PENNSYLVANIA PUBLIC UTILITY COMMISSION
HARRISBURG, PENNSYLVANIA 17120

Establishment of Ratemaking Working Group **Public Meeting of September 10, 2026**
3064953-CMR

STATEMENT OF VICE CHAIR KIMBERLY BARROW

Before us for consideration is the C-Motion for the establishment of a Ratemaking Working Group (RWG). A core focus of the RWG as highlighted in the C-Motion is the establishment of appropriate return-on-equity (ROE) parameters.

Data shows that for decades regulators have authorized ROEs that exceed a utility's cost of equity. Excess ROEs result in utilities over-investing in capital assets and have caused U.S. consumers \$5.8B - \$8.8B annually.[1] This calls for a critical examination of the underlying framework upon which we base our decisions about the purpose of authorized ROE. Accordingly, I request that the RWG members address the following questions during the course of the RWG process:

1. For all RWG members:
   a. The purpose of authorized ROE is to compensate for the opportunity cost of capital. Do you agree or disagree with this statement and why?
   b. Should ROEs be used to induce utility performance? Please explain your answer.
   c. Should the provision of reasonable service by a utility ever result in an ROE increase?
2. For jurisdictional utility RWG members:
   a. As a regulated monopoly with relatively stable earnings, provide empirical evidence that justifies an ROE higher than the average broader market cost of capital.

In addition, as part of the work to be conducted by the RWG, the C-Motion proposes the establishment of a formulaic ROE to be utilized in the Distribution System Improvement Charge (DSIC). It is worth mentioning that the DSIC is designed to allow utilities to recover capital spending between rate cases, and not to earn a premium ROE. Therefore, it is important to ensure that any authorized DSIC ROE reflects the actual utility cost of equity, the utility's actual risk

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[1] https://affordability-toolkit.rmi.org/pdfs/return-on-equity-reform.pdf

profile, does not create excess customer costs, supports only necessary infrastructure investment, and is reasonable. Time will tell whether the RWG will facilitate movement towards those goals.

In addition to the DSIC ROE proposal in the C-Motion, I recommend that the RWG explore and address the following:

1. Should the DSIC ROE be adjusted quarterly and proportionally as interest rates move? Please support your position and provide detailed support for any suggested adjustments.
2. Should DSIC ROEs be tied to a performance standard? Please explain your answer.
3. Should a lack of increased reliability result in a lower DSIC ROE? If not, please explain why.
4. Is the DSIC still meeting its intended purpose(s) for all utility sectors? Please explain your position.
5. What is the rate impact of utilizing DSIC and other rate making tools or methods, such as the fully projected future test year? What are the rate implications when these tools are combined?
6. An annual reassessment of the DSIC ROE would allow for corrections to actual market conditions. Please explain any hardships or unreasonable challenges this may present.
7. Please quantify and explain how the DSIC ROE impacts average ratepayers.

I look forward to a thoughtful examination of the preferred processes by which ROE, DSIC ROE, and cost of capital are determined by the Commission.

September 10, 2026
Date

KM Barrow

Kimberly M. Barrow
Vice Chair