

Commission B



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# Rate Case Summary

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Q2 2012  
FINANCIAL UPDATE

QUARTERLY REPORT  
OF THE U.S. SHAREHOLDER-OWNED  
ELECTRIC UTILITY INDUSTRY

#### About EEI

The Edison Electric Institute is the association of U.S. shareholder-owned electric companies. Our members serve 95% of the ultimate customers in the shareholder-owned segment of the industry, and represent approximately 70% of the U.S. electric power industry. We also have 79 international electric companies as Affiliate members and more than 190 industry suppliers and related organizations as Associate members.

#### About EEI's Quarterly Financial Updates

EEI's quarterly financial updates present industry trend analyses and financial data covering 59 U.S. shareholder-owned electric utility companies. These 59 companies include 52 electric utility holding companies whose stocks are traded on major U.S. stock exchanges and seven electric utilities who are subsidiaries of non-utility or foreign companies. Financial updates are published for the following topics:

Dividends	Rate Case Summary
Stock Performance	SEC Financial Statements (Holding Companies)
Credit Ratings	FERC Financial Statements (Regulated Utilities)
Construction	Fuel

#### For EEI Member Companies

The EEI Finance and Accounting Division is developing current year and historical data sets that cover a wide range of industry financial and operating metrics. We look forward to serving as a resource for member companies who wish to produce customized industry financial data and trend analyses for use in:

- Investor relations studies and presentations
- Internal company presentations
- Performance benchmarking
- Peer group analyses
- Annual and quarterly reports to shareholders

#### We Welcome Your Feedback

EEI is interested in ensuring that our financial publications and industry data sets best address the needs of member companies and the financial community. We welcome your comments, suggestions and inquiries.

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#### Future EEI Finance Meetings

47th EEI Financial Conference  
November 11-14, 2012  
JW Marriott Desert Ridge Resort and Spa  
Phoenix, Arizona

For more information about EEI Finance Meetings, please contact Debra Henry, (202) 508-5496, [dhenry@eei.org](mailto:dhenry@eei.org)

# The 59 U.S. Shareholder-Owned Electric Utilities

The companies listed below all serve a regulated distribution territory. Other utilities, such as transmission provider ITC Holdings, are not shown below because they do not serve a regulated distribution territory. However, their financial information is included in relevant EEI data sets, such as transmission-related construction spending.

ALLETE, Inc. (ALE)	<i>Energy Future Holdings Corp.</i> (formerly TXU Corp.)	Pinnacle West Capital Corporation (PNW)
Alliant Energy Corporation (LNT)	Entergy Corporation (ETR)	PNM Resources, Inc. (PNM)
Ameren Corporation (AEE)	Exelon Corporation (EXC)	Portland General Electric Company (POR)
American Electric Power Company, Inc. (AEP)	FirstEnergy Corp. (FE)	PPL Corporation (PPL)
Avista Corporation (AVA)	Great Plains Energy Incorporated (GXP)	Progress Energy (PGN)
Black Hills Corporation (BKH)	Hawaiian Electric Industries, Inc. (HE)	Public Service Enterprise Group Inc. (PEG)
CenterPoint Energy, Inc. (CNP)	IDACORP, Inc. (IDA)	<i>Puget Energy, Inc.</i>
<i>Central Vermont Public Service Corporation (CV)</i>	Integrus Energy Group, Inc. (TEG)	SCANA Corporation (SCG)
CH Energy Group, Inc. (CHG)	<i>IPALCO Enterprises, Inc.</i>	Sempra Energy (SRE)
Cleco Corporation (CNL)	MDU Resources Group, Inc. (MDU)	Southern Company (SO)
CMS Energy Corporation (CMS)	MGE Energy, Inc. (MGEE)	TECO Energy, Inc. (TE)
Consolidated Edison, Inc. (ED)	<i>MidAmerican Energy Holdings Company</i>	UIL Holdings Corporation (UIL)
Dominion Resources, Inc. (D)	NextEra Energy, Inc. (NEE)	UniSource Energy Corporation (UNS)
<i>DPL, Inc. (DPL)</i>	NiSource Inc. (NI)	Unitil Corporation (UTL)
DTE Energy Company (DTE)	Northeast Utilities (NU)	Vectren Corporation (VVC)
Duke Energy Corporation (DUK)	NorthWestern Corporation (NWE)	Westar Energy, Inc. (WR)
Edison International (EIX)	NV Energy, Inc. (NVE)	Wisconsin Energy Corporation (WEC)
El Paso Electric Company (EE)	OGE Energy Corp. (OGE)	Xcel Energy, Inc. (XEL)
Empire District Electric Company (EDE)	Otter Tail Corporation (OTTR)	
<i>Iberdrola USA</i>	Pepco Holdings, Inc. (POM)	
	PG&E Corporation (PCG)	



# Companies Listed by Category

## (as of 12/31/11)

Please refer to the Quarterly Financial Updates webpage for previous years' lists.

Given the diversity of utility holding company corporate strategies, no single company categorization approach will be useful for all EEI members and utility industry analysts. Nevertheless, we believe the following classification provides an informative framework for tracking financial trends and the capital markets' response to business strategies as companies depart from the traditional regulated utility model.

Regulated	80%+ of total assets are regulated
Mostly Regulated	50% to 80% of total assets are regulated
Diversified	Less than 50% of total assets are regulated

Categorization of the 52 publicly traded utility holding companies is based on year-end business segmentation data presented in 10Ks, supplemented by discussions with company IR departments. Categorization of the seven non-publicly traded companies (*shown in italics*) is based on estimates derived from FERC Form 1 data and information provided by parent company IR departments.

The EEI Finance and Accounting Division continues to evaluate our approach to company categorization and business segmentation. In addition, we can produce customized categorization and peer group analyses in response to member company requests. We welcome comments, suggestions and feedback from EEI member companies and the financial community.

### Regulated (39 of 59)

ALLETE, Inc.  
Alliant Energy Corporation  
Ameren Corporation  
American Electric Power Company, Inc.  
Avista Corporation  
*Central Vermont Public Service Corporation*  
CH Energy Group, Inc.  
Cleco Corporation  
CMS Energy Corporation  
Consolidated Edison, Inc.  
DPL, Inc.  
DTE Energy Company  
Edison International  
El Paso Electric Company  
Empire District Electric Company  
*Iberdrola USA*  
Entergy Corporation  
Great Plains Energy Incorporated  
IDACORP, Inc.  
Integrus Energy Group  
*IPALCO Enterprises, Inc.*  
Northeast Utilities  
NorthWestern Energy

NV Energy, Inc.  
PG&E Corporation  
Pinnacle West Capital Corporation  
PNM Resources, Inc.  
Portland General Electric Company  
Progress Energy  
*Puget Energy, Inc.*  
Southern Company  
TECO Energy, Inc.  
UIL Holdings Corporation  
UniSource Energy Corporation  
Unitil Corporation  
Vectren Corporation  
Westar Energy, Inc.  
Wisconsin Energy Corporation  
Xcel Energy, Inc.

### Mostly Regulated (17 of 59)

Black Hills Corporation  
CenterPoint Energy, Inc.  
Dominion Resources, Inc.  
Duke Energy Corporation  
Exelon Corporation  
First Energy Corp.  
MGE Energy, Inc.

### *MidAmerican Energy Holdings*

NextEra Energy, Inc.  
NiSource Inc.  
OGE Energy Corp.  
Otter Tail Corporation  
Pepco Holdings, Inc.  
PPL Corporation  
Public Service Enterprise Group, Inc.  
SCANA Corporation  
Semptra Energy

### Diversified (3 of 59)

*Energy Future Holdings*  
Hawaiian Electric Industries, Inc.  
MDU Resources Group, Inc.

Note: Based on assets at 12/31/11

The following companies were removed from the consolidated financial statements for 2009 and 2010 because they did not file Form 10-K with the SEC: Duquesne Light Holdings, Green Mountain Power, KeySpan, Kentucky Utilities, Louisville Gas and Electric and Niagara Mohawk Power.

Q2 2012

# Rate Case Summary

## HIGHLIGHTS

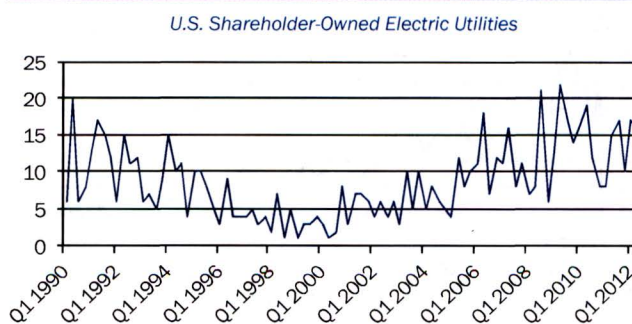
- Shareholder-owned electric utilities filed 16 rate cases in Q2 2012. Infrastructure investment, the main cause of rate cases in recent years, was again the primary reason for filings. Rising operation and maintenance expenses and attempts to implement adjustment clauses were also prominent causes.
- The industry's average awarded ROE in Q2 2012 was 9.92%, a record low for recent decades.
- Average regulatory lag for Q2 was 11.4 months, well above the ten-month average of recent years. Part of the reason for the increase was Hawaiian Electric's settlement of three cases during the quarter, each lasting more than 20 months. The ability of Hawaiian utilities to implement interim rates in many instances mitigates the impact of the lag in these cases.

## COMMENTARY

Shareholder-owned electric utilities filed 16 rate cases in Q2 2012, a number consistent with the trend of rising case filings since the turn of the century. The trend largely reflects a construction cycle driven by the need to replace aging infrastructure and reduce the environmental impact of power generation. Consequently, infrastructure investment, the main cause of rate cases in recent years, was again the primary reason for filings in Q2. Operation and maintenance expenses and attempts to implement adjustment clauses were also prominent reasons for Q2's filings.

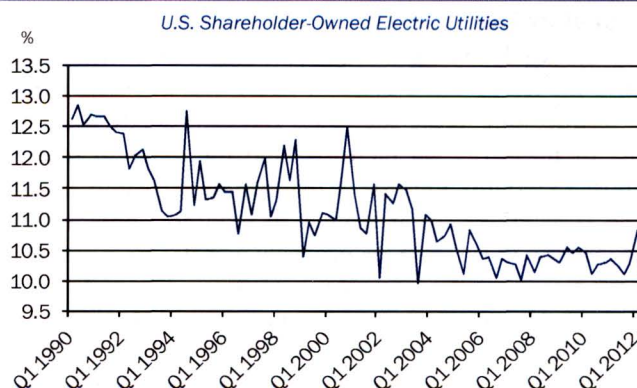
The average approved ROE in Q2 2012 was 9.92%, a record low for recent decades. Falling interest rates account for much of the decline. Attempts by state commissions to

## I. Number of Rate Cases Filed (Quarterly)



Source: SNL Financial / Regulatory Research Assoc. and EEI Rate Department

## II. Average Awarded ROE (Quarterly)

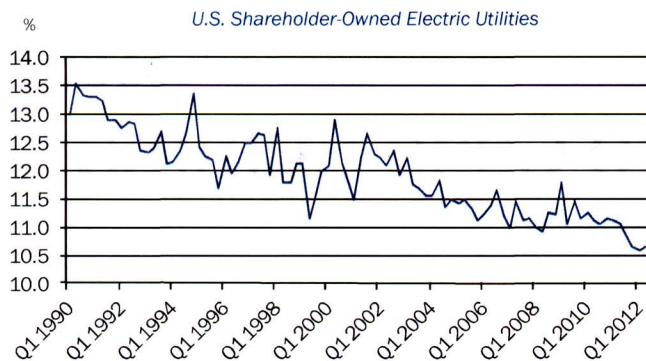


Source: SNL Financial / Regulatory Research Assoc. and EEI Rate Department

moderate rates during times of financial hardship for many customers have also contributed to the decline in recent years. Driven down by similar reasons, the average requested

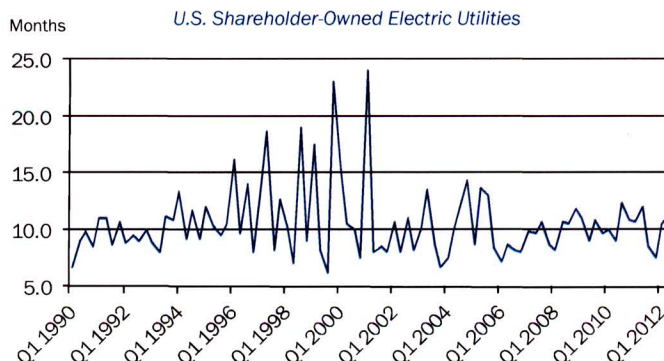


### III. Average Requested ROE (Quarterly)



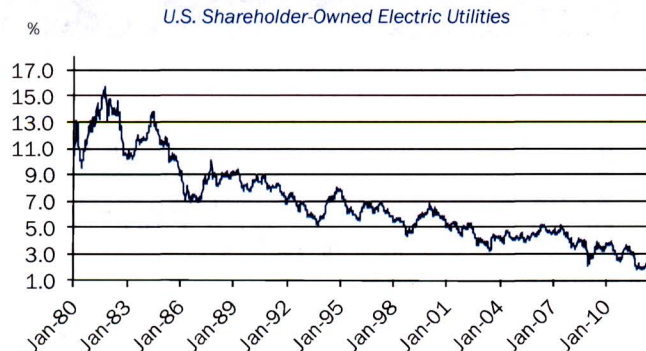
Source: SNL Financial / Regulatory Research Assoc. and EEI Rate Department

### IV. Average Regulatory Lag (Quarterly)



Source: SNL Financial / Regulatory Research Assoc. and EEI Rate Department

### V. 10-Year Treasury Yield (1/1980 — 6/2012)



Source: U.S. Federal Reserve

ROE during the quarter was 10.66%, remaining near the record low of 10.57% reached last quarter.

#### Regulatory Lag

Average regulatory lag for Q2 2012 was 11.4 months, well above the ten-month average of recent years. During industry restructuring in the late 1990s and early 2000s, the volatility of regulatory lag increased and the duration rose to almost 13 months. Outside of that period, regulatory lag has been fairly consistent at around 10 months. Consequently, the increase in lag in Q2 is generally unwelcome news. Part of the reason for the increase was Hawaiian Electric's settlement of three cases during the quarter, each lasting more than 20 months. Hawaii is the only state without statutory limits on the duration of rate cases. The ability of Hawaiian utilities to implement interim rates in many instances mitigates the impact of the lag in these cases.

During times of rapidly rising spending, utilities attempt to recover rising costs by filing rate cases. However, general regulatory practice bases rate decisions primarily on historical costs, and the preparation for and administering of a case takes time. Costs continue to rise and rates may already

be outdated by the time the commission decides the case and puts rates into effect. We define regulatory lag as the time between a rate case filing and decision — a rough proxy for the time between when a utility needs cost recovery and when new rates take effect.

Some analysts have argued that regulatory lag is actually longer if other delays are considered, such as the time needed to prepare a case. This perspective would suggest an average regulatory lag closer to twice what our definition measures, or close to two years. However it is measured, lag obstructs utilities' ability to earn their allowed return when costs are rising and can ultimately increase their borrowing costs. Electric utilities often fall short of achieving their allowed return due to regulatory lag. The decline in allowed ROEs across the industry may therefore over-compensate, in some cases, for declining interest rates.

Commissions can allow utilities to shorten regulatory lag through the use of innovative approaches such as interim rate increases, adjustment clauses and other recovery mechanisms, the use of projected costs in rate cases, and construction work in progress (CWIP). CWIP allows a utility to partly recover construction financing costs before a project comes online. These approaches have the added benefit of helping to smooth the introduction of rate increases, rather than allowing rates to suddenly jump after a case. Commissions and state legislatures can support utilities' financial health and help curb future rate increases by helping utilities reduce lag.

#### Filed Cases

Capital investment in infrastructure was the overriding reason for filings in Q2. Ameren Illinois and Commonwealth Edison in Illinois both made second filings in their statutorily mandated formula rate plans, largely directed at requiring the companies to make substantial investments in transmission and distribution systems — including investment in upgrades, modernization, training facilities and Smart Grid.

## VI. Rate Case Data: From Tables I-V

U.S. Shareholder-Owned Electric Utilities

Quarter	Number of Rate Cases Filed	Average Awarded ROE	Average Requested ROE	Average 10-Year Treasury Yield	Average Regulatory Lag
Q4 1988	1	NA	14.30	8.96	NA
Q1 1989	4	NA	15.26	9.21	NA
Q2 1989	4	NA	13.30	8.77	NA
Q3 1989	14	NA	13.65	8.11	NA
Q4 1989	13	NA	13.47	7.91	NA
Q1 1990	6	12.62	13.00	8.42	6.71
Q2 1990	20	12.85	13.51	8.68	9.07
Q3 1990	6	12.54	13.34	8.70	9.90
Q4 1990	8	12.68	13.31	8.40	8.61
Q1 1991	13	12.66	13.29	8.02	11.00
Q2 1991	17	12.67	13.23	8.13	11.00
Q3 1991	15	12.49	12.89	7.94	8.70
Q4 1991	12	12.42	12.90	7.35	10.70
Q1 1992	6	12.38	12.77	7.30	8.90
Q2 1992	15	11.83	12.86	7.38	9.61
Q3 1992	11	12.03	12.81	6.62	9.00
Q4 1992	12	12.14	12.36	6.74	10.10
Q1 1993	6	11.84	12.33	6.28	8.87
Q2 1993	7	11.64	12.39	5.99	8.10
Q3 1993	5	11.15	12.70	5.62	11.20
Q4 1993	9	11.04	12.12	5.61	10.90
Q1 1994	15	11.07	12.15	6.07	13.40
Q2 1994	10	11.13	12.37	7.08	9.28
Q3 1994	11	12.75	12.66	7.33	11.80
Q4 1994	4	11.24	13.36	7.84	9.26
Q1 1995	10	11.96	12.44	7.48	12.00
Q2 1995	10	11.32	12.26	6.62	10.40
Q3 1995	8	11.37	12.19	6.32	9.50
Q4 1995	5	11.58	11.69	5.89	10.60
Q1 1996	3	11.46	12.25	5.91	16.30
Q2 1996	9	11.46	11.96	6.72	9.80
Q3 1996	4	10.76	12.13	6.78	14.00
Q4 1996	4	11.56	12.48	6.34	8.12
Q1 1997	4	11.08	12.50	6.56	13.80
Q2 1997	5	11.62	12.66	6.70	18.70
Q3 1997	3	12.00	12.63	6.24	8.33
Q4 1997	4	11.06	11.93	5.91	12.70
Q1 1998	2	11.31	12.75	5.59	10.20
Q2 1998	7	12.20	11.78	5.60	7.00
Q3 1998	1	11.65	NA	5.20	19.00
Q4 1998	5	12.30	12.11	4.67	9.11
Q1 1999	1	10.40	NA	4.98	17.60
Q2 1999	3	10.94	11.17	5.54	8.33
Q3 1999	3	10.75	11.57	5.88	6.33
Q4 1999	4	11.10	12.00	6.14	23.00
Q1 2000	3	11.08	12.10	6.48	15.10
Q2 2000	1	11.00	12.90	6.18	10.50
Q3 2000	2	11.68	12.13	5.89	10.00
Q4 2000	8	12.50	11.81	5.57	7.50
Q1 2001	3	11.38	11.50	5.05	24.00
Q2 2001	7	10.88	12.24	5.27	8.00
Q3 2001	7	10.78	12.64	4.98	8.62
Q4 2001	6	11.57	12.29	4.77	8.00
Q1 2002	4	10.05	12.22	5.08	10.80
Q2 2002	6	11.41	12.08	5.10	8.16
Q3 2002	4	11.25	12.36	4.26	11.00
Q4 2002	6	11.57	11.92	4.01	8.25



## VI. Rate Case Data: From Tables I-V (cont.)

U.S. Shareholder-Owned Electric Utilities

Quarter	Number of Rate Cases Filed	Average Awarded ROE	Average Requested ROE	Average 10-Year Treasury Yield	Average Regulatory Lag
Q1 2003	3	11.49	12.24	3.92	10.20
Q2 2003	10	11.16	11.76	3.62	13.60
Q3 2003	5	9.95	11.69	4.23	8.80
Q4 2003	10	11.09	11.57	4.29	6.83
Q1 2004	5	11.00	11.54	4.02	7.66
Q2 2004	8	10.64	11.81	4.60	10.00
Q3 2004	6	10.75	11.35	4.30	12.50
Q4 2004	5	10.91	11.48	4.17	14.40
Q1 2005	4	10.55	11.41	4.30	8.71
Q2 2005	12	10.13	11.49	4.16	13.70
Q3 2005	8	10.84	11.32	4.21	13.00
Q4 2005	10	10.57	11.14	4.49	8.44
Q1 2006	11	10.38	11.23	4.57	7.33
Q2 2006	18	10.39	11.38	5.07	8.83
Q3 2006	7	10.06	11.64	4.90	8.33
Q4 2006	12	10.38	11.19	4.63	8.11
Q1 2007	11	10.30	11.00	4.68	9.88
Q2 2007	16	10.27	11.44	4.85	9.82
Q3 2007	8	10.02	11.13	4.73	10.80
Q4 2007	11	10.44	11.16	4.26	8.75
Q1 2008	7	10.15	10.98	3.66	7.33
Q2 2008	8	10.41	10.93	3.89	10.80
Q3 2008	21	10.42	11.26	3.86	10.60
Q4 2008	6	10.38	11.21	3.25	11.90
Q1 2009	13	10.31	11.79	2.74	11.10
Q2 2009	22	10.55	11.01	3.31	9.13
Q3 2009	17	10.46	11.43	3.52	10.90
Q4 2009	14	10.54	11.15	3.46	9.69
Q1 2010	16	10.45	11.24	3.72	10.00
Q2 2010	19	10.12	11.12	3.49	9.00
Q3 2010	12	10.27	11.07	2.79	12.40
Q4 2010	8	10.30	11.17	2.86	10.90
Q1 2011	8	10.35	11.11	3.46	10.80
Q2 2011	15	10.24	11.06	3.21	12.00
Q3 2011	17	10.13	10.86	2.43	8.64
Q4 2011	10	10.29	10.66	2.05	7.60
Q1 2012	17	10.84	10.57	2.04	10.50
Q2 2012	16	9.92	10.66	1.82	11.40

NA = Not available

Source: SNL Financial / Regulatory Research Assoc. and EEI Rate Department

(Smart Grid is a general term for several advances in utility technology to provide more robust information about electricity distribution and usage, which has many potential benefits including giving customers more insight into and control over their electricity usage and associated savings, helping utilities more quickly locate and efficiently address outages, and improving the automation and reliability of the electric grid).

Kansas City Power & Light filed in Kansas to recover infrastructure investments, including wind generation and an emissions-control project. After accounting for expiring deferral recoveries and amortizing certain regulatory liabilities,

Niagara Mohawk Power customers in New York will experience a rate decrease. However, net of these adjustments, the increase Niagara Mohawk filed for would cover safety and reliability improvements to the distribution system.

Operation and maintenance (O&M) expenses and the desire to implement adjustment clauses were secondary, but significant, reasons for cases in Q2. O&M expenses played a role in the filings of Avista in Washington, Northern States Power in Wisconsin, and Kentucky Utilities. Avista's filing in Washington also sought to implement an attrition clause designed to save the company from under-earning in the



years new rates are implemented. Narragansett Electric in Rhode Island would like to establish tracking mechanisms for pension expenses and other post-retirement health expenses, property taxes, and supply-related uncollectible expenses.

### *Focus on Illinois*

The Illinois legislature recently passed legislation requiring utilities to enter into formula rate plans and invest in transmission and distribution, among other goals. Ameren Illinois and Commonwealth Edison both made their second filings under the formula rate plan in Q2. Under the plan, Ameren is required to invest \$265 million in electric system upgrades, modernization projects and training facilities and \$360 million in transmission and distribution and Smart Grid upgrades, all over a ten-year period. Over a five-year period, Commonwealth Edison is required to make \$1.3 billion in investments in electric system upgrades and training facilities and another \$1.3 billion over a ten-year period in transmission and distribution and Smart Grid upgrades. The commission will determine the prudence of these investments and reduce allowed ROE if the companies do not meet certain performance metrics.

The formula rate plans reflect the utilities' capital structure (excluding goodwill) and calculate ROE by adding a 580 basis point premium (590 basis points in 2013 only) to the 12-month average 30-year Treasury bond yield. The utilities are allowed to recover pension and pension-related costs and certain incentive compensation expenses. If the actual ROE is over 50 basis points above or below the formula-determined ROE, the company must refund to or collect the difference from customers. The plan terminates if rates increase more than an average of 2.5% per year between 2012 and 2014 or at year-end 2017 if legislation does not extend the plan. The plan also requires Ameren and Commonwealth Electric to contribute a combined \$60 million to fund a low-income and support program for certain customers.

### *Effect of Economy on Filings*

Wisconsin Power and Light filed to freeze electric rates in 2013 and 2014, defer collecting economic development discounts, and remove employee compensation expenses and some operating and maintenance costs, among other actions designed to support economic recovery in its service territory. Northern States Power in Wisconsin filed to reallocate fixed costs formerly assigned to departing wholesale customers.

## **Decided Cases**

### *Rate Mechanisms*

The Hawaii commission allowed Hawaiian Electric Light and Maui Electric to implement purchased power adjustment clauses, decoupling mechanisms, cost-of-service recovery

mechanisms, and earnings sharing mechanisms. The cost-of-service recovery mechanisms recognize, with some limitations, rate base additions, increases in operation and maintenance expenses, and depreciation and amortization expenses between rate cases. The sharing mechanisms require the companies to share with customers 25% of earnings between the allowed ROE and 100 basis points above the allowed ROE, 50% from 100 to 300 basis points above the allowed ROE, and 90% above 300 basis points above the allowed ROE.

A settlement in Public Service Colorado's case in Q2 authorizes a similar sharing mechanism. The authorized ROE is 10%. The settlement requires the company to share with customers 40% of earnings between 10% and 10.2%, 50% of earnings between 10.2% and 10.5%, and to return to customers all earnings over 10.5%.

In Arizona Public Service's case, the commission allowed the company to implement a lost fixed cost recovery mechanism (LFCRM) designed to recover fixed costs lost from energy efficiency programs. Customers can opt out of the LFCRM if they select a higher fixed cost rate structure.

In Washington State, the commission rejected Puget Sound Energy's attempt to initiate a conservation savings adjustment (a limited form of decoupling) that the company hoped would mitigate the effect of customer participation in conservation programs. In rejecting the mechanism, the commission said that the company's "proposed methods for measuring load loss due to conservation and the level of cost under-recovery related to this load are not precise enough" and would result in double recovery of certain lost revenues and annual rate increases.

In Michigan, the commission disallowed a decoupling mechanism proposed by Consumers Energy because the Michigan court of appeals ruled the commission does not have authority to authorize such a mechanism. The commission also found the company-proposed uncollectible true-up mechanism "unnecessary" because a "state statute, which permits the use of forecasted test years and the implementation of significant interim rate increases, mitigates any harm to utilities . . ."

### *Determining ROE*

In the hearings preliminary to the Q2 order in Puget Sound Energy's case in Washington, the commission adopted a 9.8% ROE, well below the company's final proposal of 10.75%. The commission based the decision on analysis by the Industrial Customers of Northwest Utilities (ICNU), which recommended a 9.7% ROE using several variations of the risk premium, capital assets pricing model and discounted cash flow methodologies. The commission determined that a return above the 10.1% ROE awarded to the company in the 2010 rate case was unwarranted because "market conditions and investor confidence have [not] changed sufficiently, or in a manner, that requires any increase, much less the ROE [the



company] seeks. Rather Treasury and utility bond yields have decreased, and interest rates are expected to remain low for some time. Utility stocks enjoy favorable market sentiment in such an environment. There is no apparent need to increase ROE in these circumstances.” In response to the company’s observation that it had under-earned authorized ROE for several years, the commission suggested an attrition adjustment in future cases. Staff recommended an expedited rate case framework. The commission said it would give “fair consideration” to such proposals, particularly proposals that would break the current pattern of almost continual rate cases. The commission said the frequency of rate cases over-taxes all participants, wearies customers and does not serve the public interest. The commission said it is looking for thoughtful solutions.

In Michigan, Consumers Energy argued that its ROE should be comparable to Detroit Edison’s, at 10.5%. The commission ruled otherwise, awarding the company a 10.3% ROE while observing that the companies have different customer bases and service territories, among other differences. In New York, the commission awarded Orange & Rockland Utilities a first-year ROE of 9.4%, a second year ROE of 9.5% and a third year ROE of 9.6%, based on the expectation of an improving economy and higher capital costs.

#### **Rate Parity**

El Paso Electric’s settlement approved in Texas in Q2 expressed the desire to reduce interclass subsidies and reduced residential rates 1%, commercial rates 4.8%, and large commercial and industrial rates between 6% and 6.6%. The New York commission’s order in Orange & Rockland’s case required the company to finish bringing rate classes into parity, which was one-third finished in the previous rate case. The company must complete the second two-thirds of the adjustment in the first two years of the three-year rate plan approved by the order.

#### **Miscellaneous**

Public Service Colorado requested an interim rate increase under Colorado’s new law specifying that the commission has authority to grant such interim increases. However, the commission rejected the company’s request, saying it did not suf-

ficiently demonstrate that the company’s financial well-being depended on the interim increase. The company re-filed, saying that an expiring wholesale power contract occurring at the same time the company was continuing to provide the benefits of the contract to customers would reduce return on equity by 43 basis points in the first half of 2012. The commission rejected this second appeal, saying the company failed to prove that the commission’s previous rejection was flawed or illegal. The commission subsequently allowed deferred accounting treatment of the revenue associated with the expired wholesale power contract in response to a company request.

A settlement in Arizona Public Service’s case in Q2 required the company to establish an experimental rate service rider schedule that will allow third-party providers to provide wholesale power to the company on behalf of large commercial and industrial customers. The company would purchase and manage the generation for a management fee of \$0.0006 per kilowatt-hour. Applicants must aggregate into a 10 MW group and the program is capped at 200 MW. The commission modified the settlement to require that customers who receive incentive payments under renewable energy rules pay a fixed monthly charge. In an assenting opinion (but dissenting on this point), commissioner Sandra Kennedy said that imposing a surcharge on those who install a solar unit “will have a chilling effect on growth of solar in our state.”

In Illinois, the commission issued the first order for Commonwealth Edison under the state’s new formula rate plan. One of the features of the plan is that it provides for the recovery of pension and pension-related costs. However, the order disallowed a return on pension assets, saying that, because the company made the minimum contribution to pension assets, allowing the company a return is apparently not an incentive. The company has subsequently filed for rehearing on this and other matters.

Orange & Rockland’s order in New York, allowing a three-year rate increase, specified that the company may increase the customer charge from \$15.60 to \$18 in year one, to \$19 in year two, and to \$20 in year three. An embedded cost study in 2011 showed that a customer charge of \$21.38 reflects all the company’s fixed costs. ■