

Docket No. UG 325

Staff/210
Muldoon/1

Security Market News

ROE Authorizations in 2016

Slightly Below Those in 2015

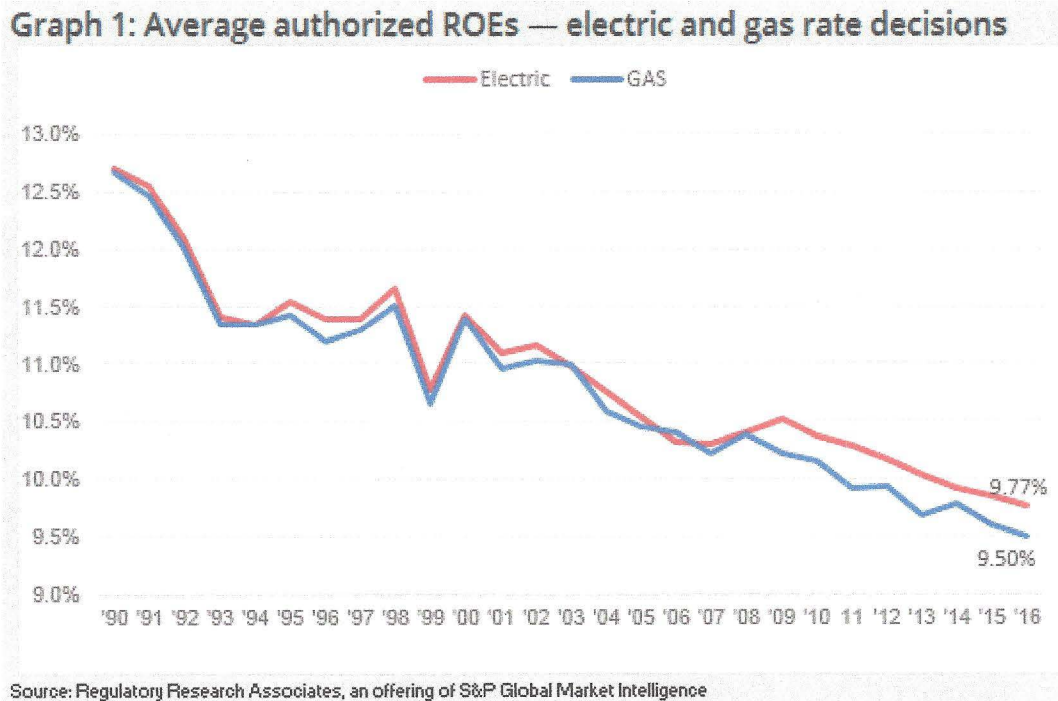
by Dennis Sperduto — Regulatory Research Associates (RRA)

An Affiliate of SNL Financial LC and S&P Global Market Intelligence, Jan. 19, 2017

<https://www.snl.com/web/client?auth=inherit#news/article?id=39089209&KeyProductLinkType=4>

The **average ROE authorized for electric utilities** was 9.77% in rate cases decided in 2016, compared to 9.85% in 2015. There were 42 electric ROE determinations in 2016, versus 30 in 2015. This data includes several **limited issue rider** cases; **excluding** these cases from the data, the average authorized ROE was **9.6% in rate cases decided in 2016, the same as in 2015**. RRA notes that this differential in electric authorized ROEs is largely driven by **Virginia** statutes that authorize the **Virginia State Corporation Commission** to approve **ROE premiums of up to 200 basis points for certain generation projects** (see the **Virginia Commission Profile**). The **average ROE authorized gas utilities was 9.5% in 2016 versus 9.6% in 2015**. There were 24 gas cases that included an ROE determination in 2016, versus 16 in 2015.

This data is included in a study titled "Major Rate Case Decisions — January-December 2016" issued Jan. 18 by Regulatory Research Associates, an offering of S&P Global Market Intelligence.



Docket No. UG 325

Staff/210
Muldoon/2

In the report, RRA notes that since 2010, the number of rate cases has moderated somewhat but has been 90 or more in the last five calendar years. There were 111 electric and gas rate cases resolved in 2016, 92 in 2015, 99 in both 2014 and 2013, and 110 in 2012, and this level of rate case activity remains robust compared to the late 1990s/early 2000s. Increased costs associated with environmental compliance, including possible CO2 reduction mandates, generation and delivery infrastructure upgrades and expansion, renewable generation mandates and employee benefits argue for the continuation of an active rate case agenda over the next few years.

RRA also notes that interest rates have declined significantly since 2008 and average authorized ROEs have declined modestly. In addition, the report notes the increased utilization of limited issue rider proceedings that allow utilities to recover certain costs outside of a general rate case and typically incorporate previously determined return parameters.

If the Federal Reserve continues its policy initiated in December 2015 to gradually raise the federal funds rate, utilities eventually would face higher capital costs and would need to initiate rate cases to reflect the higher capital costs in rates. However, the magnitude and pace of any additional Federal Reserve action to raise the federal funds rate is quite uncertain.

The report compares, since 2006, average authorized ROEs by settled versus fully litigated cases, general rate cases versus limited issues rider proceedings, and vertically integrated cases versus delivery only cases. For both electric and gas cases, no pattern exists in average annual authorized ROEs in cases that were settled versus those that were fully litigated. In some years, the average authorized ROE was higher for fully litigated cases, in others it was higher for settled cases, and in a few years the authorized ROE was similar for fully litigated versus settled cases.

Regarding electric cases that involve limited issue riders, over the last several years the annual average authorized ROEs in these cases was typically at least 100 basis points higher than in general rate cases, driven by the ROE premiums authorized in Virginia. Limited issue rider cases in which an ROE is determined have had extremely limited use in the gas industry.

Comparing electric vertically integrated cases versus delivery only proceedings, RRA finds that the annual average authorized ROEs in vertically integrated cases are from roughly 40 to 70 basis points higher than in delivery only cases, arguably reflecting the increased risk associated with generation assets.

A chronological listing of the major rate case decisions during 2016 is provided in the report, as well as historical summary data going back to 1990.

For a complete, searchable listing of RRA's in-depth research and analysis, please go to the [SNL Research Library](#).

For a full listing of [Past and Pending Rate Cases](#), rate case statistics, and upcoming events, visit [RRA's Home Page](#).