BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc. For an Increases in Electric Rates	: : :	Case No. 12-1682-EL-AIR
In the Matter of the Application of Duke Energy Ohio, Inc. for Tariff Approval.	: : :	Case No. 12-1683-EL-ATA
In the Matter of the Application of Duke Energy, Ohio, Inc. for Approval To Change Accounting Methods.	: :	Case No. 12-1684-EL-AAM

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Prefiled Testimony
of
Joseph P. Buckley
Rates Division
Utilities Department

Staff Exhibit __

March 20, 2013

1. Q. Please state your name and place of business.

A. My name is Joseph P. Buckley. My business address is 180 E. Broad Street, Columbus, Ohio 43215.

2. Q. By who are you employed?

A. I am employed by the Public Utilities Commission of Ohio (PUCO).

3. Q. Would you please state your background?

A. I received a Bachelor of Science Degree in Economics from the Ohio State University and a Master's Degree in Business Administration from the University of Dayton. In 2000, I earned the Certified in Financial Management (CFM) designation, awarded by the Institute of Management Accountants. Also I attended, The Annual Regulatory Studies Program sponsored by The National Association of Regulatory Utility Commissioners (NARUC) and The Training for Utility Management Analyst also sponsored by NARUC. I have been employed by the PUCO since 1987. Since that time I have progressed through various positions and was promoted to my current position of Utility Specialist 3, in 2000. In addition, I have worked on several joint Federal Communication Commission (FCC) and NARUC projects and audits and served on the Midwest ISO's Finance Committee as Vice-Chairman and Chairman. Also, in 2011, I was awarded the professional designation Certified Rate of Return Analyst (CRRA) by the Society of Utility and Regulatory Financial Analysts. This designation is awarded based upon experience and successful completion of a written examination.

In addition, I have been an instructor at Michigan State's Institute of Public Utilities Annual Regulatory Studies Program since 2008.

4. Q. What is your involvement in this proceeding?

A. I am responsible for the calculating the Staff recommended rate of return in Case No. 12-1682-El-AIR and 12-1685-GA-AIR, and will be responding to the objections related to the calculation.

5. Q. Are there any objections related to the fact that Duke Energy Ohio, Inc. (Duke) has a reduced business risk because they are a distribution utility?

A. Yes. In general Cincinnati Bell companies, OPAE (Ohio Partners for Affordable Energy) and GCHC (Greater Cincinnati Health Council) believe that the rate of return recommended inappropriately reflects that of a higher risk integrated utility, specifically:

> The Cincinnati Bell companies object to the recommended rate of return as reflecting the higher risk of an integrated utility, which includes businesses with higher risks than the distribution business, resulting in an excessive rate of return for distribution rates.
>
> OPAE objects to the Staff Recommendation that the rate of return be set in the range of 7.19% to 7.73% and the cost of common equity set at a range of 8.82% to 9.84% because these ranges provide an excessive return when compared to the risk faced by Duke as a provider of monopoly electric distribution service. Staff Report at 16, 18.
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> The GCHC objects to the recommended rate of return as reflecting the higher risk of an integrated utility, which includes businesses with higher risks than the distribution business, resulting in an excessive rate of return for distribution rates.

6. Q. How does Staff respond to these objections?

A. Staff used specific criteria for selecting comparable companies for the DCF and CAPM review. However, Staff has examined a wide range of filters to examine different sets of comparable companies. One set of data that Staff examined was the S&P credit rankings of U.S. regulated companies (Staff attachment 1). Staff examined the S&P rating factors of 1) Business profile; 2) Financial profile; and 3) Liquidity, to attempt to determine if companies that were heavily distribution leaning received any benefit in terms of overall ratings. While for example Duke had a business profile rating of "strong", compared to Ohio Edison Co.'s (which is a more of a distribution only utility) "excellent" business risk rating. Duke had an overall credit rating of BBB+ compared to Ohio Edison Co.'s BBB-.

This helps to illustrate the fact that while business profile is a factor in determining the level of risk of an entity it is only a percentage of the overall criteria used to evaluate an entity. Therefore Staff did not discount the rate of return for a reduction in business risk.

7. Q. Did Staff receive any objections to modification of the traditional 50 percent CAPM and 50 percent DCF for setting the rate of return?

A. Yes. OCC objects that the Staff inappropriately increased Duke's cost of equity (return on equity) by applying different and unequal weights (0.25 and 0.75 respectively) to the results of the capital asset pricing model ("CAPM") and the discounted cash flow model. These weights applied by the Staff are contrary to the weights (0.50 and 0.50) that have been used in prior electric and gas rate cases. The Staff has not provided a reasonable explanation for the recommended change to the weights for estimating the return on equity. This proposed change in the methodology for estimating the cost of equity will unnecessarily increase the cost of electric services to Duke's residential customers.

8. Q. How does Staff respond to this objection?

A. Staff gathered data from the Federal Reserve Bank (FRB) Website (http://www.federalreserve.gov) to examine the difference between yields for bonds rated as Baa by Moody's (this is similar to BBB bonds rate by S&P) and 10 year treasury yields. During the period in which Staff used to calculate the rate of return, the spreads were very large (See Staff attachment 2). This implies rates on treasury notes are at a discount to corporate debt after risk is factored. Staff also studied reports from the FRB Board of governors that stated the FRB took extraordinary action to keep rates low to help stabilize the US economy (Staff attachment 3). These rates are used in the calculation of the CAPM. Staff believes that if the weights are not altered the historically low interest rates would inappropriately skew downward the Rate of Return applied to Duke.

In fact the Staff reviewed the Edison Electric Institute's *Rate Case Summary* (Staff attachment 4) and found that the average Return on Equity (ROE) awarded nationally to electric utilities in quarter three of 2012 was 9.78 percent and for the first three quarters of 2012 the average was 10.27 percent. If OCC's recommended ROE of 7.84 percent was adopted it would be approximately 24 percent below the average ROEs granted nationally to electric utilities in the first three quarters of 2012 (Staff attachment 5).

9. Q. Did Staff receive any objections related to allowing an adjustment for flotation or equity issuance cost?

A. Yes. OCC objects that the Staff inappropriately increased the cost of equity by allowing an adjustment for flotation or equity issuance costs despite the fact that Duke failed to show that it incurred any flotation costs. In addition, Duke did not provide documentation of the magnitude of flotation costs it may incur in the reasonably near future. The Staff inappropriately increased the cost of equity (return on equity) by using the adjustment factor the Staff recommended in the last Duke electric rate case (Case No. 08-709-EL-AIR). However, the Staff did not provide support for this adjustment.

10. Q. How does Staff respond to this objection?

A. As mentioned in the Staff Report, Duke has negative retained earnings which would result in a negative issuance cost, which is not possible. Therefore Staff used the last issuance cost from the last Duke electric rate case (Case No. 08-709-EL-AIR). The purpose and the nature of the Staffs issuance cost adjustment is that it makes an adjustment to support the portion of the embedded balance of equity that was raised from equity issuance and not generated internally. The Staff's adjustment is structured to support this balance on an annual basis. The Staff has no intention of reflecting issuance costs as annual operating expense in the revenue requirement.

11. Q. Does Staffs issuance cost adjustment take into account flotation?

A. Staffs adjustment in no way reflects flotation costs, if such a term is meant to refer to dilution, price pressure, or market pressure. Staffs adjustment reflects only properly included issuance costs.

12. Q. What are common stock issuance costs?

A. Issuance costs include expenditures made directly by the company issuing stock, for the purpose of issuing stock. Some of these expenditures would be for filing with the SEC, accounting, legal representation, printing, and exchange listing. Issuance costs also include the underwriting spread, which is not an expenditure for the issuing company. Basically, the underwriting spread is the difference between the proceeds to the company and the price paid by the primary purchasers of an issue. Issuance costs are the difference between the amount paid by the primary purchasers and the net proceeds, which is the amount available for investment by the company.

13. Q. Why is an adjustment for issuance cost necessary?

A. The cost of issuance is properly spread over the life of the stock issue. As long as stock has been issued, an equity adjustment is necessary. It does not matter what future financing plans have been prepared. The investor requires a full return as long as the investor owns the stock. The company issuing new equity initially receives funds in the amount of the equity issued. The amount of equity issued less the issuance cost is the amount available to the company for investment, yet the investor is, as required, paid a return on the full amount of investment. A greater return, therefore, must be earned on the lesser amount that can be invested. This is made possible by the Staff's adjustment to the baseline cost of equity.

14. Q. Did Staff receive any objections to using the arithmetic mean?

A. Yes. OCC objects that the Staff, in its CAPM estimation, used an equity risk premium that was inappropriate because it was based solely on the spread of arithmetic mean total returns between large companies' stocks and long-term government bonds. The Staff's approach would artificially increase the common equity cost to customers.

15. Q. How does Staff respond to this objection?

A. The arithmetic mean is used by the Staff to develop the premium over risk-free rate of return. Then empirical data supporting this premium is from Ibbotson. Ibbotson recommends the use of the arithmetic mean of this empirical data when used in CAPM analysis. (Ibbotson, SBBI Valuation Edition Yearbook, p.56) Ibbotson prefers the arithmetic mean for CAPM because the CAPM is an "additive model, in which the cost of capital is the sum of its parts," and the geometric mean "is more appropriate for reporting past performance, since it represents the compound average return." Staff would also note that this is the methodology that has been repeatedly adopted by this Commission for the establishment of the risk premium.

16. Q. What does Duke's objection 16 state?

A. Duke objects to the cost of equity used by Staff in its cost of capital analysis because Staff failed to apply generally accepted methods for accurately estimating the cost of equity. Staff's recommended range of 8.82% to 9.84% with an overall rate of return of 7.19% to 7.73% is confiscatory and contrary to the *Hope and Bluefield Water* jurisprudence. Staff's analysis contains numerous errors that result in an unreasonable and understated rate of return, including, but not limited to:

- Staff's Discounted Cash Flow analysis lacks statistical reliability as it relies on a very small sample of five companies and an understated flotation cost allowance.
- Staff's CAPM result are flawed and understate an appropriate Return on Equity (ROE) for Duke Energy Ohio because Staff: (1) employed an improper Risk-Free Rate; (2) used an incorrect market risk premium adjustment; (3) understated the flotation cost adjustment; and (4) failed to use an empirical CAPM adjustment.

17. Q. How does Staff respond to the objection that Staff's Discounted Cash Flow analysis lacks statistical reliability as it relies on a very small sample of five companies?

A. Staff believes that the electric utility industry is in a state of flux due to mergers and acquisitions, changes in corporate structures and other factors that make the potential group of comparable companies very small. If reasonable filters are applied to select similarly situated companies the pool grows even smaller. However, Staff did not feel it was appropriate to expand this pool to include companies that are outside the filter selected by the Staff simply to increase the sample size.

18. Q. How does Staff respond to Duke's objection that the Staff's CAPM results are flawed and understate an appropriate Return on Equity for Duke Energy Ohio because Staff employed an improper Risk-Free Rate?

A. Staff agrees with Office of Consumers' Counsel Daniel J. Duann[1] that using the weighted average of 10 year and 30 year daily closing Treasury yields for the period from September 30, 2011, through September 28, 2012,

"Is reasonable as it relies on actual market data over an extended period of time. It is stable and less subjective than estimated returns on risk-free investment based on various economic or market forecasts. The current and recent actual data on Treasury yields have fully reflected investors' expectations into the future, and they fairly represent the return on risk-free investments expected in the near future. The use of the average yields from the bonds of different maturity (10 years and 30 years) is also a better

[1] Direct Testimony of Daniel J. Duann, Ph.D., February 19, 2013. Pages 12-13.

approach than using the yield estimation that relies solely on forecasted or actual or actual yields of 30-year bonds. The average yield of 10-year and 30-year bonds is a more stable and representative measurement of the various maturities of long-term US government bonds."

19. Q. How does Staff respond to the Duke's objection that they understated the floatation cost allowance?

A. There is a typographical error in the Staff Report on page 142. Line 7 should read "Low End Equity Cost (8.66% x(6)) and Line 8 should read "High End Equity Cost (9.84%x (6)).

20. Q. How does Staff respond to the objection that it failed to use an empirical CAPM adjustment.

A. Staff understands that CAPM analysis has some detractors. In fact most if not all of the methods use to calculate the rate of return have strengths and weaknesses. At this point, Staff is not compelled to abandon the CAPM calculation.

21. Q. Does this conclude your testimony?

A. Yes, it does. However, I reserve the right to submit supplemental testimony as described herein, as new information subsequently becomes available or in response to positions taken by other parties.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Testimony of Joseph P. Buckley, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail, upon the parties listed below, this 20th day of March, 2013.

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U.S. Regulated Utilities

Company	Corporate credit rating*	Business profile	Financial profile	Liquidity
Madison Gas & Electric Co.	AA-/Stable/A-1+	Excellent	Intermediate	Adequate
Midwest Independent Transmission Syste	A+/Stable/--	Excellent	Intermediate	Exceptional
American Transmission Co.	A+/Stable/A-1	Excellent	Intermediate	Adequate
Aqua Pennsylvania Inc.	A+/Stable/--	Excellent	Intermediate	Adequate
Washington Gas Light Co.	A+/Stable/A-1	Excellent	Intermediate	Adequate
WGL Holdings Inc.	A+/Stable/A-1	Excellent	Intermediate	Adequate
Baton Rouge Water Works Co. (The)	A+/Stable/--	Excellent	Intermediate	Strong
Golden State Water Co.	A+/Stable/--	Excellent	Intermediate	Adequate
American States Water Co.	A+/Stable/--	Excellent	Intermediate	Adequate
Northwest Natural Gas Co.	A+/Stable/A-1	Excellent	Intermediate	Adequate
California Water Service Co.	A+/Negative/--	Excellent	Intermediate	Exceptional
California Independent System Operator	A/Stable/--	Excellent	Intermediate	Strong
San Diego Gas & Electric Co.	A/Stable/A-1	Excellent	Significant	Adequate
Southern California Gas Co.	A/Stable/A-1	Excellent	Significant	Adequate
Piedmont Natural Gas Co. Inc.	A/Stable/A-1	Excellent	Intermediate	Adequate
Questar Gas Co.	A/Stable/--	Excellent	Intermediate	Adequate
Alabama Power Co.	A/Stable/A-1	Excellent	Significant	Adequate
Wisconsin Power & Light Co.	A/Stable/A-1	Excellent	Significant	Adequate
Georgia Power Co.	A/Stable/A-1	Excellent	Significant	Adequate
Gulf Power Co.	A/Stable/A-1	Excellent	Significant	Adequate
New Jersey Natural Gas Co.	A/Stable/A-1	Excellent	Intermediate	Adequate
The Brooklyn Union Gas Co.	A/Stable/--	Excellent	Significant	Adequate
KeySpan Gas East Corp.	A/Stable/--	Excellent	Significant	Adequate
Southern Co.	A/Stable/A-1	Excellent	Significant	Adequate
Questar Corp.	A/Stable/A-1	Excellent	Intermediate	Adequate
San Jose Water Co.	A/Stable/--	Excellent	Significant	Adequate
Mississippi Power Co.	A/Stable/A-1	Strong	Significant	Adequate
Connecticut Water Co. (The)	A/Negative/--	Excellent	Significant	Adequate
Connecticut Water Service Inc.	A/Negative/--	Excellent	Significant	Adequate
Central Hudson Gas & Electric Corp.	A/Watch Neg/--	Excellent	Significant	Strong
Laclede Gas Co.	A/Negative/A-1	Excellent	Intermediate	Strong
Laclede Group Inc. (The)	A/Negative/--	Excellent	Intermediate	Strong

Wisconsin Electric Power Co.	A-/Positive/A-2	Excellent	Significant	Adequate
Wisconsin Gas LLC	A-/Positive/A-2	Excellent	Significant	Adequate
Wisconsin Energy Corp.	A-/Positive/A-2	Excellent	Significant	Adequate
NSTAR Gas Co.	A-/Stable/--	Excellent	Significant	Adequate
Yankee Gas Services Co.	A-/Stable/--	Excellent	Significant	Adequate
NSTAR Electric Co.	A-/Stable/A-2	Excellent	Significant	Adequate
Western Massachusetts Electric Co.	A-/Stable/--	Excellent	Significant	Adequate
Connecticut Light & Power Co.	A-/Stable/--	Excellent	Significant	Adequate
Public Service Co. of New Hampshire	A-/Stable/--	Excellent	Significant	Adequate
Consolidated Edison Co. of New York Inc.	A-/Stable/A-2	Excellent	Significant	Adequate
Orange and Rockland Utilities Inc.	A-/Stable/A-2	Excellent	Significant	Adequate
York Water Co. (The)	A-/Stable/--	Excellent	Significant	Adequate
Middlesex Water Co.	A-/Stable/--	Excellent	Significant	Adequate
United Water New Jersey Inc.	A-/Stable/--	Excellent	Significant	Adequate
United Waterworks Inc.	A-/Stable/--	Excellent	Significant	Adequate
Indiana Gas Co. Inc.	A-/Stable/--	Excellent	Significant	Adequate
Boston Gas Co.	A-/Stable/--	Excellent	Significant	Adequate
Colonial Gas Co.	A-/Stable/--	Excellent	Significant	Adequate
Vectren Utility Holdings Inc.	A-/Stable/A-2	Excellent	Significant	Adequate
Southern Indiana Gas & Electric Co.	A-/Stable/--	Excellent	Significant	Adequate
Virginia Electric & Power Co.	A-/Stable/A-2	Excellent	Significant	Adequate
Florida Power & Light Co.	A-/Stable/A-2	Excellent	Intermediate	Adequate
Massachusetts Electric Co.	A-/Stable/A-2	Excellent	Significant	Adequate
Narragansett Electric Co.	A-/Stable/--	Excellent	Significant	Adequate
New England Power Co.	A-/Stable/A-2	Excellent	Significant	Adequate
Niagara Mohawk Power Corp.	A-/Stable/A-2	Excellent	Significant	Adequate
Northern States Power Wisconsin	A-/Stable/A-2	Excellent	Significant	Adequate
Public Service Co. of Colorado	A-/Stable/A-2	Excellent	Significant	Adequate
Northern States Power Co.	A-/Stable/A-2	Excellent	Significant	Adequate
Southwestern Public Service Co.	A-/Stable/A-2	Excellent	Significant	Adequate
Peoples Gas Light & Coke Co. (The)	A-/Stable/A-2	Excellent	Significant	Adequate
North Shore Gas Co.	A-/Stable/--	Excellent	Significant	Adequate
Peoples Energy LLC	A-/Stable/--	Excellent	Significant	Adequate
Wisconsin Public Service Corp.	A-/Stable/A-2	Excellent	Significant	Adequate

MidAmerican Energy Co.	A-/Stable/A-2	Excellent	Significant	Adequate
Interstate Power & Light Co.	A-/Stable/A-2	Excellent	Significant	Adequate
PacifiCorp	A-/Stable/A-2	Excellent	Significant	Adequate
NSTAR LLC	A-/Stable/A-2	Excellent	Significant	Adequate
Northeast Utilities	A-/Stable/--	Excellent	Significant	Adequate
Consolidated Edison Inc.	A-/Stable/A-2	Excellent	Significant	Adequate
National Grid USA	A-/Stable/A-2	Excellent	Significant	Adequate
National Grid Holdings Inc.	A-/Stable/A-2	Excellent	Significant	Adequate
KeySpan Corp.	A-/Stable/--	Excellent	Significant	Adequate
Xcel Energy Inc.	A-/Stable/A-2	Excellent	Significant	Adequate
Alliant Energy Corp.	A-/Stable/A-2	Excellent	Significant	Adequate
Integrys Energy Group Inc.	A-/Stable/A-2	Excellent	Significant	Adequate
Dominion Resources Inc.	A-/Stable/A-2	Excellent	Significant	Adequate
Vectren Corp.	A-/Stable/--	Excellent	Significant	Adequate
NextEra Energy Inc.	A-/Stable/--	Strong	Intermediate	Adequate
Pennsylvania-American Water Co.	BBB+/Positive/--	Excellent	Significant	Adequate
New Jersey-American Water Co.	BBB+/Positive/--	Excellent	Significant	Adequate
American Water Works Co. Inc.	BBB+/Positive/A-2	Excellent	Significant	Adequate
American Water Capital Corp.	BBB+/Positive/A-2	Excellent	Significant	Adequate
Atlanta Gas Light Co.	BBB+/Stable/--	Excellent	Significant	Adequate
Atmos Energy Corp.	BBB+/Stable/A-2	Excellent	Significant	Adequate
Tampa Electric Co.	BBB+/Stable/A-2	Excellent	Significant	Adequate
International Transmission Co.	BBB+/Stable/--	Excellent	Aggressive	Adequate
ITC Midwest LLC	BBB+/Stable/--	Excellent	Aggressive	Adequate
Michigan Electric Transmission Co.	BBB+/Stable/--	Excellent	Aggressive	Adequate
ITC Great Plains LLC	BBB+/Stable/--	Excellent	Aggressive	Adequate
CenterPoint Energy Houston Electric LLC	BBB+/Stable/--	Excellent	Aggressive	Strong
Cascade Natural Gas Corp.	BBB+/Stable/--	Excellent	Intermediate	Adequate
Montana-Dakota Utilities Co.	BBB+/Stable/--	Excellent	Intermediate	Adequate
Southwest Gas Corp.	BBB+/Stable/--	Excellent	Significant	Adequate
Public Service Co. of North Carolina Inc.	BBB+/Stable/A-2	Excellent	Aggressive	Adequate
South Carolina Electric & Gas Co.	BBB+/Stable/A-2	Excellent	Aggressive	Adequate
Oncor Electric Delivery Co. LLC	BBB+/Stable/--	Excellent	Aggressive	Strong
Oklahoma Gas & Electric Co.	BBB+/Stable/A-2	Excellent	Significant	Adequate

Southern California Edison Co.	BBB+/Stable/A-2	Excellent	Significant	Adequate
Nicor Gas Co.	BBB+/Stable/A-2	Excellent	Significant	Adequate
Arizona Public Service Co.	BBB+/Stable/A-2	Excellent	Significant	Adequate
Potomac Electric Power Co.	BBB+/Stable/A-2	Excellent	Aggressive	Adequate
Delmarva Power & Light Co.	BBB+/Stable/A-2	Excellent	Aggressive	Adequate
Atlantic City Electric Co.	BBB+/Stable/A-2	Excellent	Aggressive	Adequate
Baltimore Gas & Electric Co.	BBB+/Stable/A-2	Excellent	Significant	Adequate
DTE Gas Co.	BBB+/Stable/A-2	Excellent	Significant	Adequate
DTE Electric Co.	BBB+/Stable/A-2	Excellent	Significant	Adequate
ITC Holdings Corp.	BBB+/Stable/--	Excellent	Aggressive	Adequate
MidAmerican Energy Holdings Co.	BBB+/Stable/--	Excellent	Aggressive	Adequate
TECO Energy Inc.	BBB+/Stable/--	Excellent	Significant	Adequate
SCANA Corp.	BBB+/Stable/A-2	Excellent	Aggressive	Adequate
CenterPoint Energy Resources Corp.	BBB+/Stable/A-2	Excellent	Aggressive	Strong
CenterPoint Energy Inc.	BBB+/Stable/A-2	Excellent	Aggressive	Strong
Pinnacle West Capital Corp.	BBB+/Stable/A-2	Excellent	Significant	Adequate
PEPCO Holdings Inc.	BBB+/Stable/A-2	Excellent	Aggressive	Adequate
South Jersey Gas Co.	BBB+/Stable/A-2	Strong	Significant	Adequate
Sempra Energy	BBB+/Stable/A-2	Strong	Significant	Adequate
AGL Resources Inc.	BBB+/Stable/A-2	Strong	Significant	Adequate
DTE Energy Co.	BBB+/Stable/A-2	Strong	Significant	Adequate
South Jersey Industries Inc.	BBB+/Stable/--	Strong	Significant	Adequate
OGE Energy Corp.	BBB+/Stable/A-2	Strong	Significant	Adequate
ALLETE Inc.	BBB+/Stable/A-2	Strong	Significant	Adequate
Duke Energy Kentucky Inc.	BBB+/Negative/--	Excellent	Significant	Adequate
Duke Energy Carolinas LLC	BBB+/Negative/A-2	Excellent	Significant	Adequate
Carolina Power & Light Co. d/b/a Progres	BBB+/Negative/A-2	Excellent	Significant	Adequate
Florida Power Corp. d/b/a Progress Energ	BBB+/Negative/A-2	Excellent	Significant	Adequate
Duke Energy Indiana Inc.	BBB+/Negative/A-2	Excellent	Significant	Adequate
Duke Energy Ohio Inc.	BBB+/Negative/A-2	Strong	Significant	Adequate
Progress Energy Inc.	BBB+/Negative/A-2	Excellent	Significant	Adequate
Duke Energy Corp.	BBB+/Negative/A-2	Excellent	Significant	Adequate
Central Maine Power Co.	BBB+/Negative/A-2	Excellent	Aggressive	Adequate
New York State Electric & Gas Corp.	BBB+/Negative/A-2	Excellent	Significant	Adequate

Rochester Gas & Electric Corp.	BBB+/Negative/--	Excellent	Aggressive	Adequate
Public Service Electric & Gas Co.	BBB/Positive/A-2	Excellent	Significant	Strong
Cleco Power LLC	BBB/Positive/--	Excellent	Aggressive	Strong
Cleco Corp.	BBB/Positive/--	Excellent	Aggressive	Strong
Arizona Public Service Co.	BBB/Positive/A-2	Excellent	Aggressive	Adequate
PECO Energy Co.	BBB/Stable/A-2	Excellent	Significant	Strong
Commonwealth Edison Co.	BBB/Stable/A-2	Excellent	Significant	Strong
PPL Electric Utilities Corp.	BBB/Stable/A-2	Excellent	Aggressive	Adequate
AEP Texas Central Co.	BBB/Stable/--	Excellent	Aggressive	Adequate
AEP Texas North Co.	BBB/Stable/--	Excellent	Aggressive	Adequate
SEMCO Energy Inc.	BBB/Stable/--	Excellent	Significant	Adequate
Westar Energy Inc.	BBB/Stable/A-2	Excellent	Aggressive	Adequate
Kansas Gas & Electric Co.	BBB/Stable/--	Excellent	Aggressive	Adequate
Connecticut Natural Gas Corp.	BBB/Stable/--	Excellent	Aggressive	Adequate
Southern Connecticut Gas Co.	BBB/Stable/--	Excellent	Aggressive	Adequate
United Illuminating Co. (The)	BBB/Stable/--	Excellent	Aggressive	Adequate
Kentucky Utilities Co.	BBB/Stable/A-2	Excellent	Aggressive	Adequate
Louisville Gas & Electric Co.	BBB/Stable/A-2	Excellent	Aggressive	Adequate
LG&E and KU Energy LLC	BBB/Stable/--	Excellent	Aggressive	Adequate
Public Service Co. of Oklahoma	BBB/Stable/--	Excellent	Aggressive	Adequate
Ohio Power Co.	BBB/Stable/--	Excellent	Aggressive	Adequate
Appalachian Power Co.	BBB/Stable/--	Excellent	Aggressive	Adequate
Green Mountain Power Corp.	BBB/Stable/--	Excellent	Aggressive	Adequate
Kentucky Power Co.	BBB/Stable/--	Excellent	Aggressive	Adequate
Southwestern Electric Power Co.	BBB/Stable/--	Excellent	Aggressive	Adequate
Kansas City Power & Light Co.	BBB/Stable/A-2	Excellent	Aggressive	Adequate
KCP&L Greater Missouri Operations Co.	BBB/Stable/--	Excellent	Aggressive	Adequate
Entergy Gulf States Louisiana LLC	BBB/Stable/--	Excellent	Significant	Adequate
Entergy Louisiana LLC	BBB/Stable/--	Excellent	Significant	Adequate
Entergy Mississippi Inc.	BBB/Stable/--	Excellent	Significant	Adequate
Entergy Arkansas Inc.	BBB/Stable/--	Excellent	Significant	Adequate
Entergy Texas Inc.	BBB/Stable/--	Excellent	Significant	Adequate
Entergy New Orleans Inc.	BBB/Stable/--	Excellent	Significant	Adequate
Great Plains Energy Inc.	BBB/Stable/A-2	Excellent	Aggressive	Adequate

NorthWestern Corp.	BBB/Stable/A-2	Excellent	Aggressive	Strong
Portland General Electric Co.	BBB/Stable/A-2	Excellent	Aggressive	Adequate
Avista Corp.	BBB/Stable/A-2	Excellent	Aggressive	Strong
Puget Sound Energy Inc.	BBB/Stable/A-2	Excellent	Aggressive	Strong
Idaho Power Co.	BBB/Stable/A-2	Excellent	Aggressive	Strong
El Paso Electric Co.	BBB/Stable/--	Excellent	Aggressive	Adequate
PPL Corp.	BBB/Stable/--	Excellent	Aggressive	Adequate
UIL Holdings Corp.	BBB/Stable/--	Excellent	Aggressive	Adequate
American Electric Power Co. Inc.	BBB/Stable/A-2	Excellent	Aggressive	Adequate
IDACORP Inc.	BBB/Stable/A-2	Excellent	Aggressive	Strong
System Energy Resources Inc.	BBB/Stable/--	Excellent	Significant	Adequate
Entergy Corp.	BBB/Stable/A-2	Strong	Significant	Adequate
Pacific Gas & Electric Co.	BBB/Stable/A-2	Strong	Significant	Adequate
PG&E Corp.	BBB/Stable/--	Strong	Significant	Adequate
Indiana Michigan Power Co.	BBB/Stable/--	Strong	Aggressive	Adequate
Consumers Energy Co.	BBB-/Positive/--	Excellent	Aggressive	Adequate
Black Hills Power Inc.	BBB-/Positive/--	Excellent	Aggressive	Adequate
CMS Energy Corp.	BBB-/Positive/A-3	Excellent	Aggressive	Adequate
Black Hills Corp.	BBB-/Positive/--	Excellent	Aggressive	Adequate
Liberty Utilities Co.	BBB-/Positive/--	Excellent	Significant	Adequate
Trans-Allegheny Interstate Line Co.	BBB-/Stable/--	Excellent	Aggressive	Adequate
PNG Cos. LLC	BBB-/Stable/--	Excellent	Aggressive	Adequate
Bay State Gas Co.	BBB-/Stable/--	Excellent	Aggressive	Adequate
Ameren Illinois Co.	BBB-/Stable/A-3	Excellent	Significant	Adequate
Ameren Missouri	BBB-/Stable/A-3	Excellent	Significant	Adequate
West Penn Power Co.	BBB-/Stable/--	Excellent	Aggressive	Adequate
Pennsylvania Power Co.	BBB-/Stable/--	Excellent	Aggressive	Adequate
Pennsylvania Electric Co.	BBB-/Stable/--	Excellent	Aggressive	Adequate
Metropolitan Edison Co.	BBB-/Stable/--	Excellent	Aggressive	Adequate
Jersey Central Power & Light Co.	BBB-/Stable/--	Excellent	Aggressive	Adequate
Ohio Edison Co.	BBB-/Stable/A-3	Excellent	Aggressive	Adequate
Cleveland Electric Illuminating Co.	BBB-/Stable/--	Excellent	Aggressive	Adequate
Toledo Edison Co.	BBB-/Stable/--	Excellent	Aggressive	Adequate
Potomac Edison Co.	BBB-/Stable/--	Excellent	Aggressive	Adequate

Monongahela Power Co.	BBB-/Stable/--	Excellent	Aggressive	Adequate
Duquesne Light Co.	BBB-/Stable/--	Excellent	Aggressive	Adequate
Northern Indiana Public Service Co.	BBB-/Stable/--	Excellent	Aggressive	Adequate
Otter Tail Power Co.	BBB-/Stable/--	Excellent	Significant	Adequate
Empire District Electric Co.	BBB-/Stable/A-3	Excellent	Aggressive	Adequate
Texas-New Mexico Power Co.	BBB-/Stable/--	Excellent	Aggressive	Strong
Public Service Co. of New Mexico	BBB-/Stable/--	Excellent	Aggressive	Strong
Indianapolis Power & Light Co.	BBB-/Stable/--	Excellent	Highly leveraged	Adequate
NiSource Inc.	BBB-/Stable/A-3	Excellent	Aggressive	Adequate
Duquesne Light Holdings Inc.	BBB-/Stable/--	Excellent	Aggressive	Adequate
PNM Resources Inc.	BBB-/Stable/--	Excellent	Aggressive	Strong
IPALCO Enterprises Inc.	BBB-/Stable/--	Excellent	Highly leveraged	Adequate
Hawaiian Electric Co. Inc.	BBB-/Stable/A-3	Strong	Aggressive	Adequate
Edison International	BBB-/Stable/--	Strong	Aggressive	Adequate
Ameren Corp.	BBB-/Stable/A-3	Strong	Significant	Adequate
FirstEnergy Corp.	BBB-/Stable/--	Strong	Aggressive	Adequate
Hawaiian Electric Industries Inc.	BBB-/Stable/A-3	Strong	Aggressive	Adequate
Ohio Valley Electric Corp.	BBB-/Stable/--	Strong	Aggressive	Adequate
Otter Tail Corp.	BBB-/Stable/--	Strong	Significant	Adequate
SourceGas LLC	BB+/Stable/--	Excellent	Highly leveraged	Adequate
Nevada Power Co.	BB+/Stable/--	Excellent	Highly leveraged	Adequate
Sierra Pacific Power Co.	BB+/Stable/--	Excellent	Highly leveraged	Adequate
NV Energy Inc.	BB+/Stable/--	Excellent	Highly leveraged	Adequate
Puget Energy Inc.	BB+/Stable/--	Excellent	Aggressive	Strong
Tucson Electric Power Co.	BB+/Stable/--	Strong	Aggressive	Adequate
Dayton Power & Light Co.	BB/Stable/--	Strong	Aggressive	Adequate
DPL Inc.	BB/Stable/--	Strong	Aggressive	Adequate

*Ratings as of Feb. 1, 2013.

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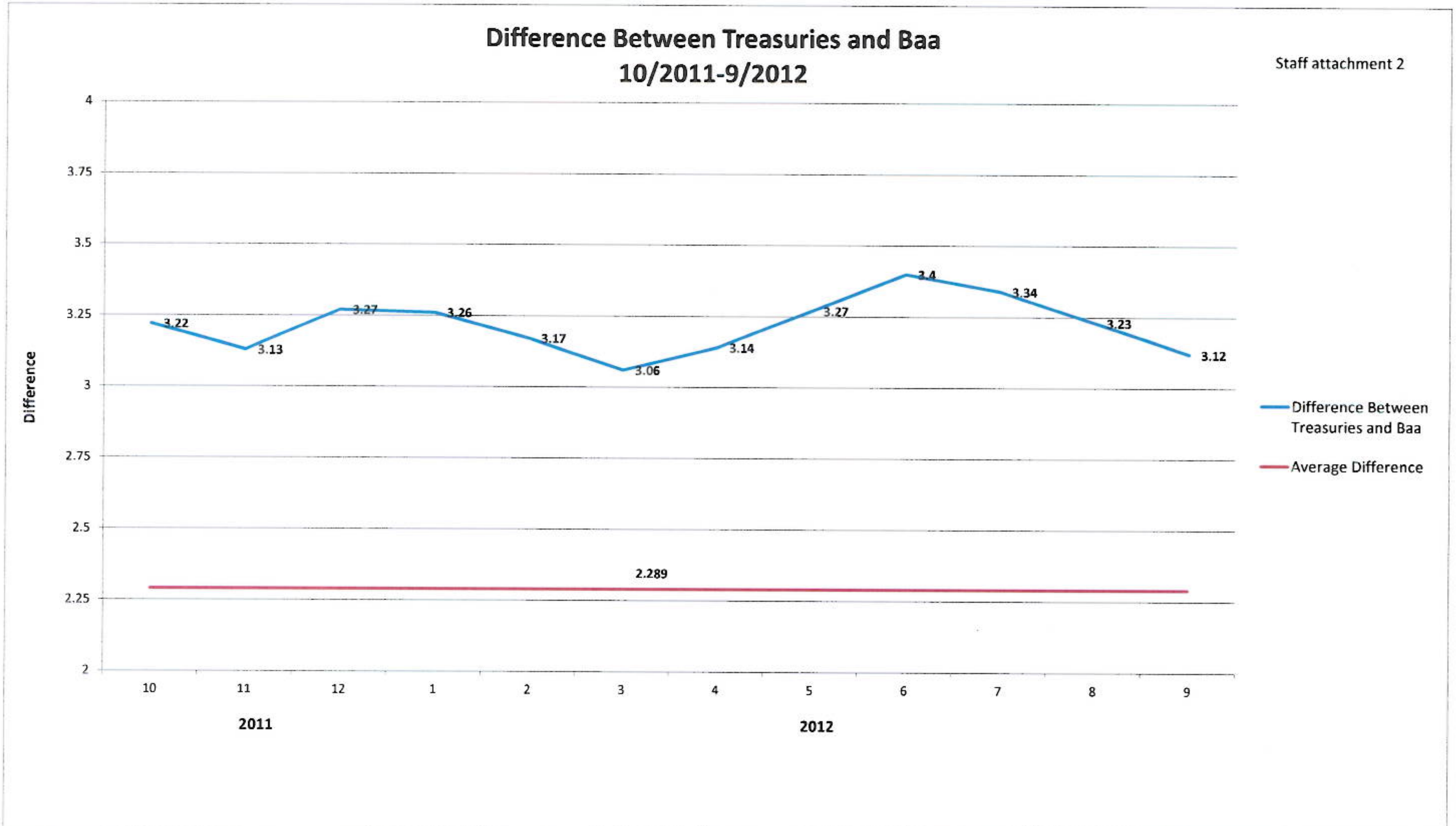

Difference Between Treasuries and Baa
10/2011-9/2012
Staff attachment 2
Difference
4
3.75
3.5
3.25
3
2.75
2.5
2.25
2
3.22
3.13
3.27
3.26
3.17
3.06
3.14
3.27
3.4
3.34
3.23
3.12
2.289
10
11
12
1
2
3
4
5
6
7
8
9
2011
2012
Difference Between Treasuries and Baa
Average Difference

Why are interest rates being kept at a low level?

The financial crisis that began in 2007 was the most intense period of global financial strains since the Great Depression, and it led to a deep and prolonged global economic downturn. The Federal Reserve took extraordinary actions in response to the financial crisis to help stabilize the U.S. economy and financial system. These actions included reducing the level of short-term interest rates to near zero. In addition, to reduce longer-term interest rates and thus provide further support for the U.S. economy, the Federal Reserve has purchased large quantities of longer-term Treasury securities and longer-term securities issued or guaranteed by government-sponsored agencies such as Fannie Mae or Freddie Mac. Low interest rates help households and businesses finance new spending and help support the prices of many other assets, such as stocks and houses.

By law, the Federal Reserve conducts monetary policy to achieve maximum employment, stable prices, and moderate long-term interest rates. The economy is recovering, but progress toward maximum employment has been slow and the unemployment rate remains elevated. At the same time, inflation has remained subdued, apart from temporary variations associated with fluctuations in prices of energy and other commodities. To support continued progress toward maximum employment and price stability, the Federal Open Market Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens. In its December 2012 statement, the Committee indicated that it currently anticipates that a target range for the federal funds rate of 0 to 1/4 percent will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent, inflation between one and two years ahead is projected to be no more than half a percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored.

Rate Case Summary

Q3 2012
FINANCIAL UPDATE

QUARTERLY REPORT
OF THE U.S. SHAREHOLDER-OWNED
ELECTRIC UTILITY INDUSTRY

About EEI

The Edison Electric Institute (EEI) is the association of U.S. Shareholder-Owned Electric Companies. Our members serve over 98% of the customers in the shareholder-owned industry, and represent approximately two-thirds of the total U.S. electric power industry. We also have more than 80 international electric companies as Affiliate Members, and more than 240 industry suppliers and related organizations as Associate Members.

About EEI's Quarterly Financial Updates

EEI's quarterly financial updates present industry trend analyses and financial data covering 58 U.S. shareholder-owned electric utility companies. These 58 companies include 51 electric utility holding companies whose stocks are traded on major U.S. stock exchanges and seven electric utilities who are subsidiaries of non-utility or foreign companies. Financial updates are published for the following topics:

Dividends	Rate Case Summary
Stock Performance	SEC Financial Statements (Holding Companies)
Credit Ratings	FERC Financial Statements (Regulated Utilities)
Construction	Fuel

For EEI Member Companies

The EEI Finance and Accounting Division is developing current year and historical data sets that cover a wide range of industry financial and operating metrics. We look forward to serving as a resource for member companies who wish to produce customized industry financial data and trend analyses for use in:

- Investor relations studies and presentations
- Internal company presentations
- Performance benchmarking
- Peer group analyses
- Annual and quarterly reports to shareholders

We Welcome Your Feedback

EEI is interested in ensuring that our financial publications and industry data sets best address the needs of member companies and the financial community. We welcome your comments, suggestions and inquiries.

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Future EEI Finance Meetings

EEI International Utility Conference
March 10-12, 2013
London Hilton on Park Lane
London, United Kingdom

For more information about EEI Finance Meetings, please contact Debra Henry, (202) 508-5496, dhenry@eei.org

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www.eei.org

The 58 U.S. Shareholder-Owned Electric Utilities

The companies listed below all serve a regulated distribution territory. Other utilities, such as transmission provider ITC Holdings, are not shown below because they do not serve a regulated distribution territory. However, their financial information is included in relevant EEI data sets, such as transmission-related construction spending.

ALLETE, Inc. (ALE)
Alliant Energy Corporation (LNT)
Ameren Corporation (AEE)
American Electric Power Company, Inc. (AEP)
Avista Corporation (AVA)
Black Hills Corporation (BKH)
CenterPoint Energy, Inc. (CNP)
Central Vermont Public Service Corporation (CV)
CH Energy Group, Inc. (CHG)
Cleco Corporation (CNL)
CMS Energy Corporation (CMS)
Consolidated Edison, Inc. (ED)
Dominion Resources, Inc. (D)
DPL, Inc. (DPL)
DTE Energy Company (DTE)
Duke Energy Corporation (DUK)
Edison International (EIX)
El Paso Electric Company (EE)
Empire District Electric Company (EDE)
Iberdrola USA
Energy Future Holdings Corp. (formerly TXU Corp.)
Entergy Corporation (ETR)
Exelon Corporation (EXC)
FirstEnergy Corp. (FE)
Great Plains Energy Incorporated (GXP)
Hawaiian Electric Industries, Inc. (HE)
IDACORP, Inc. (IDA)
Integrys Energy Group, Inc. (TEG)
IPALCO Enterprises, Inc.
MDU Resources Group, Inc. (MDU)
MGE Energy, Inc. (MGEE)
MidAmerican Energy Holdings Company
NextEra Energy, Inc. (NEE)
NiSource Inc. (NI)
Northeast Utilities (NU)
NorthWestern Corporation (NWE)
NV Energy, Inc. (NVE)
OGE Energy Corp. (OGE)
Otter Tail Corporation (OTTR)
Pepco Holdings, Inc. (POM)
PG&E Corporation (PCG)
Pinnacle West Capital Corporation (PNW)
PNM Resources, Inc. (PNM)
Portland General Electric Company (POR)
PPL Corporation (PPL)
Public Service Enterprise Group Inc. (PEG)
Puget Energy, Inc.
SCANA Corporation (SCG)
Sempra Energy (SRE)
Southern Company (SO)
TECO Energy, Inc. (TE)
UIL Holdings Corporation (UIL)
Unitil Corporation (UTL)
UNS Energy Corporation (UNS)
Vectren Corporation (VVC)
Westar Energy, Inc. (WR)
Wisconsin Energy Corporation (WEC)
Xcel Energy, Inc. (XEL)

Companies Listed by Category
(as of 12/31/11)

Please refer to the Quarterly Financial Updates webpage for previous years' lists.

Given the diversity of utility holding company corporate strategies, no single company categorization approach will be useful for all EEI members and utility industry analysts. Never-the-less, we believe the following classification provides an informative framework for tracking financial trends and the capital markets' response to business strategies as companies depart from the traditional regulated utility model.

Regulated	80%+ of total assets are regulated
Mostly Regulated	50% to 80% of total assets are regulated
Diversified	Less than 50% of total assets are regulated

Categorization of the 51 publicly traded utility holding companies is based on year-end business segmentation data presented in 10Ks, supplemented by discussions with company IR departments. Categorization of the seven non-publicly traded companies (*shown in italics*) is based on estimates derived from FERC Form 1 data and information provided by parent company IR departments.

The EEI Finance and Accounting Division continues to evaluate our approach to company categorization and business segmentation. In addition, we can produce customized categorization and peer group analyses in response to member company requests. We welcome comments, suggestions and feedback from EEI member companies and the financial community.

Regulated (38 of 58)

ALLETE, Inc.
Alliant Energy Corporation
Ameren Corporation
American Electric Power Company, Inc.
Avista Corporation
Central Vermont Public Service Corporation
CH Energy Group, Inc.
Cleco Corporation
CMS Energy Corporation
Consolidated Edison, Inc.
DPL, Inc.
DTE Energy Company
Edison International
El Paso Electric Company
Empire District Electric Company
Iberdrola USA
Entergy Corporation
Great Plains Energy Incorporated
IDACORP, Inc.
Integrys Energy Group
IPALCO Enterprises, Inc.
Northeast Utilities
NorthWestern Energy
NV Energy, Inc.
PG&E Corporation
Pinnacle West Capital Corporation
PNM Resources, Inc.
Portland General Electric Company
Puget Energy, Inc.
Southern Company
TECO Energy, Inc.
UIL Holdings Corporation
Unitil Corporation
UNS Energy Corporation
Vectren Corporation
Westar Energy, Inc.
Wisconsin Energy Corporation
Xcel Energy, Inc.

Mostly Regulated (17 of 58)

Black Hills Corporation
CenterPoint Energy, Inc.
Dominion Resources, Inc.
Duke Energy Corporation
Exelon Corporation
First Energy Corp.
MGE Energy, Inc.
MidAmerican Energy Holdings
NextEra Energy, Inc.
NiSource Inc.
OGE Energy Corp.
Otter Tail Corporation
Pepco Holdings, Inc.
PPL Corporation
Public Service Enterprise Group, Inc.
SCANA Corporation
Sempra Energy

Diversified (3 of 58)

Energy Future Holdings
Hawaiian Electric Industries, Inc.
MDU Resources Group, Inc.

Note: Based on assets at 12/31/11

The following companies were removed from the consolidated financial statements for 2009 and 2010 because they did not file Form 10-K with the SEC: Duquesne Light Holdings, Green Mountain Power, KeySpan, Kentucky Utilities, Louisville Gas and Electric and Niagara Mohawk Power.

Q3 2012

Rate Case Summary

HIGHLIGHTS

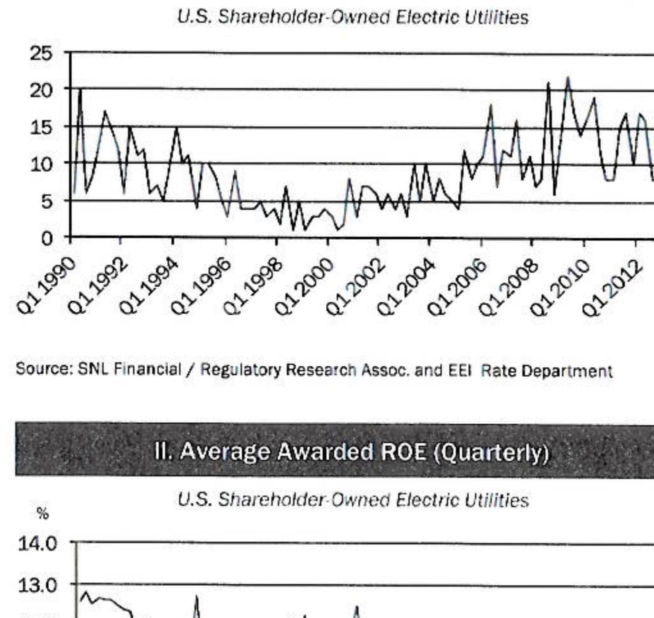
- The eight rate cases filed in Q3 2012 represent a slowdown from the pace of recent quarters but not a break in the secular trend of rising case activity. The 41 cases filed through the first nine months of 2012 put the year-to-date activity slightly ahead of last year's pace.
- Infrastructure investment, rising operation and maintenance expenses, and the desire to implement rate mechanisms all figured prominently and nearly equally as reasons for filings in Q3.
- Awarded return on equity (ROE) for Q3 averaged 9.78%, the lowest in more than three decades. Pepco Holdings had three cases settled during the quarter, with awarded ROEs of 9.81%, 9.31%, and 9.5%.

COMMENTARY

Shareholder-owned electric utilities filed eight rate cases in Q3 2012. While the number represents a slowdown from the pace of recent quarters, we do not believe it indicates a break in the larger secular trend of rising rate case activity. The 41 cases filed through the first three quarters of 2012 put the year-to-date activity slightly ahead of last year's pace. The trend largely reflects a construction cycle driven by the need to replace aging infrastructure and reduce the environmental impact of power generation. Infrastructure investment, rising operation and maintenance expenses, and the desire to implement rate mechanisms all figured prominently and nearly equally as reasons for filings in Q3.

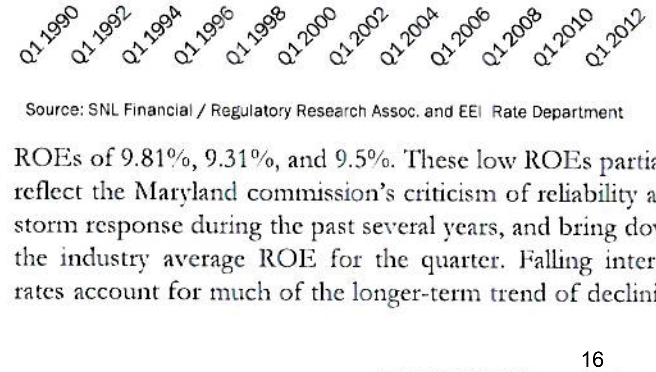
Awarded return on equity (ROE) for Q3 averaged 9.78%, the lowest in more than three decades. Pepco Holdings had three cases settled during the quarter, with awarded

I. Number of Rate Cases Filed (Quarterly)



Source: SNL Financial / Regulatory Research Assoc. and EEI Rate Department

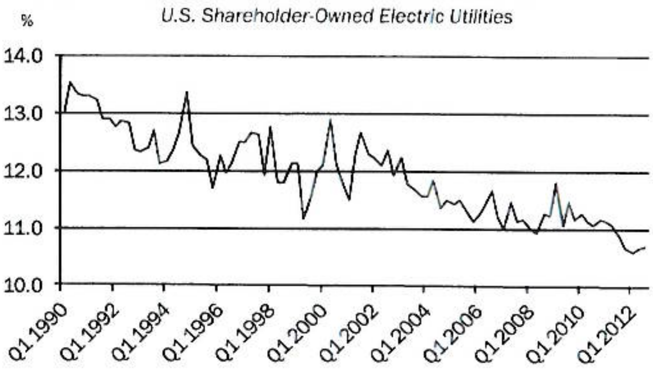
II. Average Awarded ROE (Quarterly)



Source: SNL Financial / Regulatory Research Assoc. and EEI Rate Department

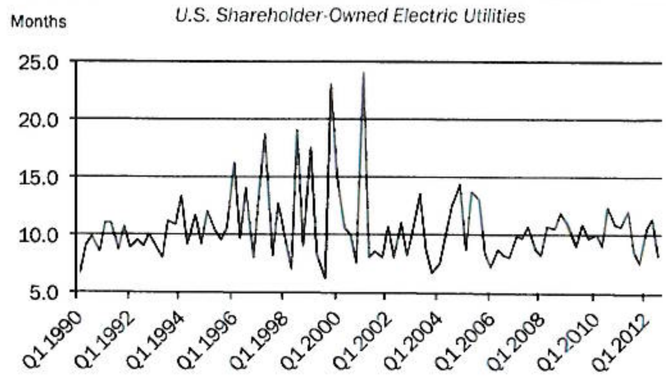
ROEs of 9.81%, 9.31%, and 9.5%. These low ROEs partially reflect the Maryland commission's criticism of reliability and storm response during the past several years, and bring down the industry average ROE for the quarter. Falling interest rates account for much of the longer-term trend of declining

III. Average Requested ROE (Quarterly)



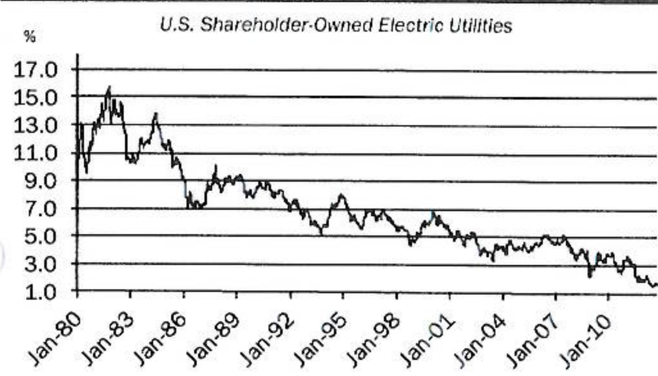
Source: SNL Financial / Regulatory Research Assoc. and EEI Rate Department

IV. Average Regulatory Lag (Quarterly)



Source: SNL Financial / Regulatory Research Assoc. and EEI Rate Department

V. 10-Year Treasury Yield (1/1980 – 9/2012)



Source: U.S. Federal Reserve

approved ROEs. Attempts by state commissions to moderate rates during times of financial hardship for many customers have also contributed in recent years.

Average requested ROE for Q3, at 10.68%, is very close to the 10.57% low in our dataset (recorded in Q1 2012). Average requested ROE has followed a declining pattern similar to average awarded ROE, and for similar reasons.

Regulatory Lag

Average regulatory lag for Q3, at 8.2 months, was somewhat below the 10-month average level of recent years. During industry restructuring in the late 1990s and early 2000s, the volatility of regulatory lag increased and the duration rose to almost 13 months. Outside of this period, regulatory lag has been fairly consistent at around 10 months.

During times of rapidly rising spending, utilities attempt to recover rising costs by filing rate cases. However, general regulatory practice bases rate cases primarily on historical costs, and the preparation for and administrating of a case takes time. Costs continue to rise and rates may already be outdated by the time the commission decides the case and puts rates into effect. We define regulatory lag as the time between a rate case filing and decision, because those events are specific and measureable. We consider this a rough proxy for the time between when a utility needs recovery and when new rates take effect.

Some analysts have argued that regulatory lag is actually longer if other delays are considered, such as the time needed to prepare for a case. This perspective would suggest an average regulatory lag closer to twice what our definition measures, or close to two years. However it is measured, lag obstructs utilities' ability to earn their allowed return when costs are rising, and can ultimately increase their borrowing costs. Electric utilities often fall short of achieving their allowed return due to regulatory lag. Therefore, the decline in allowed ROEs across the industry may over-compensate, in some cases, for the impact of declining interest rates.

Commissions can allow utilities to shorten regulatory lag through the use of innovative rate approaches such as interim rate increases, adjustment clauses and other recovery mechanisms, the use of projected costs in rate cases, and construction work in progress (CWIP). CWIP allows a utility to partly recover construction financing costs before a project comes online. These approaches have the added benefit of helping to smooth the introduction of rate increases rather than forcing rates to suddenly jump after a case. Commissions and state legislatures can support utilities' financial health and help curb future rate increases by helping utilities reduce lag.

Filed Cases

Infrastructure investment, rising operation and maintenance expenses, and the desire to implement rate mechanisms all figured prominently and nearly equally as reasons for filings in Q3.

Tucson Electric Power filed for recovery of investments made over the past five years to strengthen its distribution system, upgrade power plants and to recover operating ex-

VI. Rate Case Data: From Tables I-V

U.S. Shareholder-Owned Electric Utilities

Quarter	Number of Rate Cases Filed	Average Awarded ROE	Average Requested ROE	Average 10-Year Treasury Yield	Average Regulatory Lag
Q4 1988	1	NA	14.30	8.96	NA
Q1 1989	4	NA	15.26	9.21	NA
Q2 1989	4	NA	13.30	8.77	NA
Q3 1989	14	NA	13.65	8.11	NA
Q4 1989	13	NA	13.47	7.91	NA
Q1 1990	6	12.62	13.00	8.42	6.71
Q2 1990	20	12.85	13.51	8.68	9.07
Q3 1990	6	12.54	13.34	8.70	9.90
Q4 1990	8	12.68	13.31	8.40	8.61
Q1 1991	13	12.66	13.29	8.02	11.00
Q2 1991	17	12.67	13.23	8.13	11.00
Q3 1991	15	12.49	12.89	7.94	8.70
Q4 1991	12	12.42	12.90	7.35	10.70
Q1 1992	6	12.38	12.77	7.30	8.90
Q2 1992	15	11.83	12.86	7.38	9.61
Q3 1992	11	12.03	12.81	6.62	9.00
Q4 1992	12	12.14	12.36	6.74	10.10
Q1 1993	6	11.84	12.33	6.28	8.87
Q2 1993	7	11.64	12.39	5.99	8.10
Q3 1993	5	11.15	12.70	5.62	11.20
Q4 1993	9	11.04	12.12	5.61	10.90
Q1 1994	15	11.07	12.15	6.07	13.40
Q2 1994	10	11.13	12.37	7.08	9.28
Q3 1994	11	12.75	12.66	7.33	11.80
Q4 1994	4	11.24	13.36	7.84	9.26
Q1 1995	10	11.96	12.44	7.48	12.00
Q2 1995	10	11.32	12.26	6.62	10.40
Q3 1995	8	11.37	12.19	6.32	9.50
Q4 1995	5	11.58	11.69	5.89	10.60
Q1 1996	3	11.46	12.25	5.91	16.30
Q2 1996	9	11.46	11.96	6.72	9.80
Q3 1996	4	10.76	12.13	6.78	14.00
Q4 1996	4	11.56	12.48	6.34	8.12
Q1 1997	4	11.08	12.50	6.56	13.80
Q2 1997	5	11.62	12.66	6.70	18.70
Q3 1997	3	12.00	12.63	6.24	8.33
Q4 1997	4	11.06	11.93	5.91	12.70
Q1 1998	2	11.31	12.75	5.59	10.20
Q2 1998	7	12.20	11.78	5.60	7.00
Q3 1998	1	11.65	NA	5.20	19.00
Q4 1998	5	12.30	12.11	4.67	9.11
Q1 1999	1	10.40	NA	4.98	17.60
Q2 1999	3	10.94	11.17	5.54	8.33
Q3 1999	3	10.75	11.57	5.88	6.33
Q4 1999	4	11.10	12.00	6.14	23.00
Q1 2000	3	11.08	12.10	6.48	15.10
Q2 2000	1	11.00	12.90	6.18	10.50
Q3 2000	2	11.68	12.13	5.89	10.00
Q4 2000	8	12.50	11.81	5.57	7.50
Q1 2001	3	11.38	11.50	5.05	24.00
Q2 2001	7	10.88	12.24	5.27	8.00
Q3 2001	7	10.78	12.64	4.98	8.62
Q4 2001	6	11.57	12.29	4.77	8.00
Q1 2002	4	10.05	12.22	5.08	10.80
Q2 2002	6	11.41	12.08	5.10	8.16
Q3 2002	4	11.25	12.36	4.26	11.00
Q4 2002	6	11.57	11.92	4.01	18.25

VI. Rate Case Data: From Tables I-V (cont.)

U.S. Shareholder-Owned Electric Utilities

Quarter	Number of Rate Cases Filed	Average Awarded ROE	Average Requested ROE	Average 10-Year Treasury Yield	Average Regulatory Lag
Q1 2003	3	11.49	12.24	3.92	10.20
Q2 2003	10	11.16	11.76	3.62	13.60
Q3 2003	5	9.95	11.69	4.23	8.80
Q4 2003	10	11.09	11.57	4.29	6.83
Q1 2004	5	11.00	11.54	4.02	7.66
Q2 2004	8	10.64	11.81	4.60	10.00
Q3 2004	6	10.75	11.35	4.30	12.50
Q4 2004	5	10.91	11.48	4.17	14.40
Q1 2005	4	10.55	11.41	4.30	8.71
Q2 2005	12	10.13	11.49	4.16	13.70
Q3 2005	8	10.84	11.32	4.21	13.00
Q4 2005	10	10.57	11.14	4.49	8.44
Q1 2006	11	10.38	11.23	4.57	7.33
Q2 2006	18	10.39	11.38	5.07	8.83
Q3 2006	7	10.06	11.64	4.90	8.33
Q4 2006	12	10.38	11.19	4.63	8.11
Q1 2007	11	10.30	11.00	4.68	9.88
Q2 2007	16	10.27	11.44	4.85	9.82
Q3 2007	8	10.02	11.13	4.73	10.80
Q4 2007	11	10.44	11.16	4.26	8.75
Q1 2008	7	10.15	10.98	3.66	7.33
Q2 2008	8	10.41	10.93	3.89	10.80
Q3 2008	21	10.42	11.26	3.86	10.60
Q4 2008	6	10.38	11.21	3.25	11.90
Q1 2009	13	10.31	11.79	2.74	11.10
Q2 2009	22	10.55	11.01	3.31	9.13
Q3 2009	17	10.46	11.43	3.52	10.90
Q4 2009	14	10.54	11.15	3.46	9.69
Q1 2010	16	10.45	11.24	3.72	10.00
Q2 2010	19	10.12	11.12	3.49	9.00
Q3 2010	12	10.27	11.07	2.79	12.40
Q4 2010	8	10.30	11.17	2.86	10.90
Q1 2011	8	10.35	11.11	3.46	10.80
Q2 2011	15	10.24	11.06	3.21	12.00
Q3 2011	17	10.13	10.86	2.43	8.64
Q4 2011	10	10.29	10.66	2.05	7.60
Q1 2012	17	10.84	10.57	2.04	10.50
Q2 2012	16	9.92	10.66	1.82	11.40
Q3 2012	8	9.78	10.68	1.64	8.20

NA = Not available
Source: SNL Financial / Regulatory Research Assoc. and EEI Rate Department

penses related to cyber security enhancement and stricter environmental requirements. Tucson Electric would also like a lost fixed cost recovery (decoupling) mechanism to help it recover costs associated with commission energy efficiency standards and distributed generation requirements under renewable energy standards. The company filed for an environmental compliance adjustor to reflect the costs of environmental standards established by federal or other governmental agencies between rate cases.

Baltimore Gas and Electric (BG&E) filed for recovery to support plans to invest more than $3 billion in infrastructure investments over the next five years as well as in response to recent increases in operating expenses. BG&E's filing also requested the commission to discontinue a 50-basis-point downward adjustment for decoupling mechanisms. BG&E argues that decoupling is much more widespread than when first implemented by the company and that 70% of peer companies have some form of decoupling, so its peer group should already reflect the ROE discount.

Duke Energy Ohio filed to recover electric distribution investments that have increased to the point that the company expects its current rates to provide for only a 3.18%

return on rate base. The utility would like to implement a rider to recover costs associated with moving certain facilities for a government mass transportation project. The charge would be implemented just for the residents of the governmental entity requiring the move.

Consumers Energy filed for a recovery mechanism related to investments the company hopes to make in 2014. It would also like to implement an uncollectible expense true-up mechanism, a pension and other post-employment-benefit equalization mechanism, and a revenue adjustment (decoupling) mechanism. Higher operation and maintenance expenses account for $46 million of Consumer Energy's requested increase of $148.3 million.

Other miscellaneous reasons for filings in Q3 include Empire District Electric's bid to recover costs associated with restoring service following a May 2011 tornado and the revenues lost due to the widespread destruction wrought by the event.

Decided Cases

System Hardening and Storm Recovery

The settlement in Oklahoma Gas and Electric's case in Oklahoma provides for the company to continue and expand its system hardening program, including circuit hardening and vegetation management. The settlement allows the company to recover these expenses through riders. In Potomac Electric Power's case in Maryland, the commission critiqued the utility's reliability performance and system maintenance over the past several years. However, the commission disallowed tree trimming expenses as imprudent, reducing Pepco's revenue requirement by $10.5 million. The commission did allow Pepco to recover $9.8 million over five years for extraordinary storm costs associated with Hurricane Irene. The company had asked for $10.3 million.

Return on Equity (ROE)

In Maryland, the commission rejected Delmarva Power & Light's 10.75% proposed ROE, noting significant differences between Delmarva and some of the companies in the proxy group. Some of the proxy group members had significantly higher growth rates and some owned their own generation. The commission removed the highest and lowest ROEs from the proxy group and arrived at a median ROE of 10.265% and a mean ROE of 10.24%. From this, the commission determined that an ROE of 10.25% would be reasonable. However, the commission then lowered that ROE by 50 basis points because of the "risk stabilizing effects" of the company's decoupling mechanism. The commission then raised the ROE by six basis points for flotation costs (bringing the final awarded ROE to 9.81%).

The Maryland commission followed a similar process for another Pepco Holdings subsidiary, Potomac Electric Power. However, Potomac Electric ended up with a much lower awarded ROE at 9.31% due to the commission's critiques of reliability and service quality mentioned earlier.

In Entergy Texas's case, the administrative law judges (ALJs) in the case recommended awarding the company a 9.8% ROE based on the ranges of ROEs suggested by intervenors, the proxy group suggested by the company, and comments by one of the company's witnesses. The ALJs also added 15 basis points to arrive at the 9.8% figure because of "unsettled economic conditions facing utilities." The commission adopted the 9.8% figure, but said "The Commission disagrees with the ALJs that a utility's return on equity should be determined using an adder to reflect unsettled economic conditions facing utilities. The Commission agrees with the ALJs, however, that a return on equity of 9.8% will allow Entergy a reasonable opportunity to earn a reasonable return on invested capital . . ."

In Illinois, the commission awarded Ameren Illinois a 10.05% ROE as part of the state's legally mandated formula rate proceedings. According to the law, this ROE was calculated to reflect the utility's actual capital structure, excluding goodwill, and applies a 580 basis point premium (590 basis points for the first year only) to the 12-month-average 30-year treasury bond yield. In return, the utility must invest $265 million over a 10-year period in certain electric system upgrades, modernization projects and training facilities, and $360 million in certain distribution system and Smart Grid upgrades. The plan also allows the utility to recover pension and pension-related costs and certain incentive compensation expenses. If the utility's actual ROE is more than 50 basis points above or below the authorized level, the utility must refund to or collect from customers the difference outside this band. The commission can reduce the utility's ROE, if the utility does not meet certain performance metrics.

Rate Mechanisms

The Maryland commission disallowed reliability investment recovery mechanisms (RIMs) proposed by Delmarva Power & Light and Potomac Electric Power, saying that the companies do not have a regulatory lag problem that would justify such a mechanism and that regulatory lag can serve positive functions, such as ensuring that the company bears the risk of making prudent investment decisions before recovering the costs from ratepayers. The commission also said that more frequent rate cases would provide the opportunity to examine the company's financial outlook on a regular basis and determine an appropriate ROE. The commission also said "the RIM would create a substantial parallel stream of work for all parties on a constant, annual renewing basis. . . . Since there is no reliability basis on which to approve the RIM, then, the question is whether the company's finances compel it. We find that they do not." In the District of Columbia, the commission disallowed a similar mechanism proposed by Potomac Electric Power, saying such a rider would weaken the commission's oversight of the company's reliability-related capital expenditures.

In Texas, the commission rejected Entergy Texas's proposed purchased power recovery rider (PPPR) and renewable energy credit rider (RECR). The PPPR will be considered in a separate generic proceeding. The purpose of the RECR was to reflect the costs of complying with the state's renewable energy portfolio standards. The commission said approval of the RECR would constitute single-issue ratemaking, violating state law. In Utah, PacifiCorp's settlement modifies the company's renewable energy credit mechanism, in part to allow the company to retain 10% of the revenue from the sale of renewable energy credits.

Focus on Entergy Texas

The commission in Texas agreed with the recommendation by the administrative law judges (ALJ) to deny Entergy Texas's proposal to recover incentive compensation expenses tied to financial, rather than operating, performance. The ALJs said "Based upon prior Commission precedents, the ALJs conclude that the issue is not, as [the company] contends, whether such incentives might provide any benefits to customers. The proper question to be asked is whether they provide benefits most immediately or predominantly to shareholders. Without a doubt, the primary purpose of financially based incentives, such as incentives tied to earnings per share or stock price, is to benefit shareholders, not ratepayers." The commission also rejected the company's bid to recover certain non-qualifying executive retirement benefit costs, finding these benefits were "over and above the Company's standard retirement benefits packages . . . [and] not necessary for the provision of utility service, but instead are discretionary costs." The commission also rejected several post-test-year expenses as not currently known and measureable. However, the commission supported the company's effort to allocate the rate increase to align rates with class-specific costs of service, saying "Clearly in any rate case, movement toward unity — setting rates to cost — is appropriate when such movement does not result in rate shock to a particular class or classes. If rate shock is likely, Commission precedent supports the use of gradualism. . . . The salient issue is whether the utility's proposed increase is so out of proportion or harsh to a particular class that some form of gradualism should be applied. In this rate case, the preponderance of evidence does not support the use of gradualism."■

2012 Q1	17	10.84	184.28
2012 Q2	16	9.92	158.72
2012 Q3	8	9.78	78.24
Total	41		421.24
Average ROE for Q1-3 2012			10.27415