

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

Pennsylvania Public Utility
Commission, et al.

v.

City of DuBois – Bureau of Water

Public Meeting held March 16, 2017
2554150-OSA

Docket No. R-2016-2554150

MOTION OF CHAIRMAN GLADYS M. BROWN

Polling Issue #16

Before the Pennsylvania Public Utility Commission (Commission) are the Exceptions and Reply Exceptions to the Recommended Decision of Administrative Law Judge (ALJ) Mark A. Hoyer in the base rate case filed by the City of DuBois – Bureau of Water (DuBois or the City) on June 30, 2016.

There are substantial differences between the City's, the Office of Consumer Advocate's (OCA), and the Bureau of Investigation and Enforcement's (BIE) claims for the most appropriate return on common equity (ROE). The City proposes an ROE of 10.50%, the OCA a return of 8.25%, and BIE recommends 8.62%. Each claim is fundamentally based on the results of a discounted cash flow (DCF) analysis. The results vary due to the use of different growth inputs and the application of risk adjustments.

The administrative determination of an appropriate ROE is an art as much as it is a science. This is especially the case when the Commission establishes an ROE for a municipal corporation which does not have publicly traded equity shares. Nonetheless, there are a number of means that stakeholders and this Commission can use to make an informed judgement on an appropriate ROE.

The record in this proceeding provides an appropriate ROE in the range of 8.25% to 10.5% based on DCF results for a proxy group of investor owned water utilities. It is also informative to review historical cases for similar utilities. In *The Pennsylvania Public Utility Commission et al. v. The Columbia Water Company*¹ this Commission determined that an ROE of 9.75% was appropriate. In *The Pennsylvania Public Utility Commission et al. v. City of Lancaster Bureau of Water*² this Commission set an ROE of 10.0%. In *The Pennsylvania Public Utility Commission et al. v. Emporium Water Company*³ the Commission set the ROE at 10.0%. As well, in *The Pennsylvania Public Utility Commission v. Templeton Water Company Inc.*⁴ this Commission set an ROE of 10.5%.

¹ Opinion and Order entered January 23, 2014 at Docket No. R-2013-2360798

² Opinion and Order entered July 14, 2011 at Docket No. R-2010-2179103

³ Opinion and Order entered January 28, 2015 at Docket No. R-2014-2402324

⁴ Order entered July 21, 2016 at Docket No. R-2016-2544861

Additionally, it is insightful to review the Commission's most recent report on the earnings of jurisdictional utilities (Earnings Report).⁵ The Earnings Report includes a market based analysis on the return on equity for a proxy group of water utilities to assist the Commission in setting the ROE for Distribution System Improvement Charge (DSIC) tariffs. In the most recent earnings report the Commission determined a water utility ROE range from 7.55 - 10.29% and established an ROE for DSIC tariffs of 9.65%.


Review of the ROE results deliberated in this proceeding, of the ROE determined by the Commission in previous rate cases, and of the Commission's most recent Earnings Report provides substantial evidence for this Commission to make an informed judgement as to a prudent ROE. Taking all of these factors into consideration, I believe that an ROE of 9.3% is appropriate for DuBois. This ROE is supported on the record as the initial, unadjusted, result of the City's DCF analysis.⁶

An ROE of 9.3% is within the range of reasonableness established in this proceeding, supported by record evidence, consistent with the range established in the Commission's most up-to-date Earnings Report, and closer in proximity to the Commission ROE determination in similar rate cases than the 8.62% recommended by the ALJ in this proceeding. Further, an ROE of 9.3% will strike an appropriate balance that can foster strong credit for the City, while not overly burdening Commission jurisdictional customers of the City with rate-increase shock.

Last, I believe the tax rate adjustment proposed by BIE and recommended by the ALJ of 18.22% is appropriate, as explained by the ALJ.

THEREFORE, I move that the Office of Special Assistants prepare an Opinion and Order consistent with this Motion.

March 16, 2017
Date



Gladys M. Brown, Chairman

⁵ Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended September 30, 2016 issued on January 26, 2017 at Docket No. M-2017-2583651

⁶ Schedule 15, Page 1 of 12, within the original rate filing