

# Rate & Regulatory Update

## A Summary of State Rate & Regulatory Activity

*A Publication for AGA Members*

*This document is intended to provide AGA members with a summary of information relative to state rate and regulatory proceedings and other related matters on a timely basis. Additional information and archived versions of the Rate & Regulatory Update can be found at the following web link: <https://www.aga.org/news/rate--regulatory-summary/>*

Rate Case Data for this Period	
Orders Issued	9
Average Approved ROE	9.61
Trends and Analysis	
<p>The average authorized ROE for gas utilities was 9.61% in the first quarter of 2021 compared to 9.49% in the fourth quarter of 2020. The average authorized ROE for gas utilities was 9.55% in cases decided in all of 2020, above the 9.71% in full-year 2019. In 2020 AGA has tracked 38 determined ROEs, versus 32 total determined ROEs in 2019.</p> <p>Requested and authorized ROEs have generally trended downward over the past several years. For cases that are currently pending Commission action, the average requested ROE was 10.06% for gas companies versus 12.4% in 2000.</p> <p>The highest ROE requested in a pending gas utility base rate case is 10.95%, sought by both Columbia Gas of Pennsylvania and PECO Energy Co. Columbia cited in their application an aggressive infrastructure upgrade program, under which it replaces an average of 115 miles of pipeline each year, as the main driver of the request. Columbia Gas said it has invested more than \$2.2 billion in Pennsylvania over the past decade, and the filing indicates that an additional \$1.8 billion of capital spend is planned over the years 2020 through 2025. PECO cited infrastructure investments as one of the main drivers, noting that the company plans to invest approximately \$1.2 billion in new and replacement gas utility plant between July 1, 2020, and June 30, 2024. According to the company, despite "aggressive efforts to manage gas operations efficiently and contain O&amp;M expenses, an increase in gas distribution revenue is needed and cannot be achieved without an increase in rates." The company indicates that declines in residential class revenues are also a contributing factor.</p> <p>The lowest ROE requested in a gas base rate case is 9.10% for Fortis Inc. subsidiary Central Hudson Gas &amp; Electric Corp. NYPSC Staff proposed an ROE of 8.7%, which they stated was in accordance with the commission's long-standing policy that relies on a combination of the discounted cash flow approach and the capital asset pricing model to set the authorized ROE, with a weighting of two-thirds discounted cash flow and one-third capital asset pricing model.</p>	

# Rate & Regulatory Update

Rate Case Decisions	
January 6 <sup>th</sup> , 2021	
Company	Delmarva Power & Light Co.
State	DE
Docket Number	<a href="#">20-0150</a>
Approved Rate Change Amount	\$6,700,000
Approved ROE	9.60%
Intervenors	Delaware Division of the Public Advocate (DPA), Chesapeake Utilities Corporation
Case Summary	
<p>This proceeding was initiated Dec. 20<sup>th</sup>, 2019, when Delmarva submitted a notice of intent with the Delaware PSC. On Feb. 21<sup>st</sup>, 2020, Delmarva initially filed for commission approval of a \$14.6 million gas base rate increase reflecting a 10.3% return on equity (50.43% of capital) and a 7.15% return on a rate base valued at \$418.5 million. Initially, Delmarva specified that it would transfer approximately \$4.2 million, which is being collected through the DSIC rider, into base rates. The net impact of the initial company request was a \$9.1 million overall rate increase.</p> <p>Subsequently, Delmarva revised its request and supported an \$11.6 million gas base rate increase reflecting a 10.3% return on equity (50.37% of capital) and a 7.15% return on a rate base valued at \$399.7 million. The utility also updated the DSIC amount being transferred into base rates and specified that roughly \$4.4 million would be transferred to base rate. The net impact of the company's revised request was a \$7.2 million overall rate increase.</p> <p>On Sept. 1<sup>st</sup>, 2020, the commission staff and the DPA filed testimony with the commission. The PSC staff recommended that the commission authorize Delmarva a \$1.9 million gas rate increase based on a 9.25% return on equity (50.37% of capital) and a 6.61% return on a rate base valued at \$372.1 million. At the time of the testimony, with the transfer of \$4.2 million to base rate from the DSIC rider, the net impact of the recommendation is a \$2.3 million net rate reduction.</p> <p>Based on the same return parameters, the DPA recommended that the PSC authorize the company a \$2.2 million gas rate increase and a rate base valued at \$362 million. At the time of the testimony, after the transfer to base rates of roughly \$4.2 million that is being collected through the DSIC rider, the net impact of the recommendation is a \$2 million net rate decrease.</p> <p>On Dec. 18<sup>th</sup>, 2020, the parties filed a settlement with the commission supporting an increase in base rates of \$6.7 million effective Feb. 1, 2021.</p>	

# Rate & Regulatory Update

On January 6<sup>th</sup>, the Delaware PSC approved a settlement in Delmarva Power & Light Co.'s gas distribution base rate case and authorized the utility to implement a \$6.7 million rate increase, effective Feb. 1<sup>st</sup>.

After the transfer to base rates of roughly \$4.4 million that is being collected through the distribution system improvement charge, or DSIC, rider, the net impact of the initial company request is a \$2.3 million overall rate increase.

The rate increase is based on a 9.6% return on equity (50.37% of capital) and a 6.8% overall return. Rate base was not specified in the settlement.

The signatories of the now-approved agreement are Delmarva, the PSC staff and the Division of Public Advocate, or DPA.

The commission order calls for Delmarva to increase its current fixed monthly charge for both residential and residential space heating customer classes to \$13.75 from \$12.65, an 8.7% increase.

Since the approved rate increase is significantly below that which was put into effect on an interim basis, Delmarva would be required to file a refund plan with the commission within 30 days of the written order approving the settlement.

The parties also agreed to a variety of regulatory assets and liabilities, including the average rate assumption model tracker regulatory asset/liability, which would allow Delmarva to flow the full benefits associated with protected property-related excess deferred income taxes back to customers in a balanced manner over the lives of the underlying assets. Delmarva will also recover the remaining cost to achieve regulatory asset, in the amount of \$0.25 million, over a five-year period. Additionally, to accelerate providing ratepayers with the \$1.3 million state income tax benefit attributable to the recognition of an incremental increase to the Maryland "Statutory Subtraction" Modification, Delmarva would amortize the regulatory liability over a period of 25 years.

For pipeline replacement projects beginning after Jan. 1<sup>st</sup>, 2021, Delmarva agrees to include various provisions with the filing of its next base rate case, including, but not limited to, the amount of any cost increases in the Pipe Replacement Program that are attributable to increased work activity, geographical challenges, inflation, etc. Delmarva would also include a listing of all replacement projects for which it would seek rate base treatment. The project-by-project filing would include provisions such as the project description and estimated and actual unit costs for each activity. Delmarva would also be required to conduct an internal audit of the main replacement costs incurred through its rehabilitation and replacement program from 2018 through 2020, and file that report with the commission and DPA 12 months after the PSC approves the settlement.

Beginning in 2021, the parties agreed that Delmarva would reduce its Grade 1 hazardous leaks by 3%, based on a three-year rolling average of Grade 1 hazardous leaks starting with the average of 2017, 2018 and 2019. In 2022, the company agrees to reduce its

# Rate & Regulatory Update

Grade 1 hazardous leaks by 5% based on a three-year rolling average of Grade 1 hazardous leaks, in which the average will continue to exclude the immediately preceding year. The parties agree to revisit Delmarva's hazardous leak reduction targets in its next base rate case.

A gas main extension working group, consisting of Delmarva, the commission staff and the DPA, is to be created to explore improvements to the project evaluation process for Delmarva's gas main extension/expansion programs.

# Rate & Regulatory Update

January 6 <sup>th</sup> , 2021	
<b>Company</b>	Cascade Natural Gas Corp
<b>State</b>	OR
<b>Docket Number</b>	<a href="#">UG 390</a>
<b>Approved Rate Change Amount</b>	\$3,200,000
<b>Approved ROE</b>	9.40%
<b>Intervenors</b>	Oregon Citizens Utility Board, Alliance of Western Energy Consumers' (AWEC)
Case Summary	
<p>On March 31<sup>st</sup>, 2020, Cascade filed a request with the Oregon PUC for a \$4.5 million base rate increase premised upon a 9.40% return on equity (50% of capital) and a 7.08% return on an average rate base valued at \$132.6 million for a calendar-2020 test year. The company cited increased safety and reliability investment, primarily in pipeline replacement projects, as the main drivers for the rate increase request.</p> <p>On July 1<sup>st</sup>, 2020, Cascade, the PUC staff and the other parties filed a partial settlement regarding cost-of-capital issues.</p> <p>On July 30<sup>th</sup>, 2020, staff and other intervenors filed testimony, with the staff supporting a rate increase of \$1.5 million on a \$130.8 million rate base.</p> <p>On Aug. 28<sup>th</sup>, 2020, the parties filed the second partial settlement, resolving rate spread and rate design issues.</p> <p>On Sept. 30<sup>th</sup>, 2020, the parties filed the third partial settlement specifying a revenue requirement increase of \$3.2 million and resolving all remaining issues in the proceeding. The settlement specified that "beginning with Cascade's next general rate case, the company will provide support for all individual capital investments occurring in 2020 and thereafter that are estimated to cost more than \$150,000, including detailed documentation providing the justification for the investment, a project summary, a demand study/analysis, the costs, the alternatives considered, and the rationale for the investment."</p> <p>Parties to all three settlements include the utility, the PUC staff, the Oregon Citizen's Utility Board and the Alliance of Western Energy Consumers.</p> <p>On Jan. 7<sup>th</sup>, the PUC adopted three partial settlements, thereby authorizing Cascade Natural Gas Corp. a \$3.2 million, or 4.8%, gas rate increase. The increase is premised upon a 9.40% return on equity (50% of capital) and a 7.07% return on an average rate base of \$130.1 million for a test year ended Dec. 31<sup>st</sup>, 2020. The new rates are to become effective Feb. 1<sup>st</sup>.</p>	

# Rate & Regulatory Update

According to the PUC, "the terms of the stipulations are reasonable" and "the proposed changes to the company's tariffs... will result in fair, just, and reasonable rates in furtherance of the public interest."

# Rate & Regulatory Update

January 13 <sup>th</sup> , 2021	
<b>Company</b>	Ameren Illinois Co.
<b>State</b>	IL
<b>Docket Number</b>	<a href="#">20-0308</a>
<b>Approved Rate Change Amount</b>	\$76,100,000
<b>Approved ROE</b>	9.67%
<b>Intervenors</b>	Citizens Utility Board (CUB), Archer-Daniels-Midland Company, Tate & Lyle Ingredients Americas, Inc., Phillips 66 Company, Federal Executive Agencies (FEA)
Case Summary	
<p>Ameren Illinois initiated the case Feb. 21<sup>st</sup>, 2020, when the company proposed a \$102 million base rate increase premised upon a 10.5% return on equity (54.09% of capital) and a 7.64% return on a rate base valued at \$2.145 billion. The net ratepayer impact would have been a \$56.4 million increase, reflecting the transfer to base rates of \$39 million that was being collected through an infrastructure rider and recovery of an incremental \$4.5 million of invested capital taxes and \$2.2 million of state income taxes that would otherwise be recoverable through another rider.</p> <p>The primary driver of the request was the company's recent investments in its infrastructure for system reliability and safety and increased operating costs. Ameren Illinois also said the request addressed the transition to rate uniformity across its legacy rate zones. Ameren Illinois said, "given the progress the company has made toward rate uniformity, it is appropriate for the commission to determine that [the company] should file a single revenue requirement and [a] single embedded costs of service study for future gas rate proceedings."</p> <p>The company filed surrebuttal testimony on Sept. 2<sup>nd</sup>, 2020, and supported a \$97.4 million rate increase based on the initially filed return parameters and a \$2.12 billion rate base.</p> <p>On June 19<sup>th</sup>, 2020, the staff recommended a \$66.9 million base rate hike premised upon a 9.32% return on equity (50.43% of capital) and a 6.88% return on a \$2.098 billion rate base.</p> <p>In a proposed order issued Nov. 12<sup>th</sup>, 2020, the administrative law judges conducting the proceeding recommended a \$70.5 million base rate increase premised upon a 9.49% return on equity (50.43% of capital) and a 6.97% return on a rate base valued at \$2.096 billion.</p> <p>On Jan 13<sup>th</sup>, the ICC approved approved a \$76.1 million, or 17.7%, base rate hike premised upon a 9.67% return on equity (52% of capital) and a 7.14% return on an average rate base valued at \$2.096 billion for a test year ending Dec. 31<sup>st</sup>, 2021.</p>	

# Rate & Regulatory Update

The ICC said, "an authorized rate of return that is not competitive will deter continued investment in the State of Illinois. The commission also appreciates that a reasonable authorized ROE helps ensure that the company can attract capital in order to meet the commission required infrastructure repair and replacement needs of the State. Notwithstanding, the commission recognizes too that it should protect customers against bearing the cost of unreasonable returns through higher rates."

With respect to Ameren Illinois' request to transition to "rate uniformity" across its three legacy rate zones, the ICC said it supports the movement toward full-rate uniformity, the commission has concerns about the impact such a transition would immediately have on certain large general service customers. The ICC said, "there is no reason why total rate uniformity must be accomplished in this docket" and agreed with the parties that a rate mitigation study should be performed to address the impact on these customers. Such a study would "provide guidance for any future movement towards rate uniformity."



# Rate & Regulatory Update

January 14 <sup>th</sup> , 2021	
<b>Company</b>	CenterPoint Energy Resources Corp.
<b>State</b>	MN
<b>Docket Number</b>	<a href="#">19-524</a>
<b>Approved Rate Change Amount</b>	\$38,520,000
<b>Approved ROE</b>	Not Specified
<b>Intervenors</b>	City of Minneapolis, Suburban Rate Authority, Clean Energy Organizations, Minnesota Office of Attorney General (OAG)
Case Summary	
<p>CenterPoint Energy Resources Corp. (CER) initiated the case Oct. 28<sup>th</sup>, 2019, filing a request for a \$62 million, or 6.8%, permanent base rate increase premised upon a 10.15% return on equity (51.39% of capital) and a 7.41% return on a \$1.31 billion rate base. According to CER, the primary driver of the rate increase request was to "help cover the rising costs of infrastructure projects to replace or upgrade pipelines to prevent leaks and comply with more stringent federal pipeline regulations. It would also help cover costs related to a growing number of local road construction and other public works projects that require CenterPoint Energy to relocate pipelines and equipment."</p> <p>Major projects in Minnesota include inspecting, upgrading and replacing transmission and distribution pipelines to address corrosion or leaks, replacing 479 miles of unprotected or bare steel distribution pipes, replacing 43 miles of cast iron pipelines to eliminate a material that contributed to methane emissions and replacing 61 miles of high-pressure, large-diameter transmission pipeline installed in the 1940s and 1950s.</p> <p>CER also requested an interim rate increase of \$52.7 million to be effective with service rendered on and after Jan. 1<sup>st</sup>, 2020, and premised upon a 9.21% ROE. The proposed interim increase applies to all rate classes on a uniform basis consistent with the existing rate design. However, consistent with past practice, the company proposed to forgo collecting any increased interim rate revenues from its market rate customers. The PUC authorized the interim rate increase Dec. 5<sup>th</sup>, 2019.</p> <p>The DER on July 15<sup>th</sup>, 2020, recommended that the PUC authorize CER a \$31.4 million permanent gas base rate increase. The department's recommendation was premised upon an 8.78% return on equity (51.39% of capital) and a 6.71% return on a rate base valued at \$1.29 billion.</p> <p>The Minnesota PUC on January 14<sup>th</sup> issued an order allowing CER to implement a \$38.5 million permanent increase in gas base rates. The authorized settlement, which is silent on return on equity, specifies a 6.86% overall return on an average rate base valued at \$1.31 billion for a test year ended Dec. 31<sup>st</sup>, 2020.</p>	

# Rate & Regulatory Update

Since the approved permanent rate hike is less than the interim rate increase authorized by the PUC in December 2019, refunds are expected to be required.

The parties to the proceeding — namely CER, which does business as CenterPoint Energy Minnesota Gas; the Department of Commerce – Division of Energy Resources, or DER; the Office of the Attorney General Residential Utilities Division; Suburban Rate Authority and a group of clean energy organizations — filed the settlement Sept. 16<sup>th</sup>, 2020, calling for an increase in base rates that was a little more than half of that sought by the utility.

The settlement resolved all issues in the case, with the exception of the tariffed on-bill program proposed by the city of Minneapolis. The program would provide eligible CER customers residing in Minneapolis the option to finance, using tariffed on-bill financing, the installation of certain energy efficiency upgrades in their homes or businesses. After deliberation, the PUC voted to reject the program.

Regarding rate design, the settlement maintains CER's current monthly fixed charges for its residential and commercial and industrial classes A and B.

# Rate & Regulatory Update

January 26 <sup>th</sup> , 2021	
<b>Company</b>	Black Hills/Nebraska Gas Utility Company, LLC
<b>State</b>	NE
<b>Docket Number</b>	<a href="#">NG-109</a>
<b>Approved Rate Change Amount</b>	\$10,688,337
<b>Approved ROE</b>	9.50%
<b>Intervenors</b>	Nebraska Public Advocate (PA), The Public Alliance for Community Energy (ACE), Nebraska Municipal Power Pool (NMPP), International Brotherhood of Electrical Workers Local 244 (IBEW)
Case Summary	
<p>The proceeding was initiated June 1<sup>st</sup> when Black Hills/Nebraska Gas Utility Company, LLC (BHNG) filed its proposed consolidated gas rate request. The utility sought a \$17.3 million rate increase based on a 10% return on equity (50% of capital) and a 7.06% return on a rate base valued at \$503.9 million.</p> <p>The application was filed to recover the utility's capital investments in growth, resiliency, reliability and safety projects. BHNG noted that it plans to invest roughly \$455 million, approximately \$91 million on average per year, on capital infrastructure investment over the next five years. The utility stated that it will spend approximately \$50 million of the \$91 million per year on programmatic SSIR projects.</p> <p>Additionally, another key driver for the filing was the utility's pipeline replacement charge and the SSIR charge. BHNG requested the renewal of the system safety mechanisms as well as modification of the SSIR's definition of eligible projects, including the SSIR criteria and categories.</p> <p>BHNG also stated that it will make approximately \$102 million in capital additions during 2020 as well as \$51 million in SSIR projects.</p> <p>On Sept. 14<sup>th</sup>, the Public Advocate filed testimony and recommended that the commission order the utility to reduce rates by \$1.8 million. The recommendation was based on an 8.97% return on equity (50% of capital) and a 6.44% return on a rate base valued at \$440.6 million.</p> <p>BHNG subsequently revised its initial rate request Oct. 13<sup>th</sup> and supported a \$15.7 million increase reflecting a 10% return on equity (50% of capital) and a 6.96% return on a rate base valued at \$503.8 million.</p> <p>A settlement was filed on October 28<sup>th</sup>, 2020 and approved by the NE PSC on January 26<sup>th</sup>. The settlement calls for the company to implement an \$11.1 million rate increase. After the transfer to base rates of roughly \$4.9 million being collected through the system safety and integrity rider, or SSIR, the net impact of the stipulated rate change is a roughly</p>	

# Rate & Regulatory Update

\$6.2 million overall rate increase. The revenue requirement is subject to further adjustment for additional Black Hills Nebraska Gas, or BHNG, updates to its actual 2020 capital additions investment and open positions in December and any other necessary corrections.

The parties agreed to a 9.5% return on equity (50% of capital) and a 6.71% return on a year-end rate base valued at \$502.7 million for a calendar 2019 test year.

The parties agreed to the rate structure proposed by BHNG. Currently, the BHNG legacy utilities all operate under different customer charges. The residential fixed monthly charges for the legacy utilities, Black Hills/Nebraska Gas Utility Co. LLC and Black Hills Distribution Gas, are \$13.50 and \$14.70, respectively. The parties agreed on increasing the customer charge to \$15.45.

In terms of commercial customer charges, Black Hills/Nebraska Gas Utility Co. and Black Hills Distribution Gas' current fixed monthly charges are \$18.50 and \$22.75, respectively. The parties agreed on increasing the charge to \$28.60.

The settlement also calls for the SSIR mechanism to be renewed for a five-year period. Additionally, the parties agreed that the mechanism should be expanded to cover safety infrastructure projects throughout all of BHNG's rate areas. The settlement also states that "unless otherwise permitted by the commission, the cost of installation or replacement of natural gas pipeline intended primarily to facilitate customer growth requirements, whether for identified or expected customers, will not be eligible for recovery under the SSIR tariff and other similar riders that permit the recovery of investment in capital investment projects that focus on customer safety."

The parties also agreed that BHNG may "include up to \$110 million of 2020 capital additions investment in its rate base calculation subject to verification of the level of investment in projects placed into service by [BHNG] by December 31, 2020." Additionally, the settlement calls for BHNG to be allowed to include its "investment in the farm tap replacement program (i.e., amount above \$4 million) in its rate base calculation."

# Rate & Regulatory Update

February 16 <sup>th</sup> , 2021	
<b>Company</b>	MDU Resources Group, Inc.
<b>State</b>	MT
<b>Docket Number</b>	<a href="#">2020.06.076</a>
<b>Approved Rate Change Amount</b>	\$7,250,000
<b>Approved ROE</b>	Not Specified
<b>Intervenors</b>	Montana Consumer Counsel (MCC)
Case Summary	
<p>This proceeding was officially initiated June 22<sup>nd</sup>, 2020, when Montana-Dakota filed for an \$8.6 million rate increase reflecting a 10.2% return on equity (50.21% of capital) and a 7.36% return on an average rate base valued at \$79.9 million for a calendar-2019 test year. The utility also requested to implement a \$4.9 million, or 8.2%, interim rate increase effective Feb. 1<sup>st</sup>, 2021. The interim rate increase is based on the 9.4% ROE that was previously approved for the company.</p> <p>The utility indicated that the rate increase is necessitated by its continued investment in distribution facilities to improve system safety and reliability. At the time of filing, Montana-Dakota said it has invested approximately \$36.3 million since 2016 to improve the safety and reliability of its distribution system in Montana and estimated that it will invest more than \$29.6 million to ensure system safety and reliability between 2020 and 2024.</p> <p>On Oct. 30<sup>th</sup>, 2020, the Montana Consumer Counsel filed testimony with the commission recommending that the Montana PSC authorize Montana-Dakota a \$5.4 million base rate increase reflecting an 8.75% return on equity (50.21% of capital) and a 6.63% return on a rate base valued at \$64.9 million.</p> <p>The utility filed rebuttal testimony Jan. 6<sup>th</sup>, 2021, and updated its supported revenue request. The updated testimony called for an \$8.7 million revenue increase which reflected a 9.8% return on equity (50.21% of capital) and a 7.16% return on a rate base valued at \$79.9 million. However, Montana-Dakota decided to forgo the change to its requested revenue increase stating that it "is an appropriate means for the company to adhere to our original goal regarding customer impact while still offering the company an opportunity to achieve a return at the low end of reasonable."</p> <p>The PSC approved Montana-Dakota's interim rate request Jan. 14<sup>th</sup>, and the utility placed the interim rates into effect Feb. 1<sup>st</sup>.</p> <p>On Feb. 16<sup>th</sup>, the PSC approved a settlement and authorized the utility to implement a roughly \$7.3 million rate increase, effective March 15<sup>th</sup>.</p> <p>The authorized rate increase will be split between \$4.8 million in distribution revenues and \$2.4 million in state and local taxes. The settlement was silent with respect to traditional rate case parameters, such as cost of capital figures and rate base.</p>	

# Rate & Regulatory Update

Montana-Dakota's plant-related excess accumulated deferred income taxes, or EDIT, are to be amortized using the average rate assumption method, while all non-plant related EDIT is to continue to be amortized over five years.

Montana-Dakota is allowed to include its pension assets in rate base and agrees that the utility will consistently include pension-related items as adjustments to rate base whether as an asset or liability in future proceedings.

The utility is to perform a lead-lag study before its next rate case and will have the option to seek recovery of costs related to the study through rates in its future rate case. The stipulation states that Montana-Dakota is to utilize the lead-lag study in its cash working capital calculations in its next rate case.

# Rate & Regulatory Update

February 19 <sup>th</sup> , 2021	
<b>Company</b>	Columbia Gas of Pennsylvania, Inc.
<b>State</b>	PA
<b>Docket Number</b>	<a href="#">R-2020-3018835</a>
<b>Approved Rate Change Amount</b>	\$63,548,905
<b>Approved ROE</b>	9.86%
<b>Intervenors</b>	Commission’s Bureau of Investigation and Enforcement (I&E), the Office of Consumer Advocate (OCA), the Office of Small Business Advocate (OSBA), the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA), and the Pennsylvania State University (PSU), Community Action Association of Pennsylvania (CAAP),
Case Summary	
<p>Columbia Gas of Pennsylvania had initially planned to file this case in March 2020, but delayed the filing due to the onset of the coronavirus pandemic. According to the company, "Continued indefinite delay of the rate filing, however, was not feasible, because of the substantial need for rate relief driven in major measure by the need to provide safe and reliable service to customers."</p> <p>The proceeding was formally initiated April 24<sup>th</sup>, when, as noted above, CGP filed for the \$100.4 million, or 17.5%, gas distribution base rate increase.</p> <p>The company cited an aggressive infrastructure upgrade program as the main driver of the request. CGP estimated that absent the requested increase, the company would earn a 4.86% ROE in calendar 2021 despite its ability to reflect incremental capital investment in rates through the DSIC.</p> <p>The intervening parties filed direct testimony in the case in July 2020 and rebuttal testimony was filed in August 2020, but these documents were not made publicly available. Evidentiary hearings were held in September 2020, and the parties filed their main briefs Oct. 16<sup>th</sup>, 2020.</p> <p>According to its brief, the PUC staff recommended a \$75.9 million rate increase premised upon a 9.86% ROE (54.19% of capital) and a 7.41% return on the company-supported rate base of \$2.401 billion.</p> <p>As a primary recommendation, the Office of Consumer Advocate, or OCA, proposed that the commission reject the rate increase in its entirety due to the impacts on ratepayers of COVID-19 and uncertainty concerning the accuracy of test year forecasts since COVID-19 impacts were not factored in.</p>	

## Rate & Regulatory Update

Based on a more traditional analysis of the individual issues in the case, the OCA identified a \$31.3 million "revenue deficiency" premised upon an 8.5% ROE (50% of a hypothetical capital structure) and a 6.51% return on a rate base valued at \$2.329 billion. The OCA recommended that the commission reject the company-proposed increases in fixed monthly customer charges for most customer classes, except for one subset of the small general service class.

The Office of Small Business Advocate did not perform a full revenue requirement analysis, but recommended a 7.63% ROE.

In its brief, CGP continued to support its initially requested increase and stated that the company "is aware of the challenges faced by many customers as a result of COVID-19 and the resulting recession. However, the appropriate response is not to disallow proper rate relief. Instead, the response is to institute programs that enable customers to maintain service through targeted relief efforts such as waiver of late fees and penalties, and expansion of customer assistance efforts. Columbia has already implemented these efforts, and will continue to examine and propose further programs."

The ALJ issued a recommended decision Dec. 4<sup>th</sup>, 2020, calling for the Pennsylvania PUC to deny the in its entirety because the company has "not met its burden of proving, by substantial evidence, that the proposed base rate revenue increase will result in just and reasonable rates."

In the event the commission did not adopt the recommendation to summarily deny the rate increase request, the judge provided suggested determinations on various issues in accordance with a more traditional approach. While the ALJ did not provide an overall revenue requirement recommendation, RRA estimated that the judge's findings would support a \$53.8 million or a \$19.1 million gas rate increase depending on which ROE is selected.

The \$53.8 million increase reflected a 9.86% ROE, while the \$19.1 million increase reflects a 7.63% ROE. It is unclear from the recommended decision which of the two the judge supported. On the one hand, the judge stated that the proxy group and methodology used by the PUC's Bureau of Investigation and Enforcement, or staff, comports with the commission's usual practice; the staff recommended a 9.86% ROE.

In an alternative analysis, the ALJ noted that the last ROE approved by the PUC in a fully litigated rate case represented a 690-basis-point premium over the then-prevailing 10-year Treasury Bond rate; applying that premium to the rate on 10-year notes as of Oct. 16<sup>th</sup>, 2020, would result in a 7.63% ROE. RRA calculated that adoption of this ROE would result in a \$19.1 million rate increase when combined with the ALJ's other proposals.

The judge recommended that the commission adopt a hypothetical capital structure with a 50/50 debt-equity mix as more representative of a balance of ratepayer and shareholder risks than the company-proposed, more equity-rich capital structure, resulting in either a



# Rate & Regulatory Update

7.19% return on rate base or a 6.075% return on rate base, depending on which ROE is used.

The judge also recommended that CGP curtail proposed increases in capital investment that had been reflected in the fully forecast test year in the case and proposed reductions to certain test year expense items that aggregated to a little over \$14 million.

The PUC ordered a a \$63.5 million, or 11.1%, gas distribution rate increase, overturning the Administrative Law Judge's recommendation that the PUC reject the company's request for a rate increase in its entirety due to COVID-19.

In so doing, the PUC rejected arguments put forth by several parties and adopted by the judge, or ALJ, that the increase request should be denied on its face, alleging that the company failed to "consider and appreciate the dire straits in which its customers and the Commonwealth find themselves due to the COVID-19 pandemic" and asserting that "the pandemic has altered the socio-economic landscape of Columbia's customers so drastically, that any increase would result in unjust and unreasonable rates."

The commission stated "in our opinion, the continued use of traditional ratemaking methodologies during this pandemic is consistent with the setting of just and reasonable rates and the constitutional standards established in [industry case law], and the pandemic does not change the continued application of these standards; and (2) there is a lack of substantial evidence in this record to support the ALJ's recommendation to completely deny the company's requested rate increase due to the pandemic."

CGP had filed for a \$100.4 million base rate increase premised upon a 10.95% ROE (54.19% of capital) and a 7.98% return on a rate base valued at \$2.401 billion for a fully forecast test year ending Dec. 31, 2021. RRA estimates that the commission's reliance on a lower rate of return than that supported by CGP accounted for about \$18 million of the roughly \$37 million difference between the \$100.4 million increase sought by the company and the \$63.5 million increase approved by the PUC.

Adjustments to rate base accounted for about \$7 million of the difference and were primarily related to the exclusion of certain 2021 planned expenditures based on a finding that the total level of expenditures for that year was drastically higher than the level of expenditures in each of the prior three years.

The remaining \$12 million of difference flowed from adjustments to net operating income items, about \$3 million of which was related to incentive compensation costs; adjustments to depreciation and outside services costs each accounted for \$2 million of the difference; disallowances related to employee count and safety initiatives each accounted for \$1 million; and the remaining \$3 million flowed from various smaller expense adjustments.

The PUC on April 15<sup>th</sup> voted unanimously to affirm its rate order authorizing the rate increase, rejecting the state Office of Consumer Advocate's request that the commission reverse or modify the order.

# Rate & Regulatory Update

The consumer advocate, or OCA, contended that the commission should have denied the CGP-proposed rate increase due to the ongoing economic impacts of the COVID-19 pandemic; a position that had been supported by the Administrative Law Judge. The OCA also argued that the commission's reliance on previous orders adopting settlements that allowed companies to increase rates during the pandemic as precedent for this decision was flawed and could potentially discourage parties from pursuing settlements in future rate cases. Additionally, the OCA pointed out that those settlements included various customer protection provisions that were not present in this fully litigated decision. The PUC's Bureau of Investigation and Enforcement, also known as the staff, and CGP filed comments opposing the OCA's arguments.

In affirming the initial decision, the PUC summarized the conclusions from its final order as follows:

- 1) The continued use of traditional ratemaking during the pandemic is consistent with the setting of just and reasonable rates.
- 2) There was a lack of substantial evidence in the record to completely deny the company's requested rate increase.
- 3) The parties did not demonstrate that "the impact of *any* rate increase on unemployed customers would lead to harm that outweighed all other valid ratemaking concerns."
- 4) Taking the approach of denying any rate increase would have been inconsistent with prior orders issued during the pandemic.

In the April 15 order, the PUC found that "the OCA has not satisfied the standards for reconsideration....The OCA has not raised any arguments in its Petition that are 'new and novel' or that the Commission has not previously addressed."

With respect to the OCA's contention that it was inappropriate to use a settled case as precedent for this proceeding the PUC noted that it referred to those proceedings "for the limited purpose of indicating that pursuant to our ratemaking authority, we have approved, and are authorized to approve, during this pandemic, rate increase requests that result in just and reasonable rates. We did not rely on as precedential or cite to any specific language or settlement terms in the parties' settlement agreements" in those proceedings..... In reaching our decision to grant Columbia a revenue increase, as we have done in prior rate cases, we considered the proper balance between the interests of ratepayers and utilities as well as the broad public interests in the rate-making process."

# Rate & Regulatory Update

February 24 <sup>th</sup> , 2021	
<b>Company</b>	Washington Gas Light Co.
<b>State</b>	DC
<b>Docket Number</b>	<a href="#">FC1162</a>
<b>Approved Rate Change Amount</b>	\$19,500,000
<b>Approved ROE</b>	9.25%
<b>Intervenors</b>	Apartment and Office Building Association of Metropolitan Washington (AOBA), the Baltimore Washington Construction and Public Employees Laborers' District Council (BWLDC), the District of Columbia Government (DCG), the Environmental Defense Fund (EDF), General Services Administration (GSA), and Sierra Club
Case Summary	
<p>This proceeding was initiated Jan. 13<sup>th</sup>, 2020 when Washington Gas Light Co. filed for commission approval of a \$35.2 million gas base rate increase reflecting a 10.4% return on equity (52.24% of capital) and a 7.56% return on an average rate base valued at \$532.2 million for a calendar 2019 test year. After the transfer to base rates of roughly \$9.1 million that is being collected through the APRP surcharge, the net impact of the initial company request would have been a \$26.1 million, or 10.92%, net overall rate increase.</p> <p>On May 15<sup>th</sup>, 2020, Washington Gas filed supplemental testimony based on nine months of actual and three months of forecast financial data. The updated testimony supported a \$39 million revenue increase that reflects a 10.4% return on equity (52.10% of capital) and a 7.56% return on an average rate base valued at \$542.6 million. With the transfer to base rates of roughly \$9.1 million, the net increase would have been a \$29.9 million net overall rate increase. However, at the time, Washington Gas indicated that it continued to seek the initially requested increase.</p> <p>The Office of People's Counsel filed testimony Aug. 14<sup>th</sup>, 2020, recommending that the commission authorize Washington Gas a \$6.5 million gas rate increase based on an 8.5% return on equity (50% of capital) and a 6.58% return on an average rate base valued at \$433.3 million for a calendar 2019 test year.</p> <p>A settlement filed before the DC PSC was adopted on February 24<sup>th</sup>. The parties agreed to a 9.25% return on equity (52.1% of capital) and a 7.05% overall rate of return. The settlement was silent with respect to the rate base value underlying the agreed-upon revenue requirement.</p> <p>The settlement allows for the transfer of \$99.5 million in plant in service from PROJECTpipes to rate base without a determination as to the prudence or reasonableness of the underlying projects.</p>	

# Rate & Regulatory Update

Additionally, the settlement calls for Washington Gas to increase its heating and cooling residential fixed monthly charge to \$15.05 from \$13.10, a 14.9% increase.

Washington Gas agreed to withdraw its request to implement a revenue normalization adjustment to reflect the difference between actual revenues received by the company and the level of revenues the company is authorized to collect. At the time of the initial case filing, the utility stated that the revenue normalization adjustment was to incentivize the utility "to promote energy efficiency and conservation measures that support the District of Columbia's climate goals."

The parties stipulated that Washington Gas would file an annual report with the commission that reports the greenhouse gas emissions associated with the utility's delivery of gas to district customers in the previous calendar year.

The utility also agreed to refrain from filing for a distribution rate increase, including a revenue normalization adjustment or similar revenue decoupling mechanism, prior to Aug. 31, 2021.

The parties to settlement include Washington Gas, the Office of People's Counsel, the Apartment and Office Building Association, the District of Columbia government, the U.S. General Services Administration, and the Baltimore-Washington Construction and Public Employees Laborers' District Council.

# Rate & Regulatory Update

March 25 <sup>th</sup> , 2021	
<b>Company</b>	Southwest Gas Corp.
<b>State</b>	CA
<b>Docket Number</b>	<a href="#">A1908015</a>
<b>Approved Rate Change Amount</b>	\$6,400,000
<b>Approved ROE</b>	10.00%
<b>Intervenors</b>	City of Victorville, California Public Advocate’s Office
Case Summary	
<p>Southwest Gas Corp., or SWG, which serves about 200,000 California customers, filed its rate case application Aug. 30<sup>th</sup>, 2019, with the commission, requesting authority to increase rates and charges for natural gas service in California, effective Jan. 1<sup>st</sup>, 2021.</p> <p>SWG requested increases of about \$6.8 million, \$1.5 million and \$4.5 million for the Southern California, Northern California and South Lake Tahoe rate jurisdictions, respectively.</p> <p>Parties to the proceeding including Cal Advocates and the city of Victorville engaged in several discussions regarding the application and participated in a formal settlement conference July 28<sup>th</sup>, 2020. As a result of these discussions, parties reached a compromise and agreement that resolves the outstanding issues and which the parties assert is fair and reasonable, consistent with applicable law and in the public interest. Additionally, parties recognized that the settlement avoids the costs and uncertainties of continued litigation in the proceeding.</p> <p>On March 25<sup>th</sup>, the California PUC ordered the adoption of the filed settlement.</p> <p>Parties to SWG's rate case proceeding in California reached the settlement agreement in August 2020. The settlement would authorize SWG's Southern California rate jurisdiction to increase base rates by \$3 million, based upon a 10% return on equity (52% of capital structure) and a 7.11% return on a rate base valued at \$285.7 million.</p> <p>The settlement affords SWG's Northern California rate jurisdiction with no revenue increase, a 10% ROE (52% of capital structure) and 7.44% return on a rate base valued at about \$93 million, and the settlement affords SWG's South Lake Tahoe rate jurisdiction with a \$3.4 million base rate increase, a 10% ROE (52% of capital structure) and 7.44% return on a rate base valued at \$56.8 million. All three instances assume a test year ending Dec. 31.</p> <p>The settlement would also continue the post-test-year ratemaking mechanism approved in earlier CPUC decisions, but annual revenues will be adjusted by 2.75% in each of the jurisdictions to recover increases in expenses and capital expenditures in the 2022-25 post-test-year period.</p>	

January 1 through March 31, 2021



# Rate & Regulatory Update

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