131 FERC ¶ 61,020
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Marc Spitzer, Philip D. Moeller,
and John R. Norris.

Southern California Edison Company — Docket Nos. ER08-375-000, ER08-375-001

ORDER ON PAPER HEARING AND REQUEST FOR REHEARING

(Issued April 15, 2010)

Paragraph Numbers

Edison's filing of its latest six-month financial data, PNM and NiSource had corporate credit ratings within the one rating threshold. Therefore, the corporate credit rating screen does not eliminate either PNM or NiSource from the proxy group at issue in this proceeding.

b. Low-End DCF Results

54. SoCal Edison adjusted its DCF range by excluding the results of companies whose low-end DCF results were less than 100 basis points above the yields for A and Baa utility bonds.[105] Six Cities argue that the low-end DCF result must exceed the Moody's six-month average yield on Baa public utility bonds by at least 30 basis points. A review of the Commission's precedent regarding low-end returns indicates that in Opinion No. 489,[106] the Commission eliminated companies whose ROEs were below the bond yield for that particular rating. In Opinion No. 445,[107] the Commission eliminated companies whose ROEs were less than 36 basis points above the average Moody's bond yield for that particular rating. In *Atlantic Path 15*[108] and *Startrans,*[109] the Commission eliminated companies whose ROEs were less than 100 basis points above Moody's bond yield for that particular rating. More recently, in *Pioneer Transmission, LLC*,[110] the Commission excluded from the proxy group companies whose low-end ROEs were within about 100 basis points above the cost of debt.

55. We find that, consistent with *Pioneer*, it is reasonable to exclude any company whose low-end ROE fails to exceed the average bond yield by about 100 basis points or more, taking into account the extent to which the excluded low-end ROEs are outliers from the low-end ROEs of other proxy group companies. This gives the Commission flexibility to exclude from the proxy group companies whose low-end ROE is somewhat above the average bond yield, but is still sufficiently low that an investor would consider the stock to "yield essentially the same return"[111] as debt. In such individual cases, the cut-off point for

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[105] SoCal Edison states that the Moody's bond rate for 'Baa' utilities is 6.44 percent and for 'A' utilities is 6.18 percent.

[106] *See Bangor Hydro*, 117 FERC ¶ 61,129.

[107] *See S. Cal. Edison Co.,* 92 FERC ¶ 61,070 (2000).

[108] 122 FERC ¶ 61,135.

[109] 122 FERC ¶ 61,306.

[110] *Pioneer Transmission, LLC*, 126 FERC ¶ 61,281, at P 94 (2009); *order denying reh'g*, 130 FERC ¶ 61,044 (2010) (*Pioneer*).

[111] *S. Cal Edison*, 92 FERC ¶ 61,070 at 61,266.

including or excluding a company from the proxy group could vary a bit from the standard of about 100 basis points adopted in *Atlantic Path 15* and other recent cases, depending upon where the natural break is in the array of low-end ROEs of the candidate proxy group companies that would distinguish outliers from non-outliers.

56. In this proceeding, we have determined that the Moody's six-month average yield on Baa public utility bonds ending November, 2007 is 6.44 percent. There are five companies whose low-end ROEs are less than the 6.44 percent bond yield plus 100 basis points, or 7.44 percent. These are Hawaiian Electric Industries, Inc. (Hawaiian), PNM, NiSource, DTE Energy Co. (DTE), and Progress Energy Inc (Progress), whose low-end ROEs are 5.39 percent, 6.54 percent, 6.74 percent, 7.31 percent, and 7.41 percent respectively. The companies with the next lowest low-end ROEs are Alliant Energy Corp. (Alliant) and OGE Energy Corp. (OGE) with low-end ROEs of 7.46 percent and 7.80 percent respectively. SoCal Edison thus presents an awkward situation, whereby strict application of the 100 basis point standard would lead to exclusion of Progress with a low-end ROE 97 basis points above the bond yield, but the inclusion of Alliant with a low-end ROE 102 basis points above the bond yield. In these circumstances, it would appear more reasonable to exclude Alliant along with the other five companies, on the ground that the natural break point between the too low ROEs and those not too low lies between Alliant's 7.46 percent ROE and OGE's 7.80 percent ROE, rather than between Progress's 7.41 percent ROE and Alliant's 7.46 percent ROE. Thus, when applying the low-end screen to SoCal Edison's proposed proxy group, the following companies are eliminated from the group: DTE, Hawaiian, NiSource, Progress, PNM and Alliant.

c. High-End DCF Results

57. SoCal Edison states that it adjusted the DCF range to exclude high-end DCF results above 17.7 percent, consistent with *ISO New England*.[112] As a result of this adjustment, SoCal Edison removed the high-end results of Constellation Energy Group and PSEG from its proxy group analysis. Six Cities[113] and the CPUC argue that although the Commission recognized in *ISO New England* that PPL's DCF result of 17.7 percent was an extreme outlier, SoCal Edison is incorrect that this was the only reason the Commission excluded PPL. Six Cities and the CPUC argue that PPL was also eliminated from the proxy group because its 13.3 percent growth rate was unsustainable. We agree with the intervenors here. In *ISO New England*, the Commission found that PPL should be excluded from the proxy group based on both its growth rate (13.3 percent) and its resulting ROE (17.7 percent).[114]

[112] *ISO New England*, 109 FERC ¶ 61,147.

[113] Six Cities Answering Brief at 2-3.

[114] *ISO New England*, 109 FERC ¶ 61,147 at P 205; *see also Bangor Hydro*, 117 FERC ¶ 61,129 at P 24.