetical Capital Structure Incentive and CWIP Incentive will bolster GRE's financial metrics, help ensure its current credit rating, and enable its participation in the Iron Range Project.³

The key to obtaining approval for both a hypothetical capital structure and 100% CWIP in rate base is that the request must be analytically derived. Just because investor-owned utilities (IOUs) have higher equity ratios (e.g., Minnesota Power's projected 2023 equity ratio is 61.5%) or have received CWIP in rate base, does not justify a generation and transmission (G&T) cooperative or joint action agency (JAA) obtaining a HCS or CWIP itself. That is, the "me too" argument does not hold water with FERC. Further, FERC is

³ Paragraph 25 of the GRE incentive order.



particularly mindful of awarding multiple incentives that are excessive. Thus, one must prove not only that there is a nexus between a risk of the project and the requested incentive but also that the entire package of incentives is reasonable. In the GRE Order, FERC highlighted the issue of considering not only an individual incentive but the entire package of incentives:

[The] nexus test is met when an applicant demonstrates that the total package of incentives requested is tailored to address the demonstrable risks or challenges faced by the applicant. Applicants must provide sufficient support to allow the Commission [FERC] to evaluate each element of the package and the interrelationship of all elements of the package. The Commission noted that this nexus test is fact-specific and requires the Commission to review each application on a case-by-case basis. The Commission has, in prior cases, approved multiple rate incentives for particular projects where appropriate. We find that GRE has demonstrated that each of the requested incentives, and the incentives package as a whole, address the risks and challenges faced by GRE in undertaking the Projects.⁴

MCR has supported nearly all the JAAs and G&Ts in MISO that have applied for transmission incentives.⁵ These project-specific incentive filings include expert testimony, analysis and the required template changes to Attachments O and GG/MM. All of these incentive filings have been approved by FERC. Commission staff are familiar and comfortable with MCR's analytical approach.

With the upcoming Tranche 1 and three other expected Tranches (Tranche 2 in MISO Midwest, Tranche 3 in MISO South, and Tranche 4 connecting Midwest and South), there will likely be many more incentive filings by JAAs and G&Ts on the horizon. These incentives are necessary to ensure the financial attractiveness of investing in these transmission projects and to encourage a broader diversity of ownership across all types of utilities. Further, given at least one FERC commissioner's desire to eliminate or further scrutinize certain incentives, those transmission owners that own portions of MISO's Tranche 1 projects may wish to accelerate their incentive filings in the event that FERC regulations on incentives become more restrictive.

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⁴ Paragraph 30 of the GRE incentive order.

⁵ MCR has been engaged by all MISO public power and cooperative entities that made incentive filings, except GRE's 2009 incentive filing. MCR has supported the following transmission owner incentive filings: Cent. Minn. Mun. Power Agency (CMMPA), 134 FERC ¶ 61,115 (2011); Missouri River Energy Services, 138 FERC ¶ 61,045 (2012); WPPI Energy, 141 FERC ¶ 61,004 (2012); CMMPA, 145 FERC ¶ 61,263 (2013); Dairyland Power Cooperative, 142 FERC ¶ 61,100 (2013); Dairyland Power Cooperative 152 FERC ¶ 61,019 (2015); WPPI Energy, 151 FERC ¶ 61,246 (2015); Dairyland Power Cooperative 161 FERC ¶ 61,301 (2017), and Great River Energy 182 FERC ¶ 61,039 (2023).

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MCR's Transmission Strategy practice provides the following services:

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- 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

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