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| 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** |

**November 27, 2017**

**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). The ROE should balance the interests of consumers and utilities, and be sufficient to attract, at reasonable rates, the capital needed to maintain and improve a utility’s infrastructure. 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).

To prepare for implementation of Act 11, the Commission convened a working group of stakeholders[[2]](#footnote-2) to review the Commission’s QER process and, in particular, the parameters currently used to determine the market-based ROE for each of the major industry groups. The key issue areas were: Barometer Groups, ROE Models and Weighting, Range of Reasonableness, and Other Factors. Based on our consideration of the input provided by the stakeholders and our staff, 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 company must be available to the Commission from more than one source, where more than one source exists, particularly earnings growth projections;
* Company 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 Group Electric Utility companies;

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

Water/Waste water: *Value Line* Water Utility industry group companies.

It is apparent the EDC barometer group selection criteria is too selective. Commission Staff is unable to consistently select EDC barometer group companies restricted to the *Value Line* East Group Electric Utilities geographic region. **The Commission asks for input and guidance to eliminate the geographic restriction of only selecting companies based on *Value Line* East Group Electric Utility companies and permit Commission Staff to include EDCs from *Value Line* Central and West Group of Electric Utility group of companies. No other change to our barometer group selection criteria is being proposed at this time**.

Please send your comments regarding this proposed change to aherster@pa.gov by January 8, 2018.



 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)
2. The following entities participated in stakeholder discussions: Aqua Pennsylvania; Columbia Gas of PA; Duquesne Light; Energy Association of PA (EAP); Equitable Gas; FirstEnergy; various Industrial Customer Groups; National Fuel Gas; Pennsylvania Chapter of the National Association of Water Companies (PNAWC); PECO Energy Company; Peoples Natural Gas LLC; Pike County L&P; PPL Electric Utilities; Superior Water; UGI; United Water; York Water Company; the Office of Consumer Advocate (OCA); the Office of Small Business Advocate (OSBA); the Bureau of Investigation and Enforcement (BI&E); and other Commission staff. EAP member utilities include: Citizens’ Electric Company; Columbia Gas of PA; Duquesne Light Company; Equitable Gas Company; Metropolitan Edison Company; Pennsylvania Electric Company; Pennsylvania Power Company; Pike County Light & Power Company; National Fuel Gas Distribution Corp.; PECO Energy Company; Peoples Natural Gas Company; Peoples TWP LLC; Philadelphia Gas Works; PPL Electric Utilities; UGI Central Penn Gas; UGI Penn Natural Gas; UGI Utilities, Inc.; Valley Energy; Wellsboro Electric Company; and West Penn Power Company. PNAWC member utilities include: Pennsylvania American Water Company; York Water Company, United Water Pennsylvania, Superior Water, and “other smaller water utilities.” [↑](#footnote-ref-2)