|  |  |  |
| --- | --- | --- |
| PUC logo | COMMONWEALTH OF PENNSYLVANIAPENNSYLVANIA PUBLIC UTILITY COMMISSIONP.O. BOX 3265, HARRISBURG, PA 17105-3265 | **IN REPLY PLEASE REFER TO OUR FILE****M-2012-2317272****M-2012-2293611** |

**August 24, 2018**

**TO ALL INTERESTED PARTIES:**

 **Re: ROE Working Group, M-2012-2293611**

 **Act 11 Final Implementation Order, M-2012-2317272**

Act 11 of 2012[[1]](#footnote-1) (Act 11), *inter alia*, allows jurisdictional water and wastewater utilities, electric distribution companies (EDCs), natural gas distribution companies (NGDCs), and a city natural gas distribution operation (CNGDO) to petition for a distribution system improvement charge (DSIC). A DSIC will allow utilities to timely recover “the reasonable and prudent costs incurred to repair, improve or replace eligible property in order to ensure and maintain adequate, efficient, safe, reliable and reasonable service.” 66 Pa. C.S. § 1353(a).

A key component in the DSIC recovery calculation is the return on equity (ROE). Act 11 provides that the ROE shall be the equity return rate approved in the utility’s most recent fully litigated rate case. 66 Pa. C.S. § 1357(b)(2). However, for utilities that do not have an ROE from a recent rate case, Act 11 provides that the ROE shall be the equity return rate calculated by the Commission in the most recent Quarterly Earnings Report (QER). 66 Pa. C.S. § 1357(b)(3).

In implementing Act 11, the Commission adopted the following parameters for the QER process:

* Industry-specific barometer group companies will be reviewed by staff on a quarterly basis;
* 50% or more of the company’s assets must be related to the jurisdictional utility industry;
* Company stock must be publicly traded and must have at least three years of earnings history;
* Companies targeted by merger and acquisition (M&A) activity will be excluded; companies involved in M&A activity may be excluded;
* Investment information for the barometer group companies must be available to the Commission from more than one source, where more than one source exists, particularly earnings growth projections;
* The barometer group companies must have an investment grade credit rating (S&P BBB- or better, Moody’s Baa3 or better; and
* Companies will be selected based on geographic regions:

EDCs: *Value Line* East, Central, and West Group Electric Utility companies;

NGDCs and CNGDO: *Value Line* Natural Gas Utility industry group companies; and

Water/Wastewater: *Value Line* Water Utility industry group companies.

On March 29, 2018, the Commission issued a Secretarial Letter expanding the EDC barometer group selection criteria to include *Value Line* East, Central, and West Group Electric Utility companies. The Commission wishes to further revise the QER barometer groups. Currently Commission Staff uses the criteria listed above to generate a pool of eligible industry-specific barometer group companies. From this pool of companies, Commission Staff selects a group of companies to be used in each industry-specific ROE analysis. **The Commission asks for input and guidance regarding the potential use of all eligible industry-specific companies for the corresponding industry-specific ROE analysis. This proposed change will eliminate Commission Staff selecting the barometer group from the pool of eligible companies. No other change to our barometer group selection criteria is being proposed at this time**.

 Please file responses with the Secretary of the Commission, referencing Docket No. M‑2012-2317272, by September 28, 2018. If you have any questions on this matter, please contact Andrew Herster, Bureau of Technical Utility Services, at aherster@pa.gov, or (717) 783‑5392.



 Sincerely,

 Rosemary Chiavetta

 Secretary

cc: Paul Diskin, Director, TUS

 Bohdan R. Pankiw, Chief Counsel
 Robert Young, Law Bureau

 Erin Laudenslager, TUS

 Andrew Herster, TUS

 David Huff, TUS

Electronic List

1. <http://www.legis.state.pa.us/WU01/LI/LI/US/HTM/2012/0/0011..HTM>. [↑](#footnote-ref-1)