



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

January 19, 2018

Secretary Rosemary Chiavetta
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: ROE Working Group
Docket No. M-2012-2293611

Act 11 Final Implementation Order
Docket No. M-2012-2317272

Dear Secretary Chiavetta:

Enclosed please find the Bureau of Investigation and Enforcement's (I&E) **Comments** in the above captioned proceeding.

Copies are being served on parties as identified in the attached certificate of service. If you have any questions, please contact me a 717-783-7998.

Sincerely,

Allison C. Kaster
Deputy Chief Prosecutor
Bureau of Investigation and Enforcement
PA Attorney I.D. No. 93176

ACK/snc
Enclosure

cc: Andrew Herster, TUS
Paul Diskin, Director-TUS
Bohdan R. Pankiw, Chief Counsel
Robert Young, Law Bureau
Erin Laudenslager, TUS
David Huff, TUS

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

ROE Working Group	:	Docket No. M-2012-2293611
	:	
Act 11 Final Implementation Order	:	Docket No. M-2012-2317272

**COMMENTS OF THE
BUREAU OF INVESTIGATION AND ENFORCEMENT**

I. INTRODUCTION

On November 27, 2017, the Public Utility Commission (Commission) issued a Secretarial Letter seeking comments in the above-referenced dockets. The Commission asked for input and guidance to expand the Electric Distribution Company (EDC) barometer group from *Value Line* East Group of Electric Utility companies to also include EDCs from the *Value Line* Central and *Value Line* West Groups to calculate the return on equity for the Distribution System Improvement Charge (DSIC).

For utilities where a return on equity determination was not made in a recent fully litigated rate case, Act 11 states that the equity return shall be the equity return calculated by the Commission in the most recent Quarterly Earnings Report. 66 Pa. C.S. § 1357(b)(3). The Commission convened a working group of stakeholders to review the Commission's Quarterly Earnings Report process and establish parameters to determine the market-based ROE for each of the major industry groups. The Commission adopted seven parameters, one of which required barometer group companies to be selected based on geographic regions. For EDCs, the Commission approved using the *Value Line* East

Group Electric Utility companies but, through the Secretarial Letter, is now seeking guidance on eliminating that restriction and include companies in *Value Line's* Central and West Groups.

The Secretarial Letter set a response deadline of January 8, 2018. However, on December 22, 2017, the Energy Association of Pennsylvania filed a request to extend the response date to no later than January 19, 2018. The Commission granted the requested extension. Accordingly, the Bureau of Investigation and Enforcement (I&E) submits these timely Comments regarding eliminating the geographic restriction and permitting *Value Line* Central and *Value Line* West Groups of Electric Utility companies in the EDC barometer group.

II. COMMENTS

The Secretarial Letter states that the parameter that limits the EDC barometer group companies to the *Value Line* East Group is too selective and asks for guidance and input to eliminate this geographic restriction. I&E recognizes that the *Value Line* East group is restrictive and does not oppose expanding the geographic region to include the *Value Line* Central and West Groups. However, I&E recommends that the parameter be modified to permit only those companies that operate in states that have a fully deregulated electric utility market.

A barometer group's cost of equity is used as a benchmark to provide the jurisdictional utility the opportunity to earn a return similar to that of enterprises with corresponding risks and uncertainties. Pennsylvania is a deregulated market where the utility is responsible only for the distribution of electricity and electric suppliers compete

to sell electricity directly to consumers. In contrast, in a regulated market, customers have only one option as the electric utility controls the entire flow of energy from generation to the meter. Given the operational and risk differences between regulated and deregulated markets, I&E recommends that the barometer group companies be limited to those that operate in a state that has a deregulated electric market. Doing so will ensure that the barometer group companies operate in a similar market and circumstances as Pennsylvania EDCs. If a company does not operate in a state that is deregulated, it is not comparable to Pennsylvania's deregulated market and should not be used.

Although this restriction will limit the number of eligible barometer group companies, its necessary to ensure that the barometer group is comprised of companies that are comparable to Pennsylvania EDCs. Increasing the barometer group size to include companies that do not resemble jurisdictional EDCs will result in an unreliable analysis. In short, more companies is not necessarily better if those additional companies are not comparable to utilities operating in Pennsylvania's deregulated market. Barometer group parameters must balance the need to obtain a sufficient number of companies with the goal of creating a group that resembles jurisdictional EDCs. I&E's recommendation to eliminate the geographic requirement but require the companies to operate in a state that has a deregulated market strikes the appropriate balance.

III. CONCLUSION

I&E appreciates the opportunity to provide these Comments and does not oppose eliminating the geographic region parameter and including companies in *Value Line's* East, West and Central Electric Utility groups, with the modification that those companies must operate in a state that has a deregulated electric utility market.

Respectfully submitted,



Allison C. Kaster
Deputy Chief Prosecutor
PA Attorney ID #93176

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Harrisburg, Pennsylvania 17105-3265

Dated: January 19, 2018