

# PRIMER ON TRANSMISSION FORMULA RATES (“TFRs”)

Electric utilities operating under FERC jurisdiction are generally permitted to set their transmission rates using one of two approaches:

1. **Stated rates** involve a lengthy FPA Section 205 rate case proceeding with FERC each time a utility seeks to change its rates. Around 30 utilities currently use transmission stated rates; or
2. **Transmission formula rates**, where FERC approves the formula that a utility proposes to calculate its costs of service and derive its rates. Each year, the utility uses the approved formula and updated input data (typically derived from FERC Form No. 1) to determine its new rates. The utility then submits its annual updates and supporting documentation to FERC on an informational basis only, and shares the updates with interested parties, who can review, verify, and challenge the inputs used in the calculations pursuant to approved protocols – see the timeline below for details on when and how interested parties can engage with the utility. Over 100 utilities under FERC jurisdiction use TFRs.

## Annual stakeholder engagement process



TFR characteristics, grouped in three broad categories, advance multiple ratemaking objectives:

### Transparency, oversight, and stakeholder engagement

- **Annual access to cost-of-service information**
- **Regularly scheduled stakeholder engagement** (*see timeline above*)
- **Opportunities for all parties to understand rates** (including calculations and underlying inputs/costs)
- **Customers protected by FERC oversight** (e.g., audits of FERC Form No. 1 data, ensuring compliance with TFR protocols)



### Timeliness of cost recovery

- Annual updates **reduce risk of rate shock** from prolonged periods between rate cases
- True-ups **prevent under- and over-recovery**
- **Reduces regulatory lag**, which **lowers a utility’s financing costs**; this flows through to customers in the form of **lower rates**
- **Facilitates transmission investment**, ensuring reliable electric service



### Reduced regulatory burden and enhanced administrative efficiency

- **Eliminates need for frequent and lengthy rate cases**
- **Lowens the cost of proceedings** in terms of time, effort, and resources **for all parties** (the utility, FERC, and intervening parties)
- **Cost savings flow through to customers**



These characteristics balance the interests of customers, FERC, transmission owners, and other industry stakeholders\*

\* Industry stakeholders include interveners such as state regulators, regional groups, trade groups, and other interested parties.