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| PUC logo | COMMONWEALTH OF PENNSYLVANIAPENNSYLVANIA PUBLIC UTILITY COMMISSIONP.O. BOX 3265, HARRISBURG, PA 17105-3265 | **IN REPLY PLEASE REFER TO OUR FILE****M-2012-2317272****M-2012-2293611** |

**March 29, 2018**

**TO ALL INTERESTED PARTIES:**

 **Re: ROE Working Group, M-2012-2293611**

 **Act 11 Final Implementation Order, M-2012-2317272**

Act 11 of 2012[[1]](#footnote-1) (Act 11), *inter alia*, allows jurisdictional water and wastewater utilities, electric distribution companies (EDCs), natural gas distribution companies (NGDCs), and a city natural gas distribution operation (CNGDO) to petition for a distribution system improvement charge (DSIC). A DSIC will allow utilities to timely recover “the reasonable and prudent costs incurred to repair, improve or replace eligible property in order to ensure and maintain adequate, efficient, safe, reliable and reasonable service.” 66 Pa. C.S. § 1353(a).

A key component in the DSIC recovery calculation is the return on equity (ROE). The ROE should balance the interests of consumers and utilities, and be sufficient to attract, at reasonable rates, the capital needed to maintain and improve a utility’s infrastructure. Act 11 provides that the ROE shall be the equity return rate approved in the utility’s most recent fully litigated rate case. 66 Pa. C.S. § 1357(b)(2). However, for utilities that do not have an ROE from a recent rate case, Act 11 provides that the ROE shall be the equity return rate calculated by the Commission in the most recent Quarterly Earnings Report (QER). 66 Pa. C.S. § 1357(b)(3).

It is apparent the EDC barometer group selection criteria is too restrictive. Commission Staff is unable to consistently select EDC barometer group companies restricted to the Value Line East Group Electric Utilities geographic region. Via Secretarial Letter dated November 27, 2017, the Commission asked for input and guidance to eliminate the geographic restriction of only selecting companies based on *Value Line* East Group Electric Utility companies and permit Commission Staff to include EDCs from *Value Line* Central and West Group of Electric Utility group of companies. No other changes to the barometer group selection criteria were proposed.

Various stakeholders[[2]](#footnote-2) submitted comments on adjusting the EDC barometer group selection criteria. On January 19, 2018, Duquesne Light Company (DLC) submitted comments. DLC generally agrees with expanding the EDC barometer group selection criteria to include *Value Line* East, Central, and West Group Electric Utility companies. On January 18, 2018, the Energy Association of Pennsylvania (EAP) submitted comments on behalf of their EDC members. EAP found merit in the proposal of expanding the EDC barometer group selection criteria to include *Value Line* East, Central, and West Group Electric Utility companies. On January 19, 2018, the Commission’s Bureau of Investigation and Enforcement (I&E) submitted comments. In its comments, I&E recognized the *Value Line* East group is restrictive and does not oppose expanding the geographic region to include *Value Line* East, Central, and West Group Electric Utility companies. On January 19, 2018, the Office of Consumer Advocate (OCA) filed comments. The OCA commented it does not object to eliminating the *Value Line* East geographic restriction so that companies may be included from *Value Line* East, Central, and West Group Electric Utility groups. The Commission appreciates the input and guidance provided and, upon consideration of that input, the Commission will change the EDC barometer group selection criteria.

Accordingly, based on our consideration of the input provided by stakeholders, we shall adopt the following EDC barometer group selection criteria on a going-forward basis. Companies will be selected based on:

* EDCs: *Value Line* East, Central, and West Group Electric Utility companies.

Questions may be directed to Andrew Herster, Bureau of Technical Utility Services, 717‑783-5392 or aherster@pa.gov.



 Sincerely,

 Rosemary Chiavetta

 Secretary

cc: Paul Diskin, Director, TUS

 Bohdan R. Pankiw, Chief Counsel
 Robert Young, Law Bureau

 Erin Laudenslager, TUS

 Andrew Herster, TUS

 David Huff, TUS

Electronic List

1. <http://www.legis.state.pa.us/WU01/LI/LI/US/HTM/2012/0/0011..HTM>. [↑](#footnote-ref-1)
2. The following entities participated in stakeholder discussions: Duquesne Light; Energy Association of PA (EAP); the Office of Consumer Advocate (OCA); and the Bureau of Investigation and Enforcement (BI&E). EAP member utilities include: Citizens’ Electric Company; Columbia Gas of PA; Duquesne Light Company; Equitable Gas Company; Metropolitan Edison Company; Pennsylvania Electric Company; Pennsylvania Power Company; Pike County Light & Power Company; National Fuel Gas Distribution Corp.; PECO Energy Company; Peoples Natural Gas Company; Peoples TWP LLC; Philadelphia Gas Works;

PPL Electric Utilities; UGI Central Penn Gas; UGI Penn Natural Gas; UGI Utilities, Inc.; Valley Energy; Wellsboro Electric Company; and West Penn Power Company. [↑](#footnote-ref-2)