

Selected Examples of Proposed ROE Adjustments

Company (Jurisdiction)	Docket/Case	Revenue Decoupling Mechanism	Cost of Capital Proposal	Case Decided	Outcome
NATURAL GAS					
Arkansas Oklahoma Gas (AR)	Docket No. 07-026-U	Billing Determinant Adjustment	Staff recommended a 25 basis point discount which "recognizes the reduced risk associated with adoption of a decoupling rate mechanism." The AG stated that a "significant reduction of the return on equity must accompany a rider of this type, because a lower risk equals a lower return."	Settlement	ROE reduced 10 basis points
Arkansas Western (AR)	Docket No. 06-124-U	Billing Determinant Adjustment	Staff recommended that "a commensurate reduction of 25 basis points should be made to AWG's return on equity." The AG also recommended 25 basis point reduction.	Settlement	ROE reduced 25 basis points
CenterPoint Energy (AR)	Docket No. 06-161-U	Billing Determinant Adjustment	Staff recommended "a further reduction of 25 basis points" if the BDA tariff is approved.	Settlement	ROE reduced 10 basis points
Southwest Gas (AZ)	Docket No. G-01551A-07-0504	Revenue Decoupling	The Staff witness testified that "the only thing the Company wants to achieve through its proposed rate design is avoidance of financial risk, nothing more nothing less." Staff argued that the shift of risk from shareholders to ratepayers, if decoupling were to be adopted, would necessitate a downward adjustment to the authorized return on equity.	Final Order	Decoupling was not adopted, no adjustment was made
Public Service Company of Colorado (CO)	Docket No. 06S-656G	Partial Decoupling Rate Adjustment Mechanism	The OCC witness recommended a lower ROE if the Commission approved Public Service's decoupling proposal.	Settlement	No adjustment was made

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Connecticut Natural Gas (CT)	Docket No. 08-12-06	Revenue Decoupling	The OCC witness testified that "[t]he adoption of such a mechanism should serve to reduce the volatility of a company's revenues and earned ROE. A reduction in volatility reduces the riskiness of an enterprise." OCC recommended a 25 basis point reduction in the authorized ROE "to reflect the reduction in risk."	Final Order	Decoupling was not adopted, no adjustment was made
Delmarva Power & Light Company (DE)	Docket No. 06-284	Bill Stabilization Adjustment	The Delmarva witness recommended "the adoption of an overall return on investment of 8.08% and a rate of return on common equity of 11.0% on DP&L's natural gas delivery operations, assuming that the Bill Stabilization Adjustment ("BSA") is adopted. If the BSA adopted is not approved, I recommend the adoption of an overall return on investment of 8.20% and a rate of return on common equity of 11.25% on DP&L's natural gas delivery operations."	Settlement	BSA was not adopted, no adjustment was made
North Shore Gas Company; and Peoples Gas Light and Coke (IL)	Docket No. 07-241 and 07-242	Volume Balancing Adjustment	Staff and City-CUB argue that authorized rates of return should be reduced to reflect the resulting reduced risk. "In particular, Staff asserts the riders would reduce operating risk, which the Utilities acknowledge is part of investment risk." The Commission finds that Rider VBA "will lesson Utilities' risk associated with their cash flow" and "this warrants a reduction."	Final Order	ROE reduced 10 basis points
NICOR Gas (IL)	Docket No. 08-0363	80% SFV	The Commission stated "that adopting this rate design will clearly reduce Nicor's risk." "Thus, in determining Nicor's authorized return on common equity in this proceeding, we conclude that it necessary and appropriate to deduct 6.5 basis points to reflect the reduction in Nicor's risk."	Final Order	ROE reduced 6.5 basis points
Vectren Indiana Gas and Vectren Southern Indiana Gas (IN)	Cause No. 42943 and 43046	Energy Efficiency Rider with Sales Reconciliation Component	The Commission stated that by approving the riders "we are once again approving mechanisms that alleviate risk for Petitioners. When asked by the presiding judge whether Petitioners believe that this will result in a reduction in risk, Petitioner's witness Benkert responded "yes". We have not as yet required a corresponding reduction in the cost of equity, as have some states. The benefits that inure to Petitioners by approving this Plan are clear. We find that there needs to be a corresponding benefit to the consumers."	Settlement	No adjustment was made

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Vectren Indiana Gas and Vectren Southern Indiana Gas (IN)	Cause No. 43839	Energy Efficiency Rider with Sales Reconciliation Component	"We find that continuing Vectren South's current ROE of 10.40% would be reasonable for purposes of determining Vectren South's cost of capital and rate of return. Our ROE finding is within the reasonable and appropriate range of 9.90% to 10.50%. Our ROE finding also gives consideration to Vectren South's company-specific risks including its small size, its manufacturing dependent service area, and its coal-based generation fleet. In addition, the Commission believes Vectren South's strong credit rating is supported, at least in part, by its current authorized ROE."	Final Order	No adjustment was made
Kansas General Investigation	Docket No. 08- GIMX-441- GIV	Decoupling	"As with decoupling, the Commission anticipates considering some reduction in rate of return as a result of the decreased risk."	Final Order	To be determined
Bay State Gas (MA)	Docket No. D.P.U. 09-30	Decoupling	The AG's witness "estimated the equity capital cost of the Company's gas utility operations should be reduced by at least 50 basis points to account for the reduction in operating risk afforded by decoupling."	Final Order	no adjustment was made
Missouri Gas Energy (MO)	Docket No. GR-2006-0422	SFV	"Staff and MGE agree that the value of the SFV rate design is 30-35 basis points. As these suggestions are estimates, the Commission finds that the value of the SFV rate design is 32.5 points."	Settlement	ROE reduced 32.5 basis points.
Missouri Gas Energy (MO)	Docket No. GR-2009-0355		"Mr. Lawton proposed a 50 basis point reduction in his ROE recommendation if the Commission authorizes a straight fixed variable (SFV) rate design for MGE. However, a majority of the companies in Mr. Lawton's proxy group have significant portions of their revenues either wholly or partially decoupled. The Commission finds the decreased risk associated with having a SFV rate design is already accounted for in Mr. Lawton's return on equity calculation, and no additional adjustment is necessary." "Even if a 50 basis point reduction were made the recommended ROE range of 9.5 to 10.5%, an ROE of 10.0% would still be within the range he recommended as reasonable and appropriate for MGE in this case. "	Final Order	No adjustment was made

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Southwest Gas (NV)	Docket No. 09-04003	Revenue Decoupling	“Southwest acknowledged that revenue stabilization mechanisms, such as decoupling, reduce risk and proposed a minimal reduction of 10 basis points to the ROE.” Staff testified that the reduction should be between 20 and 70 points. The Commission found that “a 25 basis point reduction is adequate to maintain Southwest’s financial viability and is sufficient to allow it to raise the capital necessary to provide adequate, safe and reliable service.”	Final Order	ROE reduced 25 basis points.
Consolidated Edison (NY)	Case No. 06-G-1332	Revenue Decoupling Mechanism (RDM)	Public Utility Law Project notes that the existence of an RDM “shifts a substantial risk of revenue shortfalls from the utility to the ratepayers” and the ROE should be reduced proportionately.	Settlement	no adjustment was made
National Fuel Gas Distribution Co (NY)	Case No. 07-G-0141	Revenue Decoupling Mechanism (RDM)	Staff, multiple intervenors and CPB support a 25 basis point reduction to the allowed rate of return. The Commission stated that given it is adopting the RDM “that most of the companies in Staff’s proxy group do not have revenue decoupling mechanisms, and that the effects of revenue decoupling mechanisms have long been considered by investors and factored into the financial market data for natural gas firms, we will apply a 10 basis points reduction.”	Final Order	ROE reduced 10 basis points
Chattanooga Gas (TN)	Docket No. 06-00175	Conservation and Usage Adjustment	The Chattanooga witness stated, “[i]f the proposed CUA and PRP mechanisms are approved, the Company’s risk will be reduced, and the cost of common equity capital likely will decline by some 50 basis points from 11.5% to 11.0%.”	Settlement	CUA was not adopted, no adjustment was made
Piedmont Gas (TN)	Docket No. 09-00104	Margin Decoupling Tracker	The Consumer Advocate recommended an evaluation of Piedmont’s rate of return in a general rate case; or a reduction of 100 basis points.	Final Order	Decoupling was not adopted, no adjustment was made

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Chattanooga Gas (TN)	Docket 09-00183	Usage Adjustment	<p>The Commission found that "...the evidence presented by the parties made clear that decoupling impacts the return on equity by reducing risks, although both parties presented different views on both the direction and magnitude of the required adjustment. Having carefully reviewed the record, the panel voted unanimously to adopt the conservative estimate of a twenty-five basis point reduction to equity return based upon the rate design adopted by the panel."</p>	Final Order	ROE adjusted downward by 25 basis points
Questar Gas Company (WY)	Docket 30010-94-GR-08	Conservation Enabling Tariff	<p>The OCA witness recommended a downward adjustment to ROE by 25 points; however, the Commission rejected this adjustment, agreeing that the proposed CET may reduce Company risk, but that the OCA did not provide a logical basis "...on which to derive or apply the 25 basis point reduction in this docket."</p>	Final Order	No adjustment was made
Piedmont Natural Gas Company, Inc. (NC)	Docket G-9	Margin Decoupling Tracker	<p>"The Attorney General argued that customer receive no benefit from the MDT. However, in this rate case, Piedmont witness Carpenter stated that the Company would not have accepted the settlement package, which includes the 10.60% return on equity, without the MDT, although he stated that there was no "quantification on any impact" relating to the MDT. The Commission has testimony before it that the Company agreed to give up a higher return on equity and higher monthly charges in exchange for the MDT. The Commission accepts this testimony, so that the Commission cannot agree with the Attorney General's assertion that customers will receive no benefit."</p>	Settlement	No adjustment was made

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ELECTRIC	Connecticut Light & Power (CT)	Docket No. 09-12-05 Decoupling	The OCC witness recommended a downward equity cost rate adjustment to reflect the risk reduction attributes of decoupling. The AG advocated a 50-basis point adjustment should decoupling be adopted. The Department stated, "While the Department finds that the implementation of a decoupling mechanism further reduces the overall risk profile of the Company, the Department did not establish a decoupling mechanism in this proceeding."	Final Order	Decoupling was not adopted, no adjustment was made
United Illuminating (CT)	Docket No. 08-07-04	Decoupling	Although the Department did not explicitly make a downward adjustment to the ROE to account for a decoupling mechanism, it confirmed a lower ROE is necessary in this proceeding: "[t]he implementation of a decoupling mechanism further mitigates the earnings pressure of the Company having the impact of reducing the overall risk profile of UI. Risk is also reduced in this proceeding since the portion of distribution costs collected through fixed customer service and demand charges was increased. The collection of costs through fixed charges rather than energy charges reduces the variability of earnings associated with sales."	Final Order	Unidentified
Idaho Power (ID)	Case No. IPC-E-04-15	Fixed Cost Adjustment	ICAN recommended an adjustment of 50 basis points. The Commission stated that the recommended ROE adjustment is a general rate case issue and can be addressed in the Company's next rate case.	Settlement	To be determined
National Grid (MA)	Docket No. 09-39	Revenue Decoupling	The AG witness stated: "[t]he adoption of such a mechanism should serve to reduce the volatility of a company's revenues and earned ROE. A reduction in volatility reduces the riskiness of an enterprise. Under the presumption that the Commission does include a decoupling mechanism, I recommend a 25 basis point reduction in the authorized return on equity to reflect the reduction in risk."	Final Order	No adjustment was made

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Delmarva Power and Light (MD)	Case No. 9093	Bill Stabilization Adjustment	"[T]he BSA reduces the risks faced by the Company, and thus allows us to reduce the return on equity by 50 basis points."	Final Order	ROE reduced 50 basis points
Potomac Electric Power Company (MD)	Case No. 9092	Bill Stabilization Adjustment	"[T]he BSA reduces the risks faced by the Company, and thus allows us to reduce the return on equity by 50 basis points."	Final Order	ROE reduced 50 basis points
Detroit Edison (MI)	Case No. U-15768; and U-15751	Revenue Decoupling	The PSC found that a reduction in ROE merits careful consideration. "The adoption of trackers for uncollectibles, storm expense, and revenue decoupling in particular, may have an effect on the risk profile of the company, such that a reduction in ROE may be justified as more risk is shifted from the company to its ratepayers." However, this is a pilot program and changes in risk cannot be assessed without information on actual performance of the RDM. The PSC encourages Staff and other intervenors to submit analyses in the next rate case.	Final Order	No adjustment was made
Green Mountain Power (VT)	Docket No. 7175	Alternative Regulation Plan	"There is no question that GMP will shed substantial risk, which will now be passed on to ratepayers ... The Company originally recommended an adjustment of 90 basis points ... GMP and the Department now recommend a smaller, 50-basis-point adjustment." The Commission also stated, "Due to this uncertainty, it is not clear that the reduction of GMP's ROE by 50 basis points fully compensates ratepayers for the changes in risk."	Settlement	ROE reduced 50 basis points
Massachusetts Electric Company (MA)	D.P.U. 09-39	Revenue Decoupling	The DPU recognized "...that the revenue decoupling mechanism we have approved in this case will reduce variability of the Company's revenues and, accordingly, reduce its risks and its investors' return requirement." However, no specific reduction to allowed ROE is tied specifically to the Company's Revenue Decoupling mechanism.	Final Order	Unidentified reduction

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Fitchburg Gas and Electric Light Company d/b/a Unitil (MA)	D.P.U. 11-01	Revenue Decoupling	<p>"The Attorney General submits that a reduction in earnings volatility should reduce risks to shareholders and, thereby, lower the required ROE (Attorney General Brief at 155, citing D.P.U. 07-50-A, at 72-73). The Attorney General argues that if the Department approves an electric revenue decoupling mechanism for Fitchburg, then the Company's ROE must recognize the lower risk to its electric operations as a result (Attorney General Brief at 155)."</p>	Final Order	No adjustment was made
Hawaiian Electric Company, Inc. (HI)	Docket No. 2008-0083	Revenue Decoupling	<p>"In addition, DOD discussed downward adjustments between 25 to 50 basis points to recognize reduced risk to HECO if the commission approves any part of the HCEI mechanisms. Specifically, DOD recommended a 25 basis points reduction if only the REIP Surcharge and PPAC are approved (without decoupling). If all of the HCEI mechanisms are approved, including decoupling, DOD recommended a 50 basis points downward reduction."</p> <p>"As discussed above, the commission has determined herein a fair and reasonable ROE for HECO of 10.00% that takes into account approval of a decoupling mechanism, and other risk-reducing surcharge mechanisms, for HECO. The commission further finds that the Parties' adjustment to sales reflects the most recent numbers available to determine test year sales. During the course of the hearing, witnesses from HECO and the Consumer Advocate testified that, other than the contested reduction in HECO's ROR, no further adjustments were required for decoupling to be implemented."</p>	Final Order	No adjustment was made
Potomac Electric Power Company (DC)	Formal Case No. 1076; Order No. 15710	Revenue Decoupling	<p>"A 50 basis point reduction in Pepco's return on equity (ROE) was ordered, as part of the approval of the BSA, to provide a balance of benefits to consumers in exchange for the benefit to the Company and shareholders of reaping lowered business risk."</p>	Final Order	ROE reduced 50 basis points

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Niagara Mohawk Power Corporation d/b/a National Grid Electric (NY)	Case 08-E-0827	Revenue Decoupling	The Commission rejected arguments that an adjustment be made to account for the Company's Revenue Decoupling Mechanism, finding that with similar mechanisms becoming common place with Company proxy group companies, "...there is a declining risk difference between the proxy group and Niagara Mohawk..."	Final Order	No adjustment was made
Central Hudson Gas & Electric Corporation (NY)	Case 08-E-0887	Revenue Decoupling	In approving the Company's Decoupling Mechanism, the Commission adopted "...the credit quality adjustment supported by Staff, as well as its RDM adjustment."	Final Order	Unidentified reduction
Consolidated Edison Company of New York, Inc. (NY)	Case 08-E-0539	Revenue Decoupling	"No RDM adjustment is proposed or is being made to the ROE since the risk reducing effects of the RDM are already reflected in the Company's credit ratings."	Final Order	No adjustment was made
Sierra Pacific Power Company d/b/a NV Energy (NV)	Docket 10-06001; 10-06003	Revenue Decoupling	Staff witnesses proposed allowed ROE percentages reflecting a downward adjustment of 17 basis points to reflect lower risk accompanied with the Company's decoupling mechanism. However, the Commission rejected the approach.	Final Order	No adjustment was made
North Western Energy (MT)	Docket D2009.9.129, D2007.7.82	Lost Revenue Adjustment Mechanism (Partial Decoupling)	"The Commission agrees with MCC that adopting a modified LRAM will serve to shift risk from NEW to its customers. The PSC already limits risk to NEW through the use of monthly electric and natural gas trackers as well as the annual property tax tracker filings. The modified LRAM further reduces NWE's risk. The Commission finds that a 25 basis point reduction to the electric utility's ROE is appropriate as a result of adopting the modified LRAM."	Final Order	ROE adjusted downward by 25 basis points

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Portland General Electric Company (OR)	Order 09-020	Sales Normalization Adjustment	<p>"The final overall argument is that the SNA shifts risk to customers and allows PGE to recover more than its fixed costs. Although PGE argues that there is no shift in risk from the Company to its customers, there is general agreement that PGE's risk will go down, raising the question as to whether the Company's authorized ROE should be reduced to reflect the risk reduction. We also agree that, under the SNA, PGE may be able to recover more than its fixed cost if customer growth exceeds what was assumed in setting rates (assuming those costs really are fixed and do not increase with the customer count). We have taken these benefits to PGE into account in conditioning our decoupling proposal below on a ten-basis point reduction in the Company's authorized ROE."</p>	Final Order	ROE adjusted downward by 10 basis points
FEDERAL					
Texas Eastern Transmission Corporation (FERC)	Docket No. CP87-312-008	Straight Fixed Variable	<p>Texas Eastern challenges the Commission's decision to reduce the return on equity by 25 basis points. Texas Eastern submits that here the Commission failed to consider factors such as capital structure, service profile, competitive risks, operational risk, etc., in computing the appropriate return on equity. The Commission response explains that "[t]raditional MFV rate design places a pipeline's return on equity and the taxes related to that return, which are fixed costs, in the commodity component of rates. If service is not used at the level projected by the Commission, these fixed costs will not be recovered. Under a straight fixed-variable rate design, all fixed costs, including return and equity and related taxes, are included in the demand component of the rates. Thus, under an straight fixed-variable rate design the equity investor's assurance of recovery approaches that of a bondholder."</p>		0.25 reduction to cost of equity

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Columbia Gas Transmission Corporation; Columbia Gulf Transmission Company (FERC)	Docket Nos. RP91-161-011, RP92-3-000, RP90-108-016, RP91-82-008, and RS92-5-000, RP91-160-000, RP92-2-000, RP90-107-013, and RS92-6-000	Straight Fixed Variable	The Cities believe that the failure to adjust the return on equity as a result of the change of rate design raises an issue of material fact, and that on cross examination they would have demonstrated that consistent with the Commission's determination in Transco, the returns on equity must be reduced to reflect the reduction of risk which accompanies the shift in rate design from MFV to SFV. Cities cites for example, Transcontinental Gas Pipe Line Corp., 56 FERC P61,037 (1991) (Transco), contending that the Commission imposed a 25 basis point reduction in the approved return on equity to reflect the possibility of lower risk.	0.25	reduction to cost of equity
United Distribution Companies, Petitioner v. FERC, Respondent (U.S. Court of Appeals, D.C. Circuit)	No. 92-1485	Order 636 SFV Rate Design	"The PUCs argue that FERC should have reduced the pipelines' rate of return because the pipelines will be able to recover all of their fixed costs and return on investment through demand and reservation charges instead of facing the uncertainty of recovering a portion of their fixed costs and return through gas sales throughout the year. ...Specifically, the PUCs contend that FERC should have followed its decision in Transcontinental Gas Pipe Line Corp., ...and imposed a 25 basis point reduction in pipelines' return on equity to reflect the lower risk under SFV rate design."	0.25	reduction to cost of equity