



September 27, 2018

Rosemary Chiavetta, Esq., Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, Pennsylvania 17120

**Re: ROE Working Group, M-2012-2293611
Act 11 Final Implementation Order, M-2012-2317272
Comments of the Energy Association of Pennsylvania to
Secretarial Letter dated August 24, 2018**

Dear Secretary Chiavetta:

On November 27, 2017, the Pennsylvania Public Utility Commission (“Commission”) issued a Secretarial Letter regarding the ROE Working Group, M-2012-2293611 and Act 11 Final Implementation Order, M-2012-2317272, requesting input and guidance regarding a proposal to modify the manner in which the barometer group for electric distribution companies (“EDCs”) was selected for the Commission’s Quarterly Earnings Report (“QER”). Various parties, including the Energy Association of Pennsylvania (“EAP”)¹, filed comments supporting the suggested change that proposed to expand the geographic regions from which EDCs are selected to determine a quarterly return on equity (“ROE”) to include companies listed in the *Value Line* Central and West Group in addition to the *Value Line* East Group. On March 29, 2018, the Commission issued a Secretarial Letter adopting the proposal. Currently, formation of the EDC barometer group selected by the Bureau of Technical Utility Services (“TUS”) begins with the companies listed in *Value Line* East, Central and West Group Electric Utility companies.

Thereafter, on August 24, 2018, the Commission issued the instant Secretarial Letter at the dockets referenced above (“August 2018 Secretarial Letter”). The Commission seeks public input regarding a new proposal that would modify the process used by TUS to determine all industry-

¹ EAP is a trade association whose members include the major natural gas and electric utilities operating in the Commonwealth; namely, Citizens’ Electric Company; Duquesne Light Company; Metropolitan Edison Company; PECO Energy Company; Pennsylvania Electric Company; Pennsylvania Power Company; Pike County Light & Power Company; PPL Electric Utilities; UGI Utilities, Inc.-Electric Division; Wellsboro Electric Company; and West Penn Power Company.

specific barometer groups. The most recent suggestion would include all eligible industry-specific companies that meet the “parameters for the QER process” identified on the first page of the August 2018 Secretarial Letter in each industry-specific barometer group. In comparison, the current practice is for TUS to choose the barometer group from a pool of all eligible industry-specific companies that meet the selection criteria. *See*, August 2018 Secretarial Letter at p. 2. In other words, if the change is adopted the “pool of eligible industry-specific barometer group companies” would become the barometer group without any further action by TUS to eliminate otherwise eligible companies. *Id.* This change would apply to all industry groups, i.e., electric, natural gas and water/wastewater.

EAP previously participated in the ROE Working Group along with its natural gas and electric utility member companies and worked with Aqua Pennsylvania, Inc. and the Pennsylvania Chapter of the National Association of Water Companies to provide input that was included in the ROE Working Group Report dated January 2013 and submitted at this docket, namely the Sponsoring Utilities’ 2013 Position Paper. As detailed above, EAP also provided further comments and analysis in its comments to the November 2017 Secretarial Letter. Consistent with those filings, EAP supports the suggested change, noting that the proposal promotes transparency in the process of establishing the quarterly ROE - a key component in determining the timely recovery of costs pursuant to a distribution system improvement charge (“DSIC”) under Act 11 of 2012.² EAP contends that the determination of the DSIC ROE in the QER should be consistent with Act 11 of 2012, should be transparent, should employ an approach that is straight-forward and simple to replicate and should provide support for ROE determinations by the Commission.

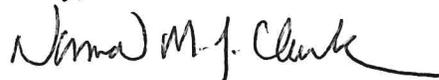
Additionally, EAP contends that the proposed change would limit TUS discretion to eliminate otherwise eligible industry-specific companies from its corresponding industry-specific ROE analysis without explanation and thus reduce the appearance of subjectivity in the current staff analysis. EAP supports that impact as well, believing that the ultimate decision to establish the quarterly ROE lies with the Commissioners. It is the Commissioners who have the ultimate obligation to establish the industry-specific DSIC ROE each quarter, considering the dual purpose of that number, its importance in promoting the accelerated replacement of aging infrastructure in the Commonwealth and its role under Act 11.

² Under Act 11 of 2012, the ROE for DSIC purposes shall be the equity return rate approved in that utility’s last fully litigated rate case. 66 Pa. C. S. § 1357(b) (2). If more than two years have elapsed since the date of the final order in a fully litigated rate case and the effective date of a DSIC, Act 11 directs the Commission to use the ROE from its most recent QER. 66 P. C.S. § 1357(b) (3).

EAP does note that the proposal, if adopted, would currently result in larger barometer groups for each industry and that the Commission might consider at a future date additional modifications to the current process used to establish the quarterly ROE in order to manage the size of the barometer group. *See* Comments filed to the November 2017 Secretarial Letter and prepared on behalf of the Energy Association of Pennsylvania by P. Moul & Associates dated January 19, 2018 at pp. 2 and 4 – 6.³ EAP would also suggest changes to the QER that further promote transparency, i.e. including the same level of detail in the calculation of the CAPM return that is now available for the DCF return.

EAP appreciates the work of the Commission and its staff to continually refine and improve the process set forth in the QER which, in turn, provides input for the analysis and establishment of quarterly industry-specific DSIC ROEs by the Commission pursuant to Act 11. EAP stands ready to provide additional input and analysis upon request and as needed recognizing that the results reached in reviewing the QER and setting a DSIC ROE are central to efforts that result in the delivery of clean drinking water, in the safe delivery of natural gas and in the reliable provision of electricity.⁴

Sincerely,



Donna M.J. Clark
Vice President and General Counsel

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

³ In supporting the earlier proposed change, it was stated that “a larger sample group would usually be preferable...unless the sample group size becomes cumbersome, or if the characteristics of sample group diverge significantly” from Pennsylvania utilities utilizing the DSIC. *Id.* at p. 2. EAP repeats the same caution regarding the sample group and is encouraged that the Commission strives to clarify the manner in which the quarterly DSIC ROE is set by TUS given the breadth of its purpose under Act 11. *Accord, Statement of Chairman Gladys M. Brown, Quarterly Earnings Report of Pennsylvania Utilities*, Dckt. No. M-2018-3003513 (August 2, 2018).

⁴ *See also, Statement of Commissioner John F. Coleman, Quarterly Earnings Report of Pennsylvania Utilities*, Dckt. No. M-2018-3003513 (August 2, 2018).