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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** |

**January 22, 2019**

**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).

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.

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. Via Secretarial Letter dated August 24, 2018, the Commission asked 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 changes to the barometer group selection criteria were proposed.

Various stakeholders[[2]](#footnote-2) submitted comments on adjusting the EDC barometer group selection criteria, and staff provided its recommendations. On September 27, 2018, the Energy Association of Pennsylvania (EAP) submitted comments on behalf of their EDC members. EAP supports the proposal of eliminating Commission Staff selecting the barometer group from the pool of eligible companies. On September 28, 2018, Duquesne Light Company (DLC) submitted comments. DLC generally agrees with eliminating Commission Staff selecting the barometer group from the pool of eligible companies. On September 28, 2018, Columbia Gas of Pennsylvania, Inc. (Columbia) submitted comments. In its comments, Columbia supports eliminating Commission Staff selecting the barometer group from the pool of eligible companies. The Commission appreciates the input and guidance provided and, upon consideration of that input, the Commission will revise the barometer group selection process.

Accordingly, based on our consideration of the input provided by stakeholders and our staff, **we shall use of all eligible industry-specific companies for the corresponding industry-specific ROE analysis**. This change will eliminate Commission Staff selecting the barometer group from the pool of eligible companies.

Questions may be directed to Andrew Herster, Bureau of Technical Utility Services, 717‑783-5392 or aherster@pa.gov.



 Sincerely,

 Rosemary Chiavetta

 Secretary

cc: Paul Diskin, Director, TUS

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

 Erin Laudenslager, TUS

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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: Duquesne Light; Energy Association of PA (EAP); the Office of Consumer Advocate (OCA); 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. [↑](#footnote-ref-2)