

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES)
COMPANY FOR CERTIFICATES OF PUBLIC)
CONVENIENCE AND NECESSITY AND) CASE NO. 2016-00026
APPROVAL OF ITS 2016 COMPLIANCE PLAN)
FOR RECOVERY BY ENVIRONMENTAL)
SURCHARGE)

NOTICE OF FILING

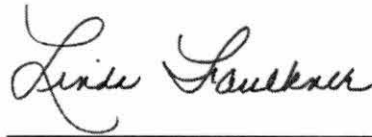
Notice is given to all parties that the following materials have been filed into the record of this proceeding:

- The digital video recording of the evidentiary hearing conducted on June 14, 2016 in this proceeding;
- Certification of the accuracy and correctness of the digital video recording;
- All exhibits introduced at the evidentiary hearing conducted on June 14, 2016 in this proceeding;
- A written log listing, *inter alia*, the date and time of where each witness' testimony begins and ends on the digital video recording of the evidentiary hearing conducted on June 14, 2016.

A copy of this Notice, the certification of the digital video record, hearing log, and exhibits have been electronically served upon all persons listed at the end of this Notice. Parties desiring an electronic copy of the digital video recording of the hearing in Windows Media format may download a copy at http://psc.ky.gov/av_broadcast/2016-00026-and-00027/2016-00026-and-00027_14Jun16_Inter.aspx. Parties wishing an

annotated digital video recording may submit a written request by electronic mail to pscfilings@ky.gov. A minimal fee will be assessed for a copy of this recording.

Done at Frankfort, Kentucky, this 21st day of June 2016.

A handwritten signature in cursive script that reads "Linda Faulkner".

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Director, Filings Division
Public Service Commission of Kentucky

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES)
COMPANY FOR CERTIFICATES OF PUBLIC)
CONVENIENCE AND NECESSITY AND APPROVAL) **CASE NO. 2016-00026**
OF ITS 2016 COMPLIANCE PLAN FOR RECOVERY)
BY ENVIRONMENTAL SURCHARGE)

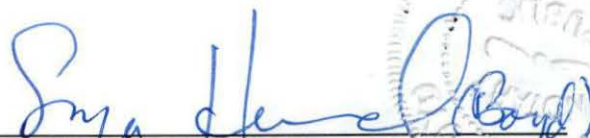
APPLICATION OF LOUISVILLE GAS AND)
ELECTRIC COMPANY FOR CERTIFICATES OF)
PUBLIC CONVENIENCE AND NECESSITY AND) **CASE NO. 2016-00027**
APPROVAL OF ITS 2016 COMPLIANCE PLAN FOR)
RECOVERY BY ENVIRONMENTAL SURCHARGE)


CERTIFICATE

I, Sonya Harward, hereby certify that:

1. The attached DVD contains a digital recording of the Hearing conducted in the above-styled proceeding on June 14, 2016. Hearing Log, Exhibits, Exhibit List, and Witness List are included with the recording on June 14, 2016.
2. I am responsible for the preparation of the digital recording.
3. The digital recording accurately and correctly depicts the Hearing of June 14, 2016.
4. The Exhibit List attached to this Certificate correctly lists all Exhibits introduced at the Hearing of June 14, 2016.
5. The Hearing Log attached to this Certificate accurately and correctly states the events that occurred at the Hearing of June 14, 2016 and the time at which each occurred.

Given this 14th day of June, 2016.


Sonya Harward (Boyd), Notary Public
State at Large
My commission expires: August 27, 2017





Session Report - Detail

2016-00026 and 2016-00027_14June2016

Kentucky Utilities Company and
Louisville Gas and Electric
Company

Date:	Type:	Location:	Department:
6/14/2016	Other	Hearing Room 1	Hearing Room 1 (HR 1)

Judge: Bob Cicero; Dan Logsdon
 Witness: Robert M. Conroy - KU/LG&E
 Clerk: Sonya Harward

Event Time	Log Event
8:36:57 AM	Session Started
8:37:00 AM	Session Paused
8:56:05 AM	Session Resumed
8:56:57 AM	Session Paused
8:56:58 AM	Session Resumed
8:57:00 AM	Vice Chairman Dan Logsdon Introduces the Cases Note: Harward, Sonya 2016-00026, Kentucky Utilities Company ("KU"), and 2016-00027, Louisville Gas & Electric Company ("LG&E")
8:57:27 AM	Vice Chairman Logsdon introduces himself and Commissioner Robert Cicero.
8:57:54 AM	Attys. Kendrick Riggs, Duncan Crosby, and Allyson Sturgeon for KU/LG&E
8:58:12 AM	Atty. Lawrence Cook for Office of the Attorney General
8:58:16 AM	Atty. Michael Kurtz for Kentucky Industrial Utility Customers
8:58:38 AM	Attys. Nancy Vinsel, Quang Nguyen, and Richard Raff for PSC
8:58:49 AM	Public Comments - None Given
8:59:03 AM	Outstanding Motion Note: Harward, Sonya Atty. Riggs comments on a recent filing for deviation regarding two small newspapers failing to publish notice timely - they were a day late. (An Order will be entered to address this motion.)
8:59:58 AM	Pending Motion Note: Harward, Sonya Atty. Riggs comments on the pending motion regarding the filing of the settlement agreement, which is included in the supplemental testimony of Robert Conroy. (The motion is granted.)
9:00:58 AM	Witness Robert Conroy takes the stand and is sworn in. Note: Harward, Sonya Director of Rates for KU/LG&E
9:01:29 AM	Atty. Riggs Direct Exam of Witness Conroy Note: Harward, Sonya Affirms and adopts all of his filed testimony.
9:02:11 AM	Atty. Cook Cross Exam of Witness Conroy Note: Harward, Sonya Referencing Conroy Supplemental Testimony, RMC-3, the top chart, and asks what Group 1 and Group 2 stand for.
9:05:43 AM	Atty. Cook to Witness Conroy Note: Harward, Sonya Still referencing the same chart and asking about various amounts in the chart.
9:06:33 AM	Atty. Cook to Witness Conroy Note: Harward, Sonya Referencing p. 2 of RMC-3, and again asking about Group 1 and Group 2.
9:07:22 AM	Atty. Cook to Witness Conroy Note: Harward, Sonya Asking about the bottom charts in RMC-3 for both LG&E and KU.
9:08:23 AM	Atty. Cook to Witness Conroy Note: Harward, Sonya Asking about these projects having 6-month and 2-year review periods.

9:08:52 AM	Atty. Cook to Witness Conroy Note: Harward, Sonya	Referencing Case Nos. 2011-00161 and 2011-00162, and asking if the projects in these cases are almost complete.
9:09:46 AM	Atty. Cook to Witness Conroy Note: Harward, Sonya	Asking about updates being held quarterly for the projects in Case Nos. 2011-00161 and 2011-00162, and asking if the same updates will be done in the instant cases.
9:11:20 AM	Atty. Vinsel Cross Exam of Witness Conroy Note: Harward, Sonya	Asking if the companies would be willing to continue with the same type of quarterly updates for the projects in the instant cases if requested by the Commission.
9:12:11 AM	Atty. Vinsel to Witness Conroy Note: Harward, Sonya	Asking about the 2016 Compliance Plan.
9:12:46 AM	Atty. Vinsel to Witness Conroy Note: Harward, Sonya	Referencing KRS 278.183, the Environmental Surcharge statute, and discussing the statutes requirement regarding establishing a reasonable rate and reasonable return on compliance-related expenditures.
9:13:25 AM	Atty. Vinsel to Witness Conroy Note: Harward, Sonya	Asking about the request in the instant case for a 10.0 percent return on equity ("ROE").
9:15:42 AM	Atty. Vinsel to Witness Conroy Note: Harward, Sonya	Asking if it is correct that both KU and LG&E, under their capital structures, have about a 52 percent equity.
9:16:17 AM	PSC - Exhibit 1 Note: Harward, Sonya	KU's Environmental Surcharge Report for Expense Month April 2016
9:16:53 AM	PSC - Exhibit 2 Note: Harward, Sonya	LG&E's Environmental Surcharge Report for Expense Month April 2016
9:18:05 AM	Atty. Vinsel to Witness Conroy Note: Harward, Sonya	Asking about the environmental surcharge reports entered in this Hearing as PSC-Exhibits 1 and 2.
9:20:11 AM	PSC - Exhibit 3 Note: Harward, Sonya	Regulatory Research Associates ("RRA"), Regulatory Focus, January 14, 2016
9:21:03 AM	Atty. Vinsel to Witness Conroy Note: Harward, Sonya	Referencing the report entered in this Hearing as PSC-Exhibit 3, p. 1, regarding the average ROE being 9.85 percent.
9:23:10 AM	Atty. Vinsel to Witness Conroy Note: Harward, Sonya	Referencing the report entered in this Hearing as PSC-Exhibit 3, p. 4, regarding the average ROE of 9.91 percent. And pp. 5-6, regarding the breakdown of the ROE in quarters.
9:25:10 AM	PSC - Exhibit 4 Note: Harward, Sonya	Regulatory Research Associates, Regulatory Focus, April 15, 2016
9:25:54 AM	Atty. Vinsel to Witness Conroy Note: Harward, Sonya	Referencing the report entered in this Hearing as PSC-Exhibit 4, p. 1, regarding the average ROE.
9:26:36 AM	Atty. Vinsel to Witness Conroy Note: Harward, Sonya	Referencing the report entered in this Hearing as PSC-Exhibit 4, p. 5, regarding decisions included in determining the average ROE.
9:28:40 AM	Commissioner Cicero Interjects a Question Note: Harward, Sonya	Asking what the 15 percent penalty was for in the ODP case the Witness referenced.

9:29:28 AM	POST HEARING DATA REQUEST Note: Harward, Sonya	Provide a copy of the decision regarding the 15 percent penalty applied to the ROE.
9:29:41 AM	Atty. Vinsel to Witness Conroy Note: Harward, Sonya	Asking if he is aware that the PSC in Kentucky is not able to apply a penalty to the ROE due to quality of service.
9:30:08 AM	Atty. Vinsel to Witness Conroy Note: Harward, Sonya	Again referencing the decisions used to obtain the average ROE in the RRA report.
9:31:06 AM	PSC - Exhibit 5 Note: Harward, Sonya	Regulatory Research Associates, Regulatory Focus, May 13, 2016
9:31:53 AM	Atty. Vinsel to Witness Conroy Note: Harward, Sonya	Referencing the report entered in this Hearing as PSC-Exhibit 5, regarding the request of a 10.25 percent ROE and the granting of a 9.8 percent ROE.
9:32:58 AM	PSC - Exhibit 6 Note: Harward, Sonya	Regulatory Research Associates, SNL Financial, June 3, 2016
9:33:35 AM	Atty. Vinsel to Witness Conroy Note: Harward, Sonya	Referencing the report entered in this Hearing as PSC-Exhibit 6, regarding the 9.75 percent ROE.
9:34:24 AM	Commissioner Cicero Cross Exam of Witness Conroy Note: Harward, Sonya	Asking Witness about the fluctuation of the ROE due to various causes.
9:35:00 AM	Camera Lock PTZ Activated	
9:35:05 AM	Commissioner Cicero to Witness Conroy Note: Harward, Sonya	Comments regarding the bearing of the request and settlement agreement on the Commission's ruling in this case.
9:35:41 AM	Camera Lock Deactivated	
9:35:58 AM	Camera Lock PTZ Activated	
9:36:00 AM	Commissioner Cicero to Witness Conroy Note: Harward, Sonya	Asking about the request for specific exclusions of some plants from the CPCN.
9:36:24 AM	Camera Lock Deactivated	
9:37:09 AM	Atty. Riggs Re-Direct Exam of Witness Conroy Note: Harward, Sonya	Following up about the guaranteed collection of the ROE, as asked by PSC Staff.
9:39:20 AM	Atty. Riggs to Witness Conroy Note: Harward, Sonya	Asking about the general practice of the Commission regarding ROE.
9:40:32 AM	Atty. Riggs to Witness Conroy Note: Harward, Sonya	Asking Witness if the evidence in the last rate case where the 10 percent ROE was grant showed that KU/LG&E has some of the lowest cost debt compared to its peers.
9:41:27 AM	Atty. Riggs to Witness Conroy Note: Harward, Sonya	Referencing the RRA reports entered as PSC - Exhibits 3-6 to this Hearing, and asking the Witness if he has any comments about the quality of the information in these reports.
9:43:05 AM	Atty. Riggs to Witness Conroy Note: Harward, Sonya	Referencing a RRA reports entered as PSC - Exhibit 5, regarding the comparison between a distribution company and companies like KU and LG&E.
9:45:21 AM	Atty. Riggs to Witness Conroy Note: Harward, Sonya	Asking about the reports containing information about other distribution companies.

9:45:55 AM	Atty. Riggs to Witness Conroy Note: Harward, Sonya	Referencing the RRA report entered as PSC - Exhibits 7, p. 5, regarding the decision about KU.
9:48:13 AM	Atty. Riggs to Witness Conroy Note: Harward, Sonya	Referencing the RRA report entered as PSC - Exhibits 7, p. 5, regarding the 9.6 ROE decision for Virginia Electric Power Company.
9:49:22 AM	Atty. Riggs to Witness Conroy Note: Harward, Sonya	Asking if the Witness believes that RRA reports should be used solely to determine the ROE for KU/LG&E.
9:50:20 AM	Atty. Riggs to Witness Conroy Note: Harward, Sonya	Asking about the Commission following the 10 percent ROE granted in recent the KU/LG&E cases.
9:51:57 AM	Atty. Riggs to Witness Conroy Note: Harward, Sonya	Asking for Witness's opinion about expert testimony from previous rate cases being used to determine ROE.
9:53:45 AM	Atty. Riggs to Witness Conroy Note: Harward, Sonya	Asking about the history of settlement agreements being reached in KU/LG&E cases over the last 10-15 years.
9:55:46 AM	Atty. Riggs to Witness Conroy Note: Harward, Sonya	Asking about the prior practices of the Commission regarding settlement agreements.
9:56:52 AM	Atty. Riggs to Witness Conroy Note: Harward, Sonya	Asking how RRA rates the PSC.
9:59:32 AM	Atty. Riggs to Witness Conroy Note: Harward, Sonya	Asking Witness who the beneficiaries are if there is a lower return on capital.
10:00:07 AM	Atty. Vinsel - Request for Short Recess	
10:00:55 AM	Session Paused	
10:02:00 AM	Session Resumed	
10:02:08 AM	Atty. Vinsel Re-Cross Exam of Witness Conroy Note: Harward, Sonya	Referencing KRS 278.183, Section 3, regarding surcharge amounts.
10:04:17 AM	Atty. Vinsel to Witness Conroy Note: Harward, Sonya	Asking about an decision of the Virginia Commission regarding a 9.6 ROE.
10:04:47 AM	Atty. Riggs - Interjection Note: Harward, Sonya	Asked that the question be clarified to determine which company is being discussed.
10:05:08 AM	Atty. Vinsel to Witness Conroy Note: Harward, Sonya	Clarified her question.
10:05:56 AM	Commissioner Cicero Re-Cross Exam of Witness Conroy Note: Harward, Sonya	Asking about the current average long-term debt rate.
10:06:44 AM	Commissioner Cicero to Witness Conroy Note: Harward, Sonya	Asking about the cost of capital calculation, which is the basis for determining the ROE, and its fluctuation.
10:08:52 AM	POST HEARING DATA REQUEST Note: Harward, Sonya	Provide historical data references for the ROE used in the ECR mechanism in the past.
10:09:17 AM	Atty. Riggs Re-Direct Exam of Witness Conroy Note: Harward, Sonya	Asking follow-up questions about PSC Staff's reference to KRS 278.183, Section 3.
10:11:51 AM	Atty. Riggs to Witness Conroy Note: Harward, Sonya	Asking follow-up questions about the 9.6 percent ROE granted by the Virginia Commission.

10:12:32 AM Atty. Riggs to Witness Conroy
Note: Harward, Sonya Asking about the Commission making a decision based on the RRA reports rather than decisions made in previous cases by this Commission.

10:14:27 AM Witness Conroy dismissed from the stand.

10:14:48 AM Atty. Cook Comments
Note: Harward, Sonya AG has not signed off on the settlement agreement and does not feel he is able to swear to the agreement at this time.

10:15:16 AM Atty. Riggs - Response to Atty. Cook's Statements

10:15:49 AM Brief Recess

10:16:02 AM Session Paused

10:18:36 AM Session Resumed

10:18:38 AM Vice Chairman Logsdon - Swears Parties to Settlement Agreement
Note: Harward, Sonya Attys. Riggs, Sturgeon, Crosby, and Kurtz stand and are sworn to the agreement.

10:19:09 AM Camera Lock PTZ Activated

10:19:40 AM Camera Lock Deactivated

10:19:48 AM POST HEARING DATA REQUESTS due June 21, 2016

10:20:33 AM POST HEARING BRIEFS due by June 28, 2016

10:21:05 AM Hearing Adjourned

10:21:15 AM Session Paused

10:22:42 AM Session Ended



Exhibit List Report

2016-00026 and 2016-00027_14June2016

Kentucky Utilities Company and
Louisville Gas and Electric
Company

Name:	Description:
PSC - Exhibit 1	KU's Environmental Surcharge Report for Expense Month April 2016
PSC - Exhibit 2	LG&E's Environmental Surcharge Report for Expense Month April 2016
PSC - Exhibit 3	Regulatory Research Associates, Regulatory Focus, January 14, 2016
PSC - Exhibit 4	Regulatory Research Associates, Regulatory Focus, April 15, 2016
PSC - Exhibit 5	Regulatory Research Associates, Regulatory Focus, May 13, 2016
PSC - Exhibit 6	Regulatory Research Associates, SNL Financial, June 3, 2016

**KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

Calculation of Total E(m) and
Jurisdictional Surcharge Billing Factor

For the Expense Month of April 2016

Calculation of Total E(m)

$E(m) = [(RB / 12) (ROR + (ROR - DR)(TR / (1 - TR)))] + OE - BAS + BR$, where

RB = Environmental Compliance Rate Base
ROR = Rate of Return on the Environmental Compliance Rate Base
DR = Debt Rate (both short-term and long-term debt)
TR = Composite Federal & State Income Tax Rate
OE = Pollution Control Operating Expenses
BAS = Total Proceeds from By-Product and Allowance Sales
BR = Beneficial Reuse Operating Expenses

		Environmental Compliance Plans	
(1)	RB	= \$	1,061,081,505
(2)	RB / 12	= \$	88,423,459
(3)	$(ROR + (ROR - DR) (TR / (1 - TR)))$	=	10.30%
(4)	OE	= \$	3,859,656
(5)	BAS	= \$	-
(6)	BR	= \$	11,304
(7)	E(m) $(2) \times (3) + (4) - (5) + (6)$	= \$	12,978,576

Calculation of Adjusted Net Jurisdictional E(m)

(8)	Jurisdictional Allocation Ratio for Expense Month – ES Form 3.10	=	87.77%
(9)	Jurisdictional E(m) = Total E(m) x Jurisdictional Allocation Ratio [(7) x (8)]	= \$	11,391,296
(10)	Adjustment for (Over)/Under-collection pursuant to Case No. 2015-00411	= \$	654,866
(11)	Prior Period Adjustment (if necessary)	= \$	-
(12)	Revenue Collected through Base Rates	= \$	7,982,713
(13)	Adjusted Net Jurisdictional E(m) [(9) + (10) + (11) - (12)]	= \$	4,063,449

Calculation of Group Environmental Surcharge Billing Factors

		<u>GROUP 1 (Total Revenue)</u>		<u>GROUP 2 (Net Revenue)</u>	
(14)	Revenue as a Percentage of 12-month Total Revenue ending with the Current Month – ES Form 3.00	=	40.21%		59.79%
(15)	Group E(m) [(13) x (14)]	= \$	1,633,913	\$	2,429,536
(16)	Group R(m) = Average Monthly Group Revenue for the 12 Months Ending with the Current Expense Month – ES Form 3.00	= \$	47,553,930	\$	45,264,681
(17)	Group Environmental Surcharge Billing Factors [(15) + (16)]	=	3.44%		5.37%

**LOUISVILLE GAS AND ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

Calculation of Total E(m) and
Group Surcharge Billing Factors

For the Expense Month of April 2016

Calculation of Total E(m)

$E(m) = [(RB / 12) (ROR + (ROR - DR)(TR / (1 - TR)))] + OE - BAS + BR$, where

RB = Environmental Compliance Rate Base
ROR = Rate of Return on the Environmental Compliance Rate Base
DR = Debt Rate (both short-term and long-term debt)
TR = Composite Federal & State Income Tax Rate
OE = Pollution Control Operating Expenses
BAS = Total Proceeds from By-Product and Allowance Sales
BR = Beneficial Reuse Operating Expenses

		Environmental Compliance Plans	
(1) RB	= \$	940,280,509	
(2) RB / 12	= \$	78,356,709	
(3) $(ROR + (ROR - DR)(TR / (1 - TR)))$	=	10.10%	
(4) OE	= \$	2,018,643	
(5) BAS	= \$	0	
(6) BR	= \$	49,043	
(7) E(m)	$(2) \times (3) + (4) - (5) + (6)$	= \$	9,981,713

Calculation of Adjusted Net Jurisdictional E(m)

(8) Jurisdictional Allocation Ratio for Expense Month – ES Form 3.10	=	95.25%
(9) Jurisdictional E(m) = Total E(m) x Jurisdictional Allocation Ratio [(7) x (8)]	= \$	9,507,582
(10) Adjustment for (Over)/Under-collection pursuant to Case No. 2015-00412	= \$	(567,402)
(11) Prior Period Adjustment (if necessary)	= \$	-
(12) Revenue Collected through Base Rates	= \$	5,282,703
(13) Adjusted Net Jurisdictional E(m) [(9) + (10) + (11) - (12)]	= \$	3,657,477

Calculation of Group Environmental Surcharge Billing Factors

		<u>GROUP 1 (Total Revenue)</u>	<u>GROUP 2 (Net Revenue)</u>
(14) Revenue as a Percentage of 12-month Total Revenue ending with the Current Month – ES Form 3.00	=	41.12%	58.88%
(15) Group E(m) [(13) x (14)]	= \$	1,503,955	\$ 2,153,522
(16) Group R(m) = Average Monthly Group Revenue for the 12 Months Ending with the Current Expense Month – ES Form 3.00	= \$	33,974,824	\$ 31,464,153
(17) Group Environmental Surcharge Billing Factors [(15) ÷ (16)]	=	4.43%	6.84%

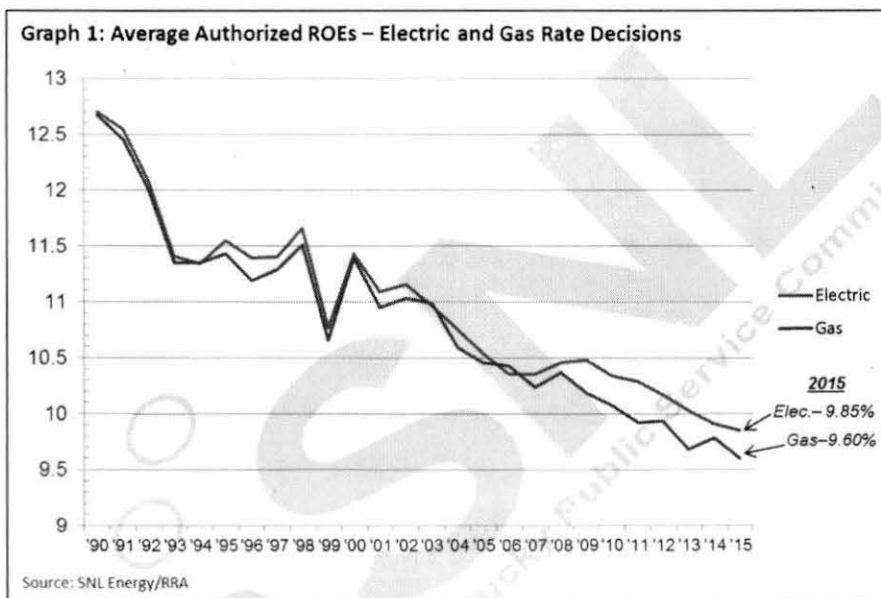


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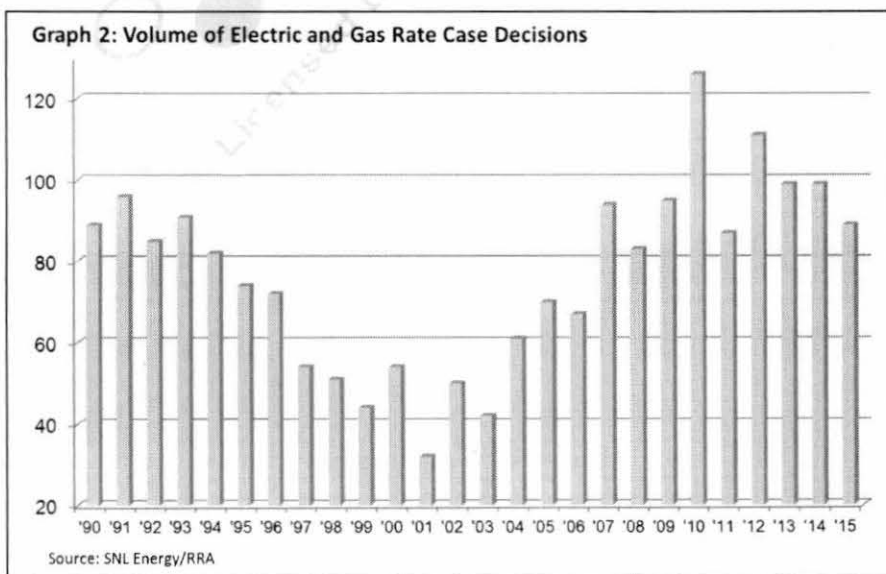
January 14, 2016

MAJOR RATE CASE DECISIONS--CALENDAR 2015

The average return on equity (ROE) authorized electric utilities was 9.85% in 2015, compared to 9.91% in 2014. There were 30 electric ROE determinations in 2015, versus 38 in 2014. We note that the data includes several surcharge/rider generation cases in Virginia that incorporate plant-specific ROE premiums. Virginia statutes authorize the State Corporation Commission to approve ROE premiums of up to 200 basis points for certain generation projects (see the [Virginia Commission Profile](#)). Excluding these Virginia surcharge/rider generation cases from the data, the average authorized electric ROE was 9.58% in 2015 compared to 9.76% in 2014. The average ROE authorized gas utilities was 9.6% in 2015 compared to 9.78% in 2014. There were 16 gas cases that included an ROE determination in 2015, versus 26 in 2014. The 2014 averages do not include a Feb. 20, 2014 New York Public Service Commission steam rate decision for Consolidated Edison Co. of New York that adopted a 9.3% ROE.



As shown in Graph 2 below, after reaching a low in the early-2000s, the number of rate case decisions for energy companies has generally increased over the last several years, peaking in 2010 at more than 125 cases.



Since 2010, the number of cases has moderated somewhat but has approximated 90 or more in the last five calendar years. There were 89 electric and gas rate cases resolved in 2015, 99 in both 2014 and 2013, 110 in 2012, and 86 in 2011. The number of rate cases decided in 2015 declined slightly from the level of activity in 2014, but this level remains robust compared to the late-1990s/early-2000s. Increased costs for environmental compliance (including the 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. In addition, 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.

We note that this report utilizes the simple mean for the return averages. In addition, the average equity returns indicated in this report reflect the cases decided in the specified time periods and are not necessarily representative of the returns actually earned by utilities industry wide.

As a result of electric industry restructuring, certain states unbundled electric rates and implemented retail competition for generation. Commissions in those states now have jurisdiction only over the revenue requirement and return parameters for delivery operations (which we footnote in our chronology beginning on page 5), thus complicating historical data comparability. We note that since 2008, interest rates declined significantly, and average authorized ROEs have declined modestly. We also note 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.

The table on page 3 shows the average ROE authorized in major electric and gas rate decisions annually since 1990, and by quarter since 2011, followed by the number of observations in each period. The tables on page 4 indicate the composite electric and gas industry data for all major cases summarized annually since 2001 and by quarter for the past eight quarters. The individual electric and gas cases decided in 2015 are listed on pages 5-9, with the decision date shown first, followed by the company name, the abbreviation for the state issuing the decision, the authorized rate of return (ROR), ROE, and percentage of common equity in the adopted capital structure. Next we indicate the month and year in which the adopted test year ended, whether the commission utilized an average or a year-end rate base, and the amount of the permanent rate change authorized. The dollar amounts represent the permanent rate change ordered at the time decisions were rendered. Fuel adjustment clause rate changes are not reflected in this study.

The table below tracks the average equity return authorized for all electric and gas rate cases combined, by year, for the last 26 years. As the table indicates, since 1990 the authorized ROEs have generally trended downward, reflecting the significant decline in interest rates and capital costs that has occurred over this time frame. The combined average equity returns authorized for electric and gas utilities in each of the years 1990 through 2015, and the number of observations for each year are as follows:

1990	12.69%	(75)	2003	10.98%	(47)
1991	12.51	(80)	2004	10.67	(39)
1992	12.06	(77)	2005	10.50	(55)
1993	11.37	(77)	2006	10.39	(42)
1994	11.34	(59)	2007	10.30	(76)
1995	11.51	(49)	2008	10.42	(67)
1996	11.29	(42)	2009	10.36	(68)
1997	11.34	(24)	2010	10.28	(100)
1998	11.59	(20)	2011	10.21	(59)
1999	10.74	(29)	2012	10.08	(93)
2000	11.41	(24)	2013	9.92	(71)
2001	11.05	(25)	2014	9.86	(63)
2002	11.10	(43)	2015	9.76	(46)

Please note: Historical data provided in this report may not match data provided on RRA's website due to certain differences in presentation.

Dennis Spurduto

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Average Equity Returns Authorized January 1990 - December 2015

Year	Period	Electric Utilities		Gas Utilities	
		ROE %	(# Cases)	ROE %	(# Cases)
1990	Full Year	12.70	(44)	12.67	(31)
1991	Full Year	12.55	(45)	12.46	(35)
1992	Full Year	12.09	(48)	12.01	(29)
1993	Full Year	11.41	(32)	11.35	(45)
1994	Full Year	11.34	(31)	11.35	(28)
1995	Full Year	11.55	(33)	11.43	(16)
1996	Full Year	11.39	(22)	11.19	(20)
1997	Full Year	11.40	(11)	11.29	(13)
1998	Full Year	11.66	(10)	11.51	(10)
1999	Full Year	10.77	(20)	10.66	(9)
2000	Full Year	11.43	(12)	11.39	(12)
2001	Full Year	11.09	(18)	10.95	(7)
2002	Full Year	11.16	(22)	11.03	(21)
2003	Full Year	10.97	(22)	10.99	(25)
2004	Full Year	10.75	(19)	10.59	(20)
2005	Full Year	10.54	(29)	10.46	(26)
2006	Full Year	10.36	(26)	10.43	(16)
2007	Full Year	10.36	(39)	10.24	(37)
2008	Full Year	10.46	(37)	10.37	(30)
2009	Full Year	10.48	(39)	10.19	(29)
2010	Full Year	10.37	(61)	10.15	(39)
	1st Quarter	10.32	(13)	10.10	(5)
	2nd Quarter	10.12	(10)	9.88	(5)
	3rd Quarter	10.36	(8)	9.65	(2)
	4th Quarter	10.34	(11)	9.88	(4)
2011	Full Year	10.29	(42)	9.92	(16)
	1st Quarter	10.84	(12)	9.63	(5)
	2nd Quarter	9.92	(13)	9.83	(8)
	3rd Quarter	9.78	(8)	9.75	(1)
	4th Quarter	10.10	(25)	10.07	(21)
2012	Full Year	10.17	(58)	9.94	(35)
	1st Quarter	10.28	(14)	9.57	(3)
	2nd Quarter	9.84	(7)	9.47	(6)
	3rd Quarter	10.06	(7)	9.60	(1)
	4th Quarter	9.91	(21)	9.83	(11)
2013	Full Year	10.03	(49)	9.68	(21)
	1st Quarter	10.23	(8)	9.54	(6)
	2nd Quarter	9.83	(5)	9.84	(8)
	3rd Quarter	9.87	(12)	9.45	(6)
	4th Quarter	9.78	(13)	10.28	(6)
2014	Full Year	9.91	(38)	9.78	(26)
	1st Quarter	10.37	(9)	9.47	(3)
	2nd Quarter	9.73	(7)	9.43	(3)
	3rd Quarter	9.40	(2)	9.75	(1)
	4th Quarter	9.62	(12)	9.68	(9)
2015	Year-to-Date	9.85	(30)	9.60	(16)

Electric Utilities--Summary Table

Period	ROR % (# Cases)	ROE % (# Cases)	Eq. as %		Amt.	
			Cap. Struc. (# Cases)		\$ Mil. (# Cases)	
2001	Full Year	8.93 (15)	11.09 (18)	47.20 (13)		14.2 (21)
2002	Full Year	8.72 (20)	11.16 (22)	46.27 (19)		-475.4 (24)
2003	Full Year	8.86 (20)	10.97 (22)	49.41 (19)		313.8 (12)
2004	Full Year	8.44 (18)	10.75 (19)	46.84 (17)		1,091.5 (30)
2005	Full Year	8.30 (26)	10.54 (29)	46.73 (27)		1,373.7 (36)
2006	Full Year	8.24 (24)	10.36 (26)	48.67 (23)		1,465.0 (42)
2007	Full Year	8.22 (38)	10.36 (39)	48.01 (37)		1,401.9 (46)
2008	Full Year	8.25 (35)	10.46 (37)	48.41 (33)		2,899.4 (42)
2009	Full Year	8.23 (38)	10.48 (39)	48.61 (37)		4,192.3 (58)
2010	Full Year	7.99 (59)	10.37 (61)	48.45 (54)		5,567.7 (77)
2011	Full Year	8.00 (43)	10.29 (42)	48.26 (42)		2,853.5 (55)
2012	Full Year	7.95 (51)	10.17 (58)	50.55 (52)		3,131.5 (69)
2013	Full Year	7.66 (45)	10.03 (49)	49.25 (43)		3,326.6 (61)
	1st Quarter	7.71 (6)	10.23 (8)	51.08 (8)		251.4 (9)
	2nd Quarter	7.77 (2)	9.83 (5)	49.12 (4)		92.5 (6)
	3rd Quarter	7.55 (11)	9.87 (12)	50.12 (11)		651.5 (16)
	4th Quarter	7.56 (13)	9.78 (13)	50.29 (12)		1,058.4 (20)
2014	Full Year	7.60 (32)	9.91 (38)	50.28 (35)		2,053.8 (51)
	1st Quarter	7.74 (10)	10.37 (9)	51.91 (9)		203.7 (11)
	2nd Quarter	7.04 (9)	9.73 (7)	47.83 (6)		819.4 (16)
	3rd Quarter	7.85 (3)	9.40 (2)	51.08 (3)		379.6 (5)
	4th Quarter	7.22 (13)	9.62 (12)	48.24 (12)		484.3 (19)
2015	Year-To-Date	7.38 (35)	9.85 (30)	49.54 (30)		1,887.0 (51)

Gas Utilities--Summary Table

Period	ROR % (# Cases)	ROE % (# Cases)	Eq. as %		Amt.	
			Cap. Struc. (# Cases)		\$ Mil. (# Cases)	
2001	Full Year	8.51 (6)	10.95 (7)	43.96 (5)		114.0 (11)
2002	Full Year	8.80 (20)	11.03 (21)	48.29 (18)		303.6 (26)
2003	Full Year	8.75 (22)	10.99 (25)	49.93 (22)		260.1 (30)
2004	Full Year	8.34 (21)	10.59 (20)	45.90 (20)		303.5 (31)
2005	Full Year	8.25 (29)	10.46 (26)	48.66 (24)		458.4 (34)
2006	Full Year	8.51 (16)	10.43 (16)	47.43 (16)		444.0 (25)
2007	Full Year	8.12 (32)	10.24 (37)	48.37 (30)		813.4 (48)
2008	Full Year	8.48 (30)	10.37 (30)	50.47 (30)		884.8 (41)
2009	Full Year	8.15 (28)	10.19 (29)	48.72 (28)		475.0 (37)
2010	Full Year	7.95 (38)	10.15 (39)	48.56 (38)		816.7 (50)
2011	Full Year	8.09 (18)	9.92 (16)	52.49 (14)		436.3 (31)
2012	Full Year	7.98 (30)	9.94 (35)	51.13 (32)		263.9 (41)
2013	Full Year	7.39 (20)	9.68 (21)	50.60 (20)		494.9 (38)
	1st Quarter	7.67 (6)	9.54 (6)	51.14 (6)		22.2 (9)
	2nd Quarter	7.74 (7)	9.84 (8)	52.12 (8)		62.2 (12)
	3rd Quarter	7.24 (7)	9.45 (6)	48.68 (7)		329.1 (11)
	4th Quarter	7.97 (7)	10.28 (6)	52.35 (7)		115.5 (16)
2014	Full Year	7.65 (27)	9.78 (26)	51.11 (28)		529.0 (48)
	1st Quarter	6.41 (2)	9.47 (3)	50.41 (2)		168.7 (9)
	2nd Quarter	7.29 (3)	9.43 (3)	50.71 (3)		34.9 (8)
	3rd Quarter	7.35 (1)	9.75 (1)	42.01 (1)		103.9 (8)
	4th Quarter	7.54 (10)	9.68 (9)	50.40 (10)		180.1 (13)
2015	Year-To-Date	7.34 (16)	9.60 (16)	49.93 (16)		487.6 (38)

ELECTRIC UTILITY DECISIONS

<u>Date</u>	<u>Company (State)</u>	<u>ROR</u> <u>%</u>	<u>ROE</u> <u>%</u>	<u>Common</u> <u>Eq. as %</u> <u>Cap. Str.</u>	<u>Test Year</u> <u>&</u> <u>Rate Base</u>	<u>Amt.</u> <u>\$ Mil.</u>
1/23/15	PacifiCorp (WY)	7.41	9.50	51.43	6/15-A	20.2
2/4/15	Monongahela Power/Potomac Ed. (WV)	--	--	--	12/13	124.3 (B,1)
2/18/15	Virginia Electric and Power (VA)	7.88	11.00	52.03	3/16-A	36.9 (LIR,B,2)
2/24/15	Public Service Co. of Colorado (CO)	7.55	9.83	56.00	12/13-YE	-39.4 (I,B)
3/2/15	Black Hills Power (SD)	7.76	--	--	9/13-A	6.9 (I,B)
3/12/15	Virginia Electric and Power (VA)	8.40	12.00	52.03	3/16-A	-6.4 (LIR,B,3)
3/12/15	Virginia Electric and Power (VA)	7.88	11.00	52.03	3/16-A	11.4 (LIR,B,4)
3/12/15	Virginia Electric and Power (VA)	7.88	11.00	52.03	3/16-A	5.8 (LIR,B,5)
3/18/15	Jersey Central Power & Light (NJ)	8.01	9.75	50.00 (Hy)	12/11-YE	-115.0 (D)
3/25/15	PacifiCorp (WA)	7.30	9.50	49.10 (Hy)	12/13-A	9.6
3/26/15	Northern States Power-Minnesota (MN)	7.37	9.72	52.50	12/14-A	149.4 (R,I,Z)
2015	1ST QUARTER: AVERAGES/TOTAL OBSERVATIONS	7.74 10	10.37 9	51.91 9		203.7 11
4/9/15	Metropolitan Edison (PA)	--	--	--	4/16	105.7 (D,B)
4/9/15	Pennsylvania Electric (PA)	--	--	--	4/16	107.8 (D,B)
4/9/15	Pennsylvania Power (PA)	--	--	--	4/16	25.5 (D,B)
4/9/15	West Penn Power (PA)	--	--	--	4/16	95.2 (D,B)
4/14/15	Public Service Oklahoma (OK)	7.63	--	--	7/13-YE	-4.8 (I,B)
4/21/15	Virginia Electric & Power (VA)	7.88	11.00	52.03	8/16-A	60.5 (LIR,Z,B,6)
4/23/15	Wisconsin Public Service (MI)	6.01	10.20	--	12/15	4.0 (Z,B)
4/29/15	Union Electric (MO)	7.60	9.53	51.76	3/14-YE	121.5
5/1/15	Cross Texas Transmission (TX)	6.11	9.60	40.00	9/14-YE	30.9 (B,D,7)
5/26/15	Appalachian Pow./Wheeling Pow. (WV)	7.38	9.75	47.16	12/13-A	123.5
6/15/15	Northern States Power-Minnesota (SD)	7.22	--	--	12/13-A	15.2 (I,B)
6/17/15	Central Hudson Gas & Electric (NY)	6.62	9.00	48.00	6/16-A	15.3 (D,B,8)
6/17/15	Consolidated Edison of New York (NY)	6.91	9.00	48.00	12/16-A	-- (D,B,9)
6/22/15	Kentucky Power (KY)	--	--	--	9/14	-23.0 (B)
6/24/15	Empire District Electric (MO)	--	--	--	4/14	17.1 (B)
6/30/15	Kentucky Utilities (KY)	--	--	--	6/16	125.0 (B)
6/30/15	Louisville Gas & Electric (KY)	--	--	--	6/16	0.0 (B)
2015	2ND QUARTER: AVERAGES/TOTAL OBSERVATIONS	7.04 9	9.73 7	47.83 6		819.4 16
7/7/15	Mississippi Power (MS)	--	--	--	--	0.0 (LIR,10)
7/20/15	Entergy Texas (TX)	--	--	--	--	-- (11)
9/2/15	Kansas City Power & Light (MO)	7.53	9.50	50.09	3/14-YE	89.7 (12)
9/10/15	Kansas City Power & Light (KS)	7.44	9.30	50.48	6/14-YE	40.1 (12)
9/23/15	South Carolina Electric & Gas (SC)	8.57	--	52.66	6/15-YE	64.5 (LIR,13)
9/24/15	Westar Energy (KS)	--	--	--	9/14	185.3 (B)
2015	3RD QUARTER: AVERAGES/TOTAL OBSERVATIONS	7.85 3	9.40 2	51.08 3		379.6 5

ELECTRIC UTILITY DECISIONS (continued)

<u>Date</u>	<u>Company (State)</u>	<u>ROR</u> <u>%</u>	<u>ROE</u> <u>%</u>	<u>Common</u> <u>Eq. as %</u> <u>Cap. Str.</u>	<u>Test Year</u> <u>&</u> <u>Rate Base</u>	<u>Amt.</u> <u>\$ Mil.</u>
10/15/15	Orange & Rockland Utilities (NY)	7.10	9.00	48.00	10/16-A	9.3 (B,D,14)
10/29/15	NorthWestern Corp. (SD)	7.24	--	--	9/14-A	40.7 (I,B)
11/5/15	Southern California Edison (CA)	--	--	--	12/15-A	-450.4 (Z)
11/19/15	Consumers Energy (MI)	6.18	10.30	41.50 *	5/16-A	126.4 (I,Z)
11/19/15	PPL Electric Utilities (PA)	--	--	--	12/16	124.0 (D,B)
11/19/15	Wisconsin Public Service (WI)	8.24	10.00	50.47	12/16-A	-7.9
11/23/15	Virginia Electric and Power (VA)	--	--	--	12/14	0.0 (15)
12/3/15	Mississippi Power (MS)	6.68	9.23	49.73	5/16-A	126.1 (LIR,I,B)
12/3/15	Northern States Power-Wisconsin (WI)	7.81	10.00	52.49	12/16-A	7.6
12/9/15	Ameren Illinois (IL)	7.65	9.14	50.00	12/14-YE	95.1 (D)
12/9/15	Commonwealth Edison (IL)	7.05	9.14	46.25	12/14-YE	-65.5 (D)
12/11/15	DTE Electric (MI)	5.70	10.30	38.03 *	6/16-A	238.2 (I)
12/15/15	Portland General Electric (OR)	7.51	9.60	50.00	12/16-A	70.4 (B,16)
12/17/15	PECO Energy (PA)	--	--	--	12/16	127.0 (D,B)
12/17/15	Southwestern Public Service (TX)	7.88	9.70	51.00 (Hy)	6/14-YE	-4.0
12/18/15	Avista Corp. (ID)	7.42	9.50	50.00	12/14-A	1.7 (B)
12/22/15	Georgia Power (GA)	--	--	--	12/16	19.1 (LIR,17)
12/23/15	PacifiCorp (ID)	--	--	--	--	10.2 (LIR,18)
12/30/15	PacifiCorp (WY)	7.40	9.50	51.44	12/15-A	16.3 (R)
2015	4TH QUARTER: AVERAGES/TOTAL	7.22	9.62	48.24		484.3
	OBSERVATIONS	13	12	12		19
2015	YEAR-TO-DATE: AVERAGES/TOTAL	7.38	9.85	49.54		1,887.0
	OBSERVATIONS	35	30	30		51

GAS UTILITY DECISIONS

<u>Date</u>	<u>Company (State)</u>	<u>ROR</u> <u>%</u>	<u>ROE</u> <u>%</u>	<u>Common</u> <u>Eq. as %</u> <u>Cap. Str.</u>	<u>Test Year</u> <u>&</u> <u>Rate Base</u>	<u>Amt.</u> <u>\$ Mil.</u>
1/13/15	Consumers Energy (MI)	--	10.30	--	12/15	45.0 (I,B)
1/14/15	Indiana Gas (IN)	--	--	--	6/14-YE	5.7 (LIR,19)
1/14/15	Southern Indiana Gas & Electric (IN)	--	--	--	6/14-YE	1.5 (LIR,19)
1/21/15	North Shore Gas (IL)	6.26	9.05	50.48	12/15-A	3.5 (R)
1/21/15	Peoples Gas Light & Coke (IL)	6.56	9.05	50.33	12/15-A	71.1 (R)
1/26/15	Piedmont Natural Gas (NC)	--	--	--	10/14	26.6 (LIR,20)
1/27/15	Atmos Energy (KS)	--	--	--	9/14-YE	0.3 (LIR,21)
1/27/15	Northern States Power-Minnesota (MN)	--	--	--	12/15	14.7 (LIR,22)
1/28/15	Northern Indiana Public Service (IN)	--	--	--	6/14-YE	0.3 (LIR,23)
2015	1ST QUARTER: AVERAGES/TOTAL OBSERVATIONS	6.41 2	9.47 3	50.41 2		168.7 9
4/7/15	Delta Natural Gas (KY)	--	--	--	12/14-YE	1.3 (LIR,24)
4/9/15	Avista Corporation (OR)	7.52	9.50	51.00	12/15-A	5.3 (B)
5/11/15	Atmos Energy (TN)	7.73	9.80	53.13	5/16-A	0.7 (B)
5/13/15	Missouri Gas Energy (MO)	--	--	--	2/15-YE	2.8 (LIR,25)
5/20/15	Laclede Gas (MO)	--	--	--	2/15-YE	5.5 (LIR,25)
6/17/15	Central Hudson Gas & Electric (NY)	6.62	9.00	48.00	6/16-A	1.8 (B,26)
6/26/15	Liberty Utilities EnergyNorth (NH)	--	--	--	3/14	10.5 (I,B,27)
6/30/15	Louisville Gas & Electric (KY)	--	--	--	6/16	7.0 (B)
2015	2ND QUARTER: AVERAGES/TOTAL OBSERVATIONS	7.29 3	9.43 3	50.71 3		34.9 8
7/22/15	Indiana Gas (IN)	--	--	--	12/14-YE	5.5 (LIR,19)
7/22/15	Southern Indiana Gas & Electric (IN)	--	--	--	12/14-YE	3.2 (LIR,19)
7/28/15	Atmos Energy (TX)	--	--	--	12/14-YE	52.6 (I,B,28)
8/21/15	Columbia Gas of Virginia (VA)	7.35	9.75	42.01	12/13	25.2 (I,B)
8/25/15	CenterPoint Energy Resources (TX)	--	--	--	9/14	4.9 (B)
9/16/15	Liberty Utilities (Midstates N.G.) (MO)	--	--	--	5/15	0.3 (LIR,29)
9/23/15	Atmos Energy (KY)	--	--	--	9/16-YE	3.8 (LIR,24)
9/29/15	ENSTAR Natural Gas (AK)	--	--	--	12/14	8.4 (I,B,Z)
2015	3RD QUARTER: AVERAGES/TOTAL OBSERVATIONS	7.35 1	9.75 1	42.01 1		103.9 8

GAS UTILITY DECISIONS (continued)

Date	Company (State)	ROR %	ROE %	Common Eq. as % Cap. Str.	Test Year & Rate Base	Amt. \$ Mil.
10/7/15	Bay State Gas (MA)	7.75	9.55	53.54	12/14-YE	32.8 (B,30)
10/13/15	Mountaineer Gas (WV)	7.96 (E)	9.75	45.50 (E)	9/14-A	7.7 (B,31)
10/15/15	Orange and Rockland Utilities (NY)	7.10	9.00	48.00	10/16-A	27.5 (B,32)
10/30/15	NSTAR Gas (MA)	7.72	9.80	52.10	12/13-YE	15.8
11/4/15	CenterPoint Energy Resources (OK)	8.64	--	49.86	12/14-YE	0.9 (33)
11/5/15	Kansas Gas Service (KS)	--	--	--	6/15-YE	2.5 (21)
11/19/15	Wisconsin Public Service (WI)	7.80	10.00	50.47	12/16-A	-6.2
12/1/15	Piedmont Natural Gas (NC)	--	--	--	9/15	16.5 (LIR,20)
12/3/15	Columbia Gas of Pennsylvania (PA)	--	--	--	12/16	28.0 (B)
12/3/15	Northern States Power-Wisconsin (WI)	7.81	10.00	52.49	12/16-A	4.2
12/9/15	Ameren Illinois (IL)	7.65 (B)	9.60 (B)	50.00 (B)	12/16-A	44.5
12/11/15	Michigan Gas Utilities (MI)	5.51	9.90	52.00	12/16	3.4 (B)
12/18/15	Avista Corp. (ID)	7.42	9.50	50.00	12/14-A	2.5 (B)
2015	4TH QUARTER: AVERAGES/TOTAL OBSERVATIONS	7.54 10	9.68 9	50.40 10		180.1 13
2015	YEAR-TO-DATE: AVERAGES/TOTAL OBSERVATIONS	7.34 16	9.60 16	49.93 16		487.6 38

FOOTNOTES

- A- Average
 B- Order followed stipulation or settlement by the parties. Decision particulars not necessarily precedent-setting or specifically adopted by the regulatory body.
 COC- Case involved only the determination of cost-of-capital parameters.
 CWIP- Construction work in progress
 D- Applies to electric delivery only
 DcT Date certain rate base valuation
 E- Estimated
 F- Return on fair value rate base
 Hy- Hypothetical capital structure utilized
 I- Interim rates implemented prior to the issuance of final order, normally under bond and subject to refund.
 LIR Limited-issue rider proceeding
 M- "Make-whole" rate change based on return on equity or overall return authorized in previous case.
 R- Revised
 Te- Temporary rates implemented prior to the issuance of final order.
 U- Double leverage capital structure utilized.
 W- Case withdrawn
 YE- Year-end
 Z- Rate change implemented in multiple steps.
 * Capital structure includes cost-free items or tax credit balances at the overall rate of return.

- (1) Consolidated rate proceeding for Monongahela Power and Potomac Edison, whose rate schedules were combined.
 (2) Increase authorized through a surcharge, Rider W, which reflects in rates the investment in the Warren County Power Station.
 (3) This proceeding determines the revenue requirement for Rider B, which is the mechanism through which the company recovers costs associated with its plan to convert the Altavista, Hopewell, and Southampton Power Stations to burn biomass fuels.
 (4) Represents rate increase associated with the company's Rider R proceeding, which is the mechanism through which the company recovers the investment in the Bear Garden generating facility.
 (5) This proceeding determines the revenue requirement for Rider S, which recognizes in rates the company's investment in the Virginia City Hybrid Energy Center.

FOOTNOTES (continued)

- (6) This proceeding determines the revenue requirement for Rider BW, which recognizes in rates the company's investment in the Brunswick Generating Station. A \$10.1 million increase became effective Sept. 1, 2015, and an incremental \$50.5 million is to be implemented May 1, 2016.
- (7) Indicated rate increase is for base rates and reflects the transfer to base rates of \$30.1 million that was being collected through the company's interim transmission cost of service adjustment mechanism. The net overall rate increase is \$0.8 million.
- (8) The approved final Joint Proposal provides for the company to implement a \$15.3 million electric rate increase, effective July 1, 2015, based on a 9% return on equity (48% of capital) and a 6.62% overall return, a \$16 million increase on July 1, 2016, based on the same return parameters, and a \$14.1 million increase on July 1, 2017, that reflects a 9% return on equity (48% of capital) and a 6.58% overall return.
- (9) Joint Proposal adopted that extends the company's existing rate plan by one year through 12/31/16. Rates were not changed.
- (10) On 7/7/15, the PSC issued an order on remand directing the company to cease collecting CWIP-related rate increases effective 7/20/15, and to submit a refund plan. This PSC action is the result of a 2/12/15 Mississippi Supreme Court decision that reversed and remanded the PSC's 3/5/13 decision in the proceeding that had authorized the company a two-step \$156 million rate increase related to the Kemper generation plant.
- (11) Case dismissed at company request.
- (12) Approved settlements did not address rate-of-return issues.
- (13) Case involves company's request for a cash return on incremental V.C. Summer Units 2 and 3 CWIP and incorporates the 11% ROE that was initially authorized in 2009 for use in Summer CWIP-related proceedings.
- (14) The approved Joint settlement provides for a \$9.3 million electric rate increase on 11/1/15, and an \$8.8 million increase on 11/1/16. The approved rate changes incorporate a 9% return on equity (48% of capital) and overall returns of 7.1% (in rate year one) and 7.06% (in rate year two).
- (15) Proceeding reviewed earnings levels for the 2013-2014 biennium versus the 10% ROE authorized in the previous review. By law, no prospective rate change was permissible in this case. The Commission calculated the company had earned a 10.89% ROE, and ordered \$19.7 million of refunds.
- (16) A \$14.7 million base rate reduction became effective 1/1/16. An \$85.1 million base rate increase is to be implemented in mid-2016, provided the Carty generation station achieves commercial operation by 7/31/16.
- (17) Case represents recovery of a cash return on 2016 CWIP and a preliminary true-up of the cash return on 2015 CWIP for Plant Vogtle Units 3 and 4 under the company's legislatively-enabled nuclear construction cost recovery tariff.
- (18) Limited-issue proceeding to reflect updated net power costs.
- (19) Proceeding to establish the rates to be charged to customers under the company's "compliance and system improvement adjustment" mechanism.
- (20) Case involves the company's Integrity Management Rider.
- (21) Case involves the company's gas system reliability surcharge rider.
- (22) Case represents the company's first filing under its Gas Utility Infrastructure Cost Rider.
- (23) This is the initial proceeding to establish the rates to be charged to customers under the company's transmission, distribution, and storage system improvement charge rate adjustment mechanism.
- (24) Case represents an annual update to the company's pipe replacement program rider.
- (25) Case represents an update to the company's semi-annual infrastructure system replacement surcharge rider.
- (26) The approved final Joint Proposal provides for the company to implement a \$1.8 million gas rate increase, effective July 1, 2015, based on a 9% return on equity (48% of capital) and a 6.62% overall return, a \$4.6 million increase on July 1, 2016, based on the same return parameters, and a \$4.4 million increase on July 1, 2017, that reflects a 9% return on equity (48% of capital) and a 6.58% overall return.
- (27) Indicated \$10.5 million rate increase excludes a \$1.9 million "step" increase for capital additions that was effective July 1, 2015.
- (28) Rate change ratified by cities in Atmos' Mid-Tex Division.
- (29) Case represents annual update to company's infrastructure system replacement surcharge rider.
- (30) Two step rate increase authorized. A \$32.8 million first-step increase was implemented on 11/1/15, and an incremental second-step incremental increase of up to \$3.6 million to become effective on 11/1/16.
- (31) Settlement did not specify the equity ratio or ROR; in a demonstration filing, the PSC Staff calculated a 45.5% equity ratio and 7.96% ROR.
- (32) The approved settlement provides for a three-year gas rate plan under which gas rates are to increase \$27.5 million effective 11/1/15, \$4.4 million effective Nov. 1, 2016, and \$6.7 million effective Nov. 1, 2017. The approved rate changes incorporate a 9% return on equity (48% of capital) and overall returns of 7.1% (in rate year one) and 7.06% (in rate years two and three).
- (33) Case involves the company's performance based ratemaking mechanism.

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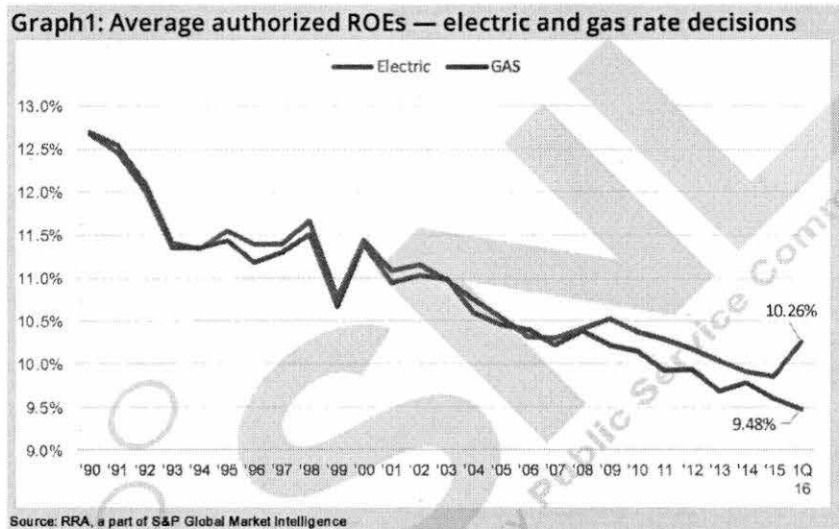


REGULATORY FOCUS

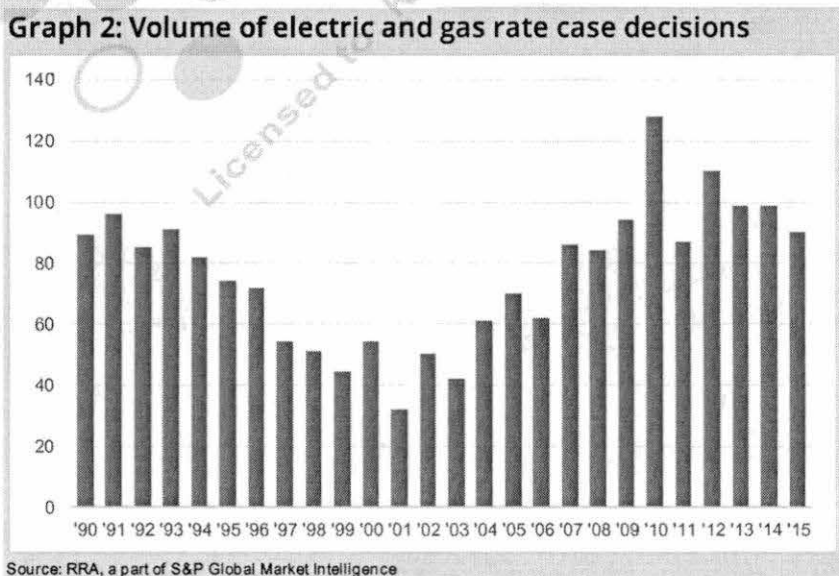
April 15, 2016

MAJOR RATE CASE DECISIONS — JANUARY-MARCH 2016

The average ROE authorized electric utilities was 10.26% in the first quarter of 2016, compared to 9.85% in 2015. There were 8 electric ROE determinations in the first three months of 2016, versus 30 in all of 2015. We note that the data includes several surcharge/rider generation cases in Virginia that incorporate plant-specific ROE premiums. Virginia statutes authorize the State Corporation Commission to approve ROE premiums of up to 200 basis points for certain generation projects (see the [Virginia Commission Profile](#)). Excluding from the data these Virginia surcharge/rider generation cases that utilize an ROE premium, the average authorized electric ROE was 9.68% for the first quarter of 2016 compared to 9.58% for full year 2015. The average ROE authorized gas utilities was 9.48% in the first quarter of 2016 versus 9.6% in all of 2015. There were 6 gas cases that included an ROE determination in the first three months of 2016, compared to 16 in 2015.



As shown in Graph 2 below, after reaching a low in the early-2000s, the number of rate case decisions for energy companies has generally increased over the last several years, peaking in 2010 at more than 125 cases.



Since 2010, the number of rate cases has moderated somewhat but has approximated 90 or more in the last five calendar years. There were 90 electric and gas rate cases resolved in 2015, 99 in both 2014 and 2013, 110 in 2012 and 87 in 2011, 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. In addition, 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 open to question.

We note that this report utilizes the simple mean for the return averages. In addition, the average equity returns indicated in this report reflect the cases decided in the specified time periods and are not necessarily representative of the returns actually earned by utilities industry wide.

As a result of electric industry restructuring, certain states unbundled electric rates and implemented retail competition for generation. Commissions in those states now have jurisdiction only over the revenue requirement and return parameters for delivery operations, which we footnote in our chronology beginning on page 5, thus complicating historical data comparability. We note that since 2008, interest rates declined significantly, and average authorized ROEs have declined modestly. We also note 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.

The table on page 3 shows the average ROE authorized in major electric and gas rate decisions annually since 1990, and by quarter since 2011, followed by the number of observations in each period. The tables on page 4 indicate the composite electric and gas industry data for all major cases summarized annually since 2002 and by quarter for the past five quarters. The individual electric and gas cases decided in the first quarter of 2016 are listed on pages 5-6, with the decision date shown first, followed by the company name, the abbreviation for the state issuing the decision, the authorized rate of return, or ROR, ROE, and percentage of common equity in the adopted capital structure. Next we indicate the month and year in which the adopted test year ended, whether the commission utilized an average or a year-end rate base, and the amount of the permanent rate change authorized. The dollar amounts represent the permanent rate change ordered at the time decisions were rendered. Fuel adjustment clause rate changes are not reflected in this study.

Please Note: Historical data provided in this report may not match data provided on RRA's website due to certain differences in presentation, including the treatment of cases that were withdrawn or dismissed.

RRA is part of S&P Global Market Intelligence

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Average Equity Returns Authorized January 1990 - March 2016

Year	Period	Electric Utilities		Gas Utilities	
		ROE %	(# Cases)	ROE %	(# Cases)
1990	Full Year	12.70	(44)	12.67	(31)
1991	Full Year	12.55	(45)	12.46	(35)
1992	Full Year	12.09	(48)	12.01	(29)
1993	Full Year	11.41	(32)	11.35	(45)
1994	Full Year	11.34	(31)	11.35	(28)
1995	Full Year	11.55	(33)	11.43	(16)
1996	Full Year	11.39	(22)	11.19	(20)
1997	Full Year	11.40	(11)	11.29	(13)
1998	Full Year	11.66	(10)	11.51	(10)
1999	Full Year	10.77	(20)	10.66	(9)
2000	Full Year	11.43	(12)	11.39	(12)
2001	Full Year	11.09	(18)	10.95	(7)
2002	Full Year	11.16	(22)	11.03	(21)
2003	Full Year	10.97	(22)	10.99	(25)
2004	Full Year	10.75	(19)	10.59	(20)
2005	Full Year	10.54	(29)	10.46	(26)
2006	Full Year	10.32	(26)	10.40	(15)
2007	Full Year	10.30	(38)	10.22	(35)
2008	Full Year	10.41	(37)	10.39	(32)
2009	Full Year	10.52	(40)	10.22	(30)
2010	Full Year	10.37	(61)	10.15	(39)
	1st Quarter	10.32	(13)	10.10	(5)
	2nd Quarter	10.12	(10)	9.88	(5)
	3rd Quarter	10.36	(8)	9.65	(2)
	4th Quarter	10.34	(11)	9.88	(4)
2011	Full Year	10.29	(42)	9.92	(16)
	1st Quarter	10.84	(12)	9.63	(5)
	2nd Quarter	9.92	(13)	9.83	(8)
	3rd Quarter	9.78	(8)	9.75	(1)
	4th Quarter	10.10	(25)	10.07	(21)
2012	Full Year	10.17	(58)	9.94	(35)
	1st Quarter	10.28	(14)	9.57	(3)
	2nd Quarter	9.84	(7)	9.47	(6)
	3rd Quarter	10.06	(7)	9.60	(1)
	4th Quarter	9.91	(21)	9.83	(11)
2013	Full Year	10.03	(49)	9.68	(21)
	1st Quarter	10.23	(8)	9.54	(6)
	2nd Quarter	9.83	(5)	9.84	(8)
	3rd Quarter	9.87	(12)	9.45	(6)
	4th Quarter	9.78	(13)	10.28	(6)
2014	Full Year	9.91	(38)	9.78	(26)
	1st Quarter	10.37	(9)	9.47	(3)
	2nd Quarter	9.73	(7)	9.43	(3)
	3rd Quarter	9.40	(2)	9.75	(1)
	4th Quarter	9.62	(12)	9.68	(9)
2015	Full Year	9.85	(30)	9.60	(16)
2016	1st Quarter	10.26	(8)	9.48	(6)

Electric Utilities--Summary Table

	Period	ROR %	(# Cases)	ROE %	(# Cases)	Cap. Struc.	(# Cases)	\$ Mil.	(# Cases)
2002	Full Year	8.72	(20)	11.16	(22)	46.27	(19)	-475.4	(24)
2003	Full Year	8.86	(20)	10.97	(22)	49.41	(19)	313.8	(12)
2004	Full Year	8.44	(18)	10.75	(19)	46.84	(17)	1,091.5	(30)
2005	Full Year	8.30	(26)	10.54	(29)	46.73	(27)	1,373.7	(36)
2006	Full Year	8.32	(26)	10.32	(26)	48.54	(25)	1,318.1	(39)
2007	Full Year	8.18	(37)	10.30	(38)	44.88	(36)	1,405.7	(43)
2008	Full Year	8.21	(39)	10.41	(37)	47.94	(36)	2,823.2	(44)
2009	Full Year	8.24	(40)	10.52	(40)	48.57	(39)	4,191.7	(58)
2010	Full Year	8.01	(62)	10.37	(61)	48.63	(57)	4,921.9	(78)
2011	Full Year	8.00	(43)	10.29	(42)	48.26	(42)	2,595.1	(56)
2012	Full Year	7.95	(51)	10.17	(58)	50.69	(52)	3,080.7	(69)
2013	Full Year	7.66	(45)	10.03	(49)	49.25	(43)	3,326.6	(61)
2014	Full Year	7.60	(32)	9.91	(38)	50.28	(35)	2,053.8	(51)
	1st Quarter	7.74	(10)	10.37	(9)	51.91	(9)	203.7	(11)
	2nd Quarter	7.04	(9)	9.73	(7)	47.83	(6)	819.4	(17)
	3rd Quarter	7.85	(3)	9.40	(2)	51.08	(3)	379.6	(5)
	4th Quarter	7.22	(13)	9.62	(12)	48.24	(12)	484.3	(19)
2015	Full Year	7.38	(35)	9.85	(30)	49.54	(30)	1,891.5	(52)
2016	1st Quarter	6.92	(8)	(10.26)	(8)	45.53	(8)	296.1	(11)

Gas Utilities--Summary Table

	Period	ROR %	(# Cases)	ROE %	(# Cases)	Cap. Struc.	(# Cases)	\$ Mil.	(# Cases)
2002	Full Year	8.80	(20)	11.03	(21)	48.29	(18)	303.6	(26)
2003	Full Year	8.75	(22)	10.99	(25)	49.93	(22)	260.1	(30)
2004	Full Year	8.34	(21)	10.59	(20)	45.90	(20)	303.5	(31)
2005	Full Year	8.25	(29)	10.46	(26)	48.66	(24)	458.4	(34)
2006	Full Year	8.44	(17)	10.40	(15)	47.24	(16)	392.5	(23)
2007	Full Year	8.11	(31)	10.22	(35)	48.47	(28)	645.3	(43)
2008	Full Year	8.49	(33)	10.39	(32)	50.35	(32)	700.0	(40)
2009	Full Year	8.15	(29)	10.22	(30)	48.49	(29)	438.6	(36)
2010	Full Year	7.99	(40)	10.15	(39)	48.70	(40)	776.5	(50)
2011	Full Year	8.09	(18)	9.92	(16)	52.49	(14)	367.0	(31)
2012	Full Year	7.98	(30)	9.94	(35)	51.13	(32)	263.9	(41)
2013	Full Year	7.39	(20)	9.68	(21)	50.60	(20)	494.9	(38)
2014	Full Year	7.65	(27)	9.78	(26)	51.11	(28)	529.0	(48)
	1st Quarter	6.41	(2)	9.47	(3)	50.41	(2)	168.7	(9)
	2nd Quarter	7.29	(3)	9.43	(3)	50.71	(3)	34.9	(8)
	3rd Quarter	7.35	(1)	9.75	(1)	42.01	(1)	103.9	(8)
	4th Quarter	7.54	(10)	9.68	(9)	50.40	(10)	180.1	(13)
2015	Full Year	7.34	(16)	9.60	(16)	49.93	(16)	487.7	(38)
2016	1st Quarter	7.12	(6)	9.48	(6)	50.83	(6)	120.2	(11)

Electric Utility Decisions

Date	Company	State	Common Equity as % of			Test Year	Rate Base	Amt. \$ Mil.	Footnotes
			ROR %	ROE %	Capital Structure				
2015	FULL-YEAR: AVERAGES/TOTAL OBSERVATIONS		7.38	9.85	49.54			1,891.5	
			35	30	30			52	
1/6/16	Avista Corporation	WA	7.29	9.50	48.50	9/14	--	(8.1) (B)	
1/28/16	Northern Indiana-- Public Service Company	IN	--	--	--	--	--	0.0 (LIR,1)	
2/2/16	Kentucky Utilities Company	VA	--	--	--	12/14	--	5.5 (B)	
2/23/16	Entergy Arkansas	AR	4.52	9.75	28.46	3/15	--	219.7 (B,*)	
2/29/16	Virginia Electric and Power Company	VA	7.90	11.60	49.99	3/17	Average	21.0 (LIR,2)	
2/29/16	Virginia Electric and Power Company	VA	7.40	10.60	49.99	3/17	Average	(9.3) (LIR,3)	
2/29/16	Virginia Electric and Power Company	VA	7.40	10.60	49.99	3/17	Average	6.6 (LIR,4)	
2/29/16	Virginia Electric and Power Company	VA	7.40	10.60	49.99	3/17	Average	(16.8) (LIR,5)	
3/16/16	Indianapolis Power & Light Company	IN	6.51	9.85	37.33	6/14	Year-end	29.6 (*)	
3/25/16	MDU Resources Group	MT	--	--	--	12/14	--	7.4 (B,Z)	
3/29/16	Virginia Electric and Power Company	VA	6.90	9.60	49.99	3/17	Average	40.4 (LIR,6)	
2016	1ST QUARTER: AVERAGES/TOTAL OBSERVATIONS		6.92	10.26	45.53			296.1	
			8	8	8			11	

Gas Utility Decisions

Date	Company	State	Common Equity as % of			Test Year	Rate Base	Amt. \$ Mil.	Footnotes
			ROR %	ROE %	Capital Structure				
2015	FULL-YEAR: AVERAGES/TOTAL OBSERVATIONS		7.34	9.60	49.93			487.7	
			16	16	16			38	
1/6/16	Oklahoma Natural Gas Company	OK	7.31	9.50	60.50	3/15	Year-end	30.0 (B)	
1/6/16	Avista Corporation	WA	7.29	9.50	48.50	09/14	--	10.8 (B)	
1/28/16	SourceGas Arkansas	AR	5.33	9.40	39.46	3/15	Year-end	8.0 (B,*)	
2/10/16	Liberty Utilities (New England Natural Gas Company)	MA	7.99	9.60	50.00	12/14	Year-end	7.8 (B)	
2/16/16	Public Service Company of Colorado	CO	7.33	9.50	56.51	12/14	Average	39.2 (I,Z,R)	
2/25/16	Black Hills Kansas Gas Utility Company	KS	--	--	--	10/15	Year-end	0.8 (LIR,7)	
2/29/16	Avista Corporation	OR	7.46	9.40	50.00	12/16	Average	4.5	
3/17/16	Atmos Energy Corporation	KS	--	--	--	3/15	--	2.2 (B)	
3/30/16	Indiana Gas Company, Inc.	IN	--	--	--	6/15	Year-end	7.0 (LIR,8)	
3/30/16	Northern Indiana Public Service Company	IN	--	--	--	6/15	Year-end	7.6 (LIR,9)	
3/30/16	Southern Indiana Gas and Electric Company	IN	--	--	--	6/15	Year-end	2.3 (LIR,8)	
2016	1ST QUARTER: AVERAGES/TOTAL OBSERVATIONS		7.12	9.48	50.83			120.2	
			6	6	6			11	

FOOTNOTES

- A- Average
- B- Order followed stipulation or settlement by the parties. Decision particulars not necessarily precedent-setting or specifically adopted by the regulatory body.
- COC- Case involved only the determination of cost-of-capital parameters.
- CWIP- Construction work in progress
- D- Applies to electric delivery only
- DCt Date certain rate base valuation
- E- Estimated
- F- Return on fair value rate base
- Hy- Hypothetical capital structure utilized
- I- Interim rates implemented prior to the issuance of final order, normally under bond and subject to refund.
- LIR Limited-issue rider proceeding
- M- "Make-whole" rate change based on return on equity or overall return authorized in previous case.
- R- Revised
- Te- Temporary rates implemented prior to the issuance of final order.
- U- Double leverage capital structure utilized.
- W- Case withdrawn
- YE- Year-end
- Z- Rate change implemented in multiple steps.
- * Capital structure includes cost-free items or tax credit balances at the overall rate of return.
- (1) Case represents the company's transmission, distribution, and storage system improvement charge, or TDSIC rate adjustment mechanism. The case was dismissed by the Commission, with no rate change authorized.
- (2) This proceeding determines the revenue requirement for Rider B, which is the mechanism through which the company recovers costs associated with its plan to convert the Altavista, Hopewell, and Southampton Power Stations to burn biomass fuels.
- (3) Represents rate decrease associated with the company's Rider R proceeding, which is the mechanism through which the company recovers the investment in the Bear Garden generating facility.
- (4) This proceeding determines the revenue requirement for Rider S, which recognizes in rates the company's investment in the Virginia City Hybrid Energy Center.
- (5) Decrease authorized through a surcharge, Rider W, which reflects in rates investment in the Warren County Power Station.
- (6) Proceeding involves a new gas-fired generation facility, the Greensville County project, and creation of a new rider mechanism, Rider GV, to reflect the related revenue requirement in rates.
- (7) Case involves the company's gas system reliability surcharge, or GSRS, rider and reflects investments made from July 1, 2014 through Oct. 31, 2015.
- (8) Case involves the company's "compliance and system improvement adjustment" mechanism, and includes compliance-related investments made between Jan. 1 and June 30, 2015, and certain other investments made between July 1, 2014 and June 30, 2015.
- (9) Case establishes the rates to be charged to customers under the company's transmission, distribution and storage system improvement charge rate adjustment mechanism, and reflects investments made between July 1, 2014 and June 30, 2015.

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REGULATORY FOCUS

FINAL REPORT

May 13, 2016

STATE: MASSACHUSETTS
COMPANY: Fitchburg Gas & Electric
ACTION: \$2.1 million electric distribution and \$1.6 million gas rate increases authorized

CASE HISTORY

		Millions
5/13/15	Notice of intent to file electric and gas rate cases submitted	--
6/16/15	Electric and gas rate increases requested	\$3.8E
		<u>3.0G</u>
	Total	\$6.8
9/15/15	Attorney General recommends return parameters	--
4/29/16	Electric and gas rate increases authorized	\$2.1E
		<u>1.6G</u>
	Total	\$3.7

PRESENT CASE

	Requested by Company	Authorized by Commission	Previous Decision 5/30/14
ELECTRIC DEPARTMENT			
Annual Revenues (millions)	\$3.8	\$2.1	\$5.6
% of Revenues	15.1%	8.4%	27.8%
Test Year End	12/31/14	12/31/14	12/31/12
Rate Base Value (millions)	\$57.3	\$57.2	\$51.9
Rate Base (Year-End or Average)	Year-End	Year-End	Year-End
Return on Common Equity	10.25%	9.8%	9.7%
Common Equity % of Capital	52.92%	52.17%	47.78%
Return on Rate Base	8.72%	8.46%	8.28%
GAS DEPARTMENT			
Annual Revenues (millions)	\$3.0	\$1.6	\$3.7
% of Revenues	16.1%	8.8%	13.3%
Test Year End	12/31/14	12/31/14	12/31/09
Rate Base Value (millions)	\$57.5	\$57.2	\$50.7
Rate Base (Year-End or Average)	Year-End	Year-End	Year-End
Return on Common Equity	10.25%	9.8%	9.2%
Common Equity % of Capital	52.92%	52.17%	42.88%
Return on Rate Base	8.72%	8.46%	7.93%

RRA EVALUATION

This Massachusetts Department of Public Utilities, or DPU, decision for Utilil Corporation subsidiary Fitchburg Gas & Electric, or FG&E, is neutral, on balance, from an investor viewpoint. The DPU adopted a 9.8% ROE for both electric and gas operations, a return that is above the average of ROEs authorized energy utilities thus far in 2016. The Department-adopted adjustments to electric rate base and net operating income, or NOI, were comparatively minor and should not impede the company from earning the authorized ROE in the first year of new rates. FG&E's existing electric and gas revenue decoupling mechanisms, or RDMs, are to continue with slight modifications. In addition, the Department adopted a significantly modified version of the company's proposed capital cost adjustment mechanism, or CCAM, that permits recovery of costs associated with post-test-year capital additions, subject to spending and revenue requirement caps. We continue to accord Massachusetts regulation an Average/3 rating.

Rate Case Summary

This proceeding was initiated on May 13, 2015, when FG&E submitted a notice of intent to file electric and gas base rate cases; however, the notice did not indicate the amount of the increases to be requested or any of the associated rate case parameters. On June 16, 2015, FG&E filed for \$3.8 million electric and \$3 million gas rate increases. The proposed rate increases were premised upon a 10.25% ROE. According to FG&E, the rate increases were necessitated by expenditures to enhance system reliability and replace aging infrastructure, and by higher operating costs.

FG&E proposed to modify its existing electric RDM through implementation of a capital cost adjustment mechanism, or CCAM, that would have allowed the company to adjust its target level of revenue to reflect incremental costs for post-test year capital additions. FG&E indicated that while it would prefer the adoption of a performance-based rate plan under which the company's target revenues would be adjusted annually based on a measure of inflation, offset by a productivity factor, it did not prepare formal testimony to support such a plan at the time, given the DPU's reluctance in the past to accept such a proposal.

On Sept. 15, 2015, the Massachusetts Attorney General filed testimony. The AG's testimony did not include a specific revenue requirement recommendation, but proposed several adjustments to FG&E's request, including an 8.75% return on equity (52.92% of capital) and a 7.94% overall return.

On April 29, 2016, the DPU authorized FG&E \$2.1 million electric and \$1.6 million gas distribution rate increases premised upon a 9.8% ROE. Items accounting for the \$1.7 million difference between the \$3.8 million electric rate increase requested by FG&E and the \$2.1 million electric rate increase authorized by the DPU are outlined in the table below.

ELECTRIC RATE CASE DISALLOWANCES (Approximate)

<u>Disallowances Related To:</u>	<u>(Millions)</u>
Rate of Return	\$0.3
Rate Base	--
Net Operating Income	<u>1.4</u>
Total Disallowed	<u>\$1.7</u>

Rate of Return

FG&E sought a 10.25% ROE for both its electric and gas operations. In calculating the proposed ROE, FG&E utilized a discounted cash flow analysis, or DCF, a capital asset pricing model, or CAPM, and a risk premium model, applying each to a proxy group of 57 electric and gas utilities. The results of the company's analysis indicated an ROE range of 10% to 10.5%. The AG utilized the DCF and CAPM applied to proxy groups consisting of 29 electric companies and seven gas distribution companies. Giving greater weight to the DCF model, the AG concluded that the appropriate ROE for FG&E's electric and gas divisions is 8.75%.

The DPU adopted a 9.8% ROE, finding this return "is within a reasonable range of rates that will preserve the Company's financial integrity, will allow it to attract capital on reasonable terms and for the proper discharge of its public duties, will be comparable to earnings of companies of similar risk and, therefore, is appropriate in this case. In making these findings, the Department has considered both qualitative and quantitative aspects of the parties' various methods for determining the Company's proposed ROE."

FG&E proposed a capital structure comprised of 52.92% equity and 47.08% long-term debt. The company's proposed capital structure reflected two post-test year adjustments — a \$1.9 million reduction in long-term debt to account for a sinking fund payment due Nov. 30, 2016, and a \$5 million capital contribution from Unitil Corporation in April 2015. The AG accepted FG&E's proposed capital structure, but noted that the proposed capitalization had more equity and less financial risk than the capitalization of Unitil Corporation, and other regulated electric and gas utilities.

The Department adopted a capital structure comprised of 52.17% common equity and 47.83% debt. The DPU stated that normally it would utilize a company's test-year-end capital structure, with adjustments for "known and measurable" changes. Department precedent allows companies to adjust test-year capital structure to reflect sinking fund payments, redemptions and retirement of debt, and issuance of new debt, provided that the proposed adjustments take place by the date of the DPU's order in the case. However, the Department denied FG&E's post-test-year adjustment related to the sinking fund payment, opining that since the payment is to occur on Nov. 30, 2016, after the issuance of this order, it is "not known and

measureable." According to the DPU, FG&E's proposed treatment of this sinking fund obligation as a current liability is "contrary to the Department's accounting standards." The DPU noted that "while generally accepted accounting principles may classify portions of long-term debt payable within one year as short-term liabilities for public reporting purposes, it is well-settled that financial accounting standards do not automatically dictate ratemaking treatment." The DPU accepted the company's proposed adjustment related to the capital contribution, but advised FG&E it will "continue to examine parent holding company capital contributions for potential adverse rate effects."

The DPU adopted a 7.01% cost of debt, slightly lower than the 7.02% cost of debt proposed by the company, reflecting the recalculation of the company's weighted cost of debt to include the sinking fund balance. The DPU-adopted capital structure and senior capital cost rates, when combined with a 9.8% ROE, resulted in an overall return of 8.46% for FG&E versus the 8.72% overall return sought. The DPU's adoption of a lower rate of return than requested by the company accounted for roughly \$0.3 million of the electric revenue requirement shortfall. The capital structure and associated cost rates adopted by the DPU are outlined in the table below.

<u>Type of Capital</u>	<u>Percent of Capitalization</u>	<u>Cost Rate</u>
Long-Term Debt	47.83%	7.01%
Common Equity	52.17	9.80
	<u>100.00%</u>	<u>8.46%</u>

Rate Base/Net Operating Income

The DPU's adjustments to electric rate base had a negligible impact on the revenue requirement.

Net operating income, or NOI, adjustments reduced the revenue requirement by about \$1.4 million. FG&E proposed to include in its revenue requirement about \$0.3 million of test year expenses associated with its arrears management program, or AMP. The DPU excluded the entire amount from the revenue requirement, and instead ordered the company to reinstate its residential assistance adjustment factor for the purposes of recovering such expenses on a fully reconciling basis.

Roughly \$0.3 million of the NOI-related disallowance was associated with depreciation and amortization expense, the bulk of which stemmed from FG&E's agreement to remove amortization expense associated with its customer information system project, which will not be completed until 2017, from its cost of service. An additional \$0.2 million of NOI-related adjustments was associated with the DPU's disallowance of certain amounts attributable to Verizon and owed to FG&E pursuant to agreements relating to the two companies shared responsibility for tree-trimming and maintenance activity. The DPU adopted adjustments to various other O&M expenses including payroll, severance expense and medical and dental insurance that, in aggregate, reduced the revenue requirement by an additional \$0.6 million.

Revenue Decoupling Mechanism

FG&E proposed to continue to operate under its existing electric and gas revenue decoupling mechanism, with updated target revenues set at the proposed base revenue requirement for each customer class. The company's revenue decoupling mechanisms, in place since 2011, were adopted in accordance with a 2008 DPU directive. In its 2008 order, the DPU concluded that it would not require distribution companies to reconcile actual revenue to a revenue target based solely on the number of customers, and would consider company-specific ratemaking proposals that account for: (1) the impact of capital spending on a company's required revenue target; and, (2) inflationary pressures. The DPU largely adopted FG&E's proposed modifications to its RDMs, finding that the mechanisms "appropriately align the financial interests of the Company with the efficient deployment of demand resources, and will ensure that the Company is not harmed by decreases in sales associated with the increased use of demand resources."

Capital cost adjustment mechanism

FG&E sought DPU approval of a CCAM for its electric division that would allow the company to recover costs associated with post-test-year capital additions. Through the CCAM, FG&E proposed to implement a distribution rate adjustment mechanism that: (1) would allow it to collect the revenue requirement associated with the annual change in distribution net plant in service on or after Jan. 1, 2015; and, (2) would cap the revenue requirement to be collected annually at 2% percent of the company's total revenue. The AG opposed implementation of a CCAM.

The DPU adopted the company's proposed CCAM with significant modifications, including an annual spending cap of \$5.7 million and a cap on annual rate increases under the mechanism of 1% of total

revenues, with any amounts above the 1% cap to be deferred for future recovery with carrying charges. In adopting the CCAM, the DPU stated: "The Department makes no determination regarding the optimal level of investment the Company should make in its distribution infrastructure in order to provide safe and reliable electric service to its ratepayers. To the extent that [the company's] capital expenditures exceed the amount it is allowed to recover through its CCAM, the Company can seek to include such investment in rate base in its next base distribution rate proceeding."

DPU 15-80 and 15-81
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RRA REGULATORY FOCUS

Friday, June 03, 2016 4:00 PM ET RRA

RRA alert--Maryland PSC approves substantially reduced rate increases for BG&E

By Lillian Federico

On June 3, the Maryland Public Service Commission issued an order authorizing Baltimore Gas and Electric Co., or BGE, electric and gas rate increases aggregating to \$89.5 million versus the \$200.4 million total increase supported by BGE during the proceeding (Case No. 9406).

Major differences in the revenue requirement approved versus that supported apparently stem from the authorized ROE and the treatment of BGE's advanced meter infrastructure investment, increases in certain fees charged by the City of Baltimore for use of underground conduits, and the costs to achieve the now-completed acquisition of Pepco Holdings by BGE parent Exelon Corp.

The \$89.5 million increase includes a \$41.8 million increase in electric rates and a \$47.8 million increase in gas rates. The new rates are effective June 4.

Baltimore Gas & Electric — Case No. 9406

Electric and Gas Rate Cases

	Rate Change (\$M)	ROE (%)	ROR (%)	Rate Base Value (\$B)
Electric Rates				
Company Revised Position	120.9	10.6	7.95	3.012
PSC Staff (as updated)	90.2	9.68	7.46	3.007
Office of People's Counsel	6.7	8.7	6.75	2.880
PSC Authorized	41.8	9.75	7.28	2.916
Gas Rates				
Company Revised Position	79.5	10.5	7.9	1.242
PSC Staff (as updated)	66.9	9.6	7.41	1.240
Office of People's Counsel	24.7	8.6	6.7	1.154
PSC Authorized	47.8	9.65	7.23	1.225

Source: Regulatory Research Associates, part of S&P Global Market Intelligence

The PSC approved a 9.75% return on equity (51.9% of capital) and a 7.28% return on an average rate base valued at \$2.916 billion and for a test period ended Nov. 30, 2015 for BGE's electric operations. For BGE's gas operations the PSC approved a 9.65% return on equity (51.9% of capital) and a 7.23% return on a \$1.225 billion rate base.

Atypical of Maryland rate case decisions in

recent years, the ROE approved for electric operations is slightly above the 9.58% average ROE authorized for electric utilities nationwide during 2015, excluding incentive returns authorized in limited issue rider proceedings, as calculated by Regulatory Research Associates Inc., and approximates the average ROE of 9.73% authorized for electric utilities thus far in 2016, excluding returns authorized in limited issue rider cases.

Similarly, the approved gas ROE approximates the 9.6% average ROE authorized for gas utilities nationwide during 2015, as calculated by Regulatory Research Associates, and is slightly above the 9.5% average ROE approved thus far in 2016, for gas utilities nationwide.

For a discussion of rate of return authorizations through March 31, refer to RRA's Major Rate Case Decisions Quarterly Update.

This action occurred in base rate cases that were initiated on Nov. 6, 2015, when BGE filed for \$135.2 million electric and \$77.8 million gas distribution base rate increases.

The electric rate request was premised upon a 10.6% return on equity (51.9% of capital) and a 7.74% return on a rate base valued at \$3.028 billion. The gas rate request was premised upon a 10.5% return on equity (51.9% of capital) and a 7.69% return on a \$1.245 billion rate base.

On Jan. 5, 2016, BGE revised its request premised upon actual data through the end of the test period at which time the company supported \$120.9 million electric and \$79.5 million gas rate increases.

The revised electric rate request was premised upon a 10.6% return on equity (53.7% of capital) and a 7.95% overall return on a rate base valued at \$3.012 billion. The revised gas request was premised upon a 10.5% return on equity (53.7% of capital) and a 7.9% return on a \$1.242 billion rate base.

BGE cited smart grid and safety/system reliability investments as necessitating the rate increase request. Of the total \$213 million increase BGE initially sought, \$137.1 million was related to the company's smart grid investments. BGE also proposed to implement a mechanism to recover increased costs associated with utilizing Baltimore City's underground conduit system.

Intervening parties filed testimony on Feb. 8. The PSC staff recommended an \$87.6 million electric rate increase premised upon a 9.68% return on equity (53.7% of capital) and a 7.41% return on a \$3.007 billion rate base. However, the staff's rate-of-return witness identified a 7.46% overall return, which RRA estimates would have resulted in a \$90.2 million electric rate increase.

The Office of People's Counsel, or OPC, recommended that the PSC authorize the company a \$6.7 million electric rate increase premised upon an 8.7% return on equity (51.9% of capital) and a 6.75% return on a rate base valued at \$2.88 billion.

With respect to BGE's gas distribution operations, the staff recommended a \$66.9 million rate increase premised upon a 9.6% return on equity (53.7% of capital) and a 7.41% return on a \$1.24 billion rate base. The OPC recommended a \$24.7 million gas rate increase premised upon an 8.6% return on equity (51.9% of capital) and a 6.7% return on a \$1.154 billion rate base.

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.

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