EEI SUMMARY

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Rate Case Summary

Q4 2011
FINANCIAL UPDATE

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

About EEI

The Edison Electric Institute is the association of U.S. shareholder-owned electric companies. Our members serve 95% of the ultimate customers in the shareholder-owned segment of the industry, and represent approximately 70% of the U.S. electric power industry. We also have 79 international electric companies as Affiliate members and more than 190 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 61 U.S. shareholder-owned electric utility companies. These 61 companies include 55 electric utility holding companies whose stocks are traded on major U.S. stock exchanges and six 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 11-13, 2012
London Hilton on Park Lane
London, United Kingdom

47th EEI Financial Conference
November 11-14, 2012
JW Marriott Desert Ridge Resort and Spa
Phoenix, Arizona

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

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The 61 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)
Constellation Energy Group, Inc. (CEG)
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)
Energy East Corporation
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)
NSTAR (NST)
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)
Progress Energy (PGN)
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)
UniSource Energy Corporation (UNS)
Unitil Corporation (UTL)
Vectren Corporation (VVC)
Westar Energy, Inc. (WR)
Wisconsin Energy Corporation (WEC)
Xcel Energy, Inc. (XEL)

Companies Listed by Category
(as of 12/31/10)

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 57 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 five 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 (39 of 62)

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
El Paso Electric Company
Empire District Electric Company
Energy East Corporation
Entergy Corporation
Great Plains Energy Incorporated
IDACORP, Inc.
Integrys Energy Group
IPALCO Enterprises, Inc.
Northeast Utilities
NorthWestern Energy
NSTAR
NV Energy, Inc.
PG&E Corporation
Pinnacle West Capital Corporation
PNM Resources, Inc.
Portland General Electric Company
Progress Energy
Puget Energy, Inc.
Southern Company
TECO Energy, Inc.
UIL Holdings Corporation
UniSource Energy Corporation
Unitil Corporation
Vectren Corporation
Westar Energy, Inc.
Wisconsin Energy Corporation
Xcel Energy, Inc.

Mostly Regulated (19 of 62)

Allegheny Energy, Inc.
Black Hills Corporation
CenterPoint Energy, Inc.
Dominion Resources, Inc.
Duke Energy Corporation
Edison International
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 (4 of 62)

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

Note: Based on assets at 12/31/10

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.

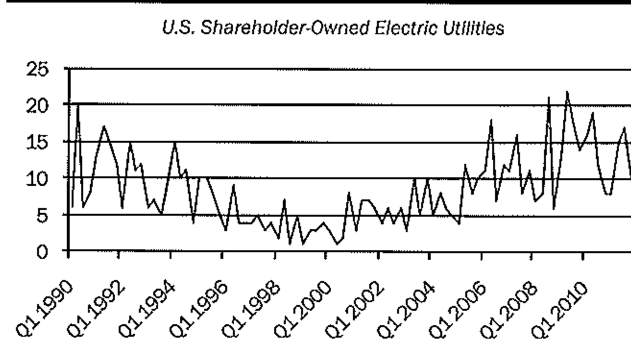
Q4 2011

Rate Case Summary

HIGHLIGHTS

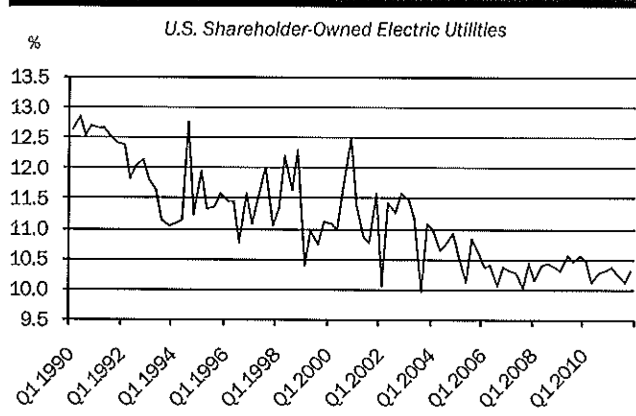
- Shareholder-owned electric utilities filed 50 rate cases in 2011 — fewer than the 55 in 2010 and 66 in 2009, but more than the 42 in 2008 or any other year back to 1992.
- Spending on infrastructure and other capital investment was the over-riding reason for the year's rate case filings. These expenditures were made largely to ensure system reliability and compliance with environmental regulations.
- A second major driver of 2011's filings was requests by utilities to implement riders and other mechanisms for tracking costs between rate cases to help fight regulatory lag.
- The average awarded return on equity (ROE) in Q4 2011 was 10.29%, near the bottom of a decades-long decline that saw ROEs fall from above 12.5% in 1990.

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

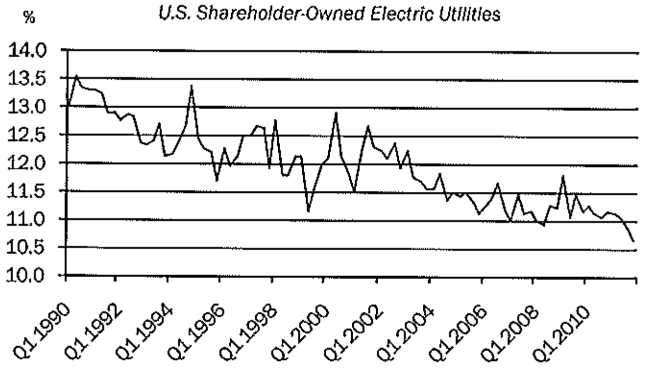
COMMENTARY

Shareholder-owned electric utilities filed 10 new rate cases in Q4, extending the trend of rising rate case activity since the early 2000s. The trend largely reflects a construction cycle in the industry driven by the need to replace aging infrastructure and reduce the environmental impact of power generation.

The quarter's ten rate case filings brought the number of filings for full-year 2011 to 50 — fewer than the 55 in 2010 and 66 in 2009, but more than the 42 in 2008 or any other year going back to 1992.

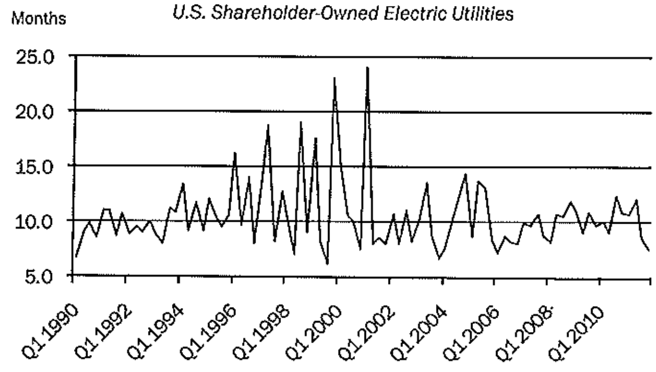
The average awarded return on equity (ROE) in Q4 2011 was 10.29%, near the bottom of a decades-long decline that saw ROEs fall from above 12.5% in 1990. Falling interest rates account for much of the decline. Attempts by state commissions to moderate rates during times of financial hardship for many customers have also contributed in recent years.

III. Average Requested ROE (Quarterly)



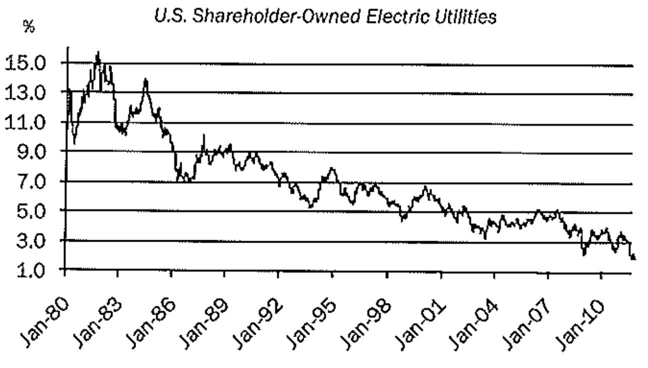
Source: SNL Financial / Regulatory Research Assoc. and EEI Rate Department

IV. Average Regulatory Lag (Quarterly)



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

V. 10-Year Treasury Yield



Source: U.S. Federal Reserve

The average awarded ROE for full-year 2011 was 10.25%, similar to the 10.27% of 2010, each marking successive record lows for recent decades. Q4 2011's average requested ROE of 10.66% broke Q3's low for recent decades of 10.86%. Utilities are doing their part to adjust for current weak economic conditions — the average requested ROE for 2011 was 10.92%, down from 11.15% in 2010.

Regulatory Lag

During times of rapidly rising spending, utilities attempt to recover rising costs by filing rate cases. However, rate cases are based primarily on historical costs, and the preparation for and administration of a case takes time. By the time the case is decided and rates go into effect they may already be outdated in relation to costs that have continued to rise. We define regulatory lag as the time between a rate case filing and decision — a rough proxy for the time between when a utility needs recovery and when new rates take effect. Electric utilities often fall short of achieving their allowed return due to regulatory lag, consequently, the decline in allowed ROEs across the industry may over-compensate, in some cases, for declining interest rates.

While the industry's average regulatory lag in Q4 2011 was 7.60 months — the lowest in almost six years — the number is a bit deceptive; a Georgia Power case that took less than two months brought down the quarter's average. In that case, the commission had already approved construction work in progress (CWIP), which allows a utility to partly recover construction financing costs before a project comes online, associated with Georgia Power's nuclear plant construction at its Vogtle site. Consequently, the associated rate increase approval was already largely litigated and the case was commensurably fast.

Regulatory lag spiked up and became volatile during industry restructuring in the late 1990s and early 2000s. Otherwise, lag has remained relatively near the average of a little more than 10 months for decades. Average regulatory lag for 2011 was 9.62 months.

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. Commissions can allow utilities to shorten regulatory lag through the use of innovative approaches such as interim rate increases, adjustment clauses and other recovery mechanisms, the use of projected costs in rate cases, and CWIP. These approaches have the added benefit of helping smooth the introduction of rate increases rather than allowing rates to suddenly jump after a case. However it is measured, lag obstructs utilities' ability to earn their allowed return when costs are rising. As a result, lag can ultimately increase utilities' borrowing costs. Commissions and state legislatures can support utilities' financial health and help curb future rate increases by helping utilities reduce lag.

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	8.25

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	10.6%	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	10.3%	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	10.26	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	10.34	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	10.46	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	10.26	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	10.25	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

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

Q4's Filed Cases

The main driver of filed rate cases in Q4 2011 was spending on infrastructure, reflecting system upgrades and other expenditures to enhance system reliability, including Smart Grid-related investment. (Smart Grid is the term for several advances in utility technology that allow customers more control over their electricity usage and associated savings, help utilities locate and efficiently address outages, and make the grid more self-healing, among other benefits.)

Utility requests to implement riders and other adjustment mechanisms were a second major driver of filed cases in Q4. Noteworthy among these were attempts by several utilities to implement forecasted test years (i.e., the years containing the expenses the requested recovery is based on) to help shorten regulatory lag.

Focus on Commonwealth Edison

During Q4, laws passed in Illinois established a formula rate plan for the states' largest electric utilities, require them to make investments in their transmission and distribution systems, allow them to recover pension and pension-related costs and certain incentive compensation expenses, and require them to fund a "low income and support program" for certain customers. The formula rate plan incorporates an ROE calculated by adding 590 basis points the first year and 580 basis points each year thereafter to the twelve-month average 30-year Treasury bond yield. The laws require the utilities to refund or collect from customers any returns outside a dead-band of 50 basis points above or below the allowed ROE. The commission can reduce utilities' allowed ROE if they do not achieve certain performance metrics. The commission can terminate the formula rate plan if the annual rate increase for the years 2012-2014 exceeds 2.5%. Formula rate plans will terminate at the end of 2017 unless legislation extends them.

The laws require Commonwealth Edison to invest $1.3 billion over a five-year period in certain "electric system upgrades, modernization projects and training facilities" and at least $1.3 billion over a ten-year period in distribution and transmission and smart-grid upgrades.

Consistent with these laws, in Q4 Commonwealth Edison filed proposed performance metrics that could require a downward adjustment of allowed ROE of up to five basis points each (up to 30 basis points total) if the company fails to achieve targets related to frequency of total system outages; frequency of "Southern Region" outages; duration of outages; service reliability; number of estimated bills; and consumption on inactive meters, unaccounted for energy, and uncollectible expense. (Recently passed laws might have slightly increased potential downward adjustments, but the amount was not available at the time of this writing.) Commonwealth Edison also submitted in Q4 its first formula rate plan filing, for a decrease that largely reflects the difference between the company's previously authorized ROE (10.5%) and the lower ROE (10.25%) calculated under the provisions of the new laws.

Riders, Mechanisms, Adjustments

Mississippi Power filed in Q4 for a "certified new plant rider" to reflect a cash return on CWIP associated with a new coal gasification combined-cycle plant. Entergy Texas would like to implement two new riders: a purchased power recovery rider that would reflect all future and existing purchased capacity costs, and a renewable energy credit rider that would reflect the costs of complying with the states' renewable portfolio standard. Cheyenne Light, Fuel & Power would like to change its power cost adjustment mechanism to implement a graduated sharing mechanism.

Forecasted Test Year

Public Service Company of Colorado filed in Q4 for a forecasted test year for the first time. A previous settlement approved the possibility of the company's filing for a forecasted test year. Similarly, Delmarva Power & Light and Potomac Electric Power (subsidiaries of Pepco Holdings) filed in Maryland for fully forecasted test years to reduce regulatory lag.

Infrastructure Spending

Entergy Texas filed in Q4 to recover investments in transmission and distribution infrastructure, which the company estimates at $262 million between July 2009 and June 2011. PacifiCorp in Wyoming filed to recover increased investments to maintain safe and reliable service in compliance with environmental regulations and in the context of growing electricity use in Wyoming.

Under Earning

Delmarva Power & Light in Maryland described its filing in Q4 as a response, in part, to the company's under earning. The company was earning a 3.14% ROE compared to an authorized 10% ROE. Another Pepco Holdings subsidiary, Potomac Electric Power in Maryland, explained its filing as a response to losses in its Maryland business due in part to regulatory lag.

2011's Filed Cases

For full-year 2011, spending on infrastructure and other capital investment was the over-riding reason for rate case filings. These expenditures were made largely to ensure system reliability and compliance with environmental regulations. As in Q4, the second major driver of 2011's filings was requests by utilities to implement riders and other mechanisms for tracking costs between rate cases. Utilities requested mechanisms to track traditional fuel adjustments, transmission costs, decoupling, infrastructure costs, conservation costs, CWIP and storm costs, among others. While such mechanisms help utilities diminish regulatory lag, other efforts to diminish regulatory lag were prominent in 2011 filings. Chief among these was attempts by electric utilities to implement forecasted test years. Utilities also requested formula rates as a strategy for fighting lag..

Infrastructure

Many electric utilities in 2011 filed to recover substantial infrastructure investments. Oncor Electric Delivery filed for $316.8 million related to electric distribution and $36 million related to transmission as part of its efforts to recover $2.5 billion in delivery system investments since the last rate case. Puget Sound filed to recover investments in wind generation, distribution and transmission plant, and other expenses related to reliability and safety. And Potomac Electric Power in Washington, DC based its filing in part on its need to replace aging infrastructure to ensure reliability.

Storms

Storms played a big part in rate case filings in 2011. Oncor filed in part to recover a deficit in its storm reserve account. Gulf Power filed for recovery of costs associated with 1,000 miles of new power lines constructed to restore the system, to make reparations for hurricane damage, and to harden the system against the possibility of future storm damage. Indiana Michigan Power in Indiana filed to establish a storm reserve, among many other storm- and system-hardening-related filings during the year.

Employee Benefits

Attempts to recover employee benefits were a significant factor in some of 2011's rate case filings. Oncor filed to recover pension and other post-employment benefit expenses. Westar Energy filed in part to recover higher employee benefit costs. And, as previously mentioned, legislation in Illinois primarily directed toward implementing a formula rate plan will also allow Commonwealth Edison to recover pension costs and incentive compensation expenses.

Earned ROE

Several companies had difficulty earning their allowed ROE in 2011 and filed cases as a result. Oncor filed because the company was earning an 8.93% ROE while its allowed ROE is 10.25%. Potomac Electric Power in Washington, D.C. similarly filed in response to earnings concerns. The company said it was earning a 6.46% ROE on its D.C. business, while it was filing for a 10.75% allowed ROE. Another Pepco Holdings subsidiary, Atlantic City Electric, filed in August because the company's highest earned ROE since March 2011 had been 8.33%. The company filed for a 10.75% ROE.

Rate Mechanisms, Trackers, Riders

Electric utilities filed for numerous mechanisms, trackers, riders, and other rate mechanisms during 2011. Fitchburg Gas & Electric Light was one of the many companies filing for a revenue decoupling mechanism. Fitchburg also filed for a capital expenditure tracker. Columbus Southern Power and Ohio Power (subsidiaries of American Electric Power) filed for distribution investment riders that would recover incremental carrying charges for infrastructure investments in distribution. The companies also filed for "enhanced service reliability" riders that would reflect vegetation management costs and "distribution asset recovery" riders that would reflect distribution-related regulatory assets. Virginia Electric & Power in Virginia filed to recover expenses associated with new natural-gas-fired, combined-cycle generation through an adjustment mechanism. State statute permits the company to collect a cash return on CWIP balances and planning and development costs through the mechanism. Between adjustments, incremental CWIP balances accrue allowance for funds used during construction. In the same filing, Vepco sought updates to recovery mechanisms for fuel and transmission costs.

Energy Efficiency and DSM

In 2011, Kentucky Utilities filed to implement demand-side management (DSM) and energy efficiency programs. Nevada Power filed for incentive-related revenue for DSM investments at an ROE 500 basis points above its authorized ROE. Puget Sound Energy filed to implement a conservation savings adjustment mechanism designed to recover lost revenues associated with energy efficiency investments.

Future Test Year

A number of companies filed to base recovery on a future test year, largely to fight the effects of regulatory lag. Potomac Electric Power in D.C. filed for a fully forecasted test year in response to its under-earning the authorized ROE. Westar filed for a test period updated for known and measurable changes. As previously mentioned, Public Service Colorado and Pepco Holdings subsidiaries also filed in 2011 for future test years.

Construction Work in Progress

Several companies sought to recover CWIP during 2011. South Carolina Electric & Gas filed to recover a cash return on incremental CWIP for construction that includes two nuclear units scheduled to come online in 2016 and 2019. The total estimated cost for SCE&G's 55% share of the units is $5.6 billion. Southwestern Electric Power filed for a rider for CWIP. And Georgia Power filed for CWIP associated with its Vogtle nuclear plant construction.

"Fair" Ratemaking

During 2011, utilities filed rate cases in Virginia in compliance with a recent state law requiring biennial rate reviews. In these, the commission is to determine a "fair ROE" not less than, but not exceeding by more than 300 basis points, a three-year average of ROEs reported to the SEC by a peer group of vertically integrated electric utilities in the southeastern U.S. with investment-grade bond ratings. The commission can adjust this ROE within a range of 100 basis points, based on operating performance. In Arizona, the commission required rates to be based on "fair value" rate base. The commission defined "fair value" as an equal weighting of net original cost and "reconstruction cost new." However, the Arizona utilities also provide a historical rate base and a traditionally calculated rate of return as part of the rate case.

Q4's Decided Cases

Customer Charges

In Q4, Kentucky Utilities in Virginia sought to raise the customer charge from $10 to $12 and entered into a settlement that would have allowed this treatment, but the commission, in accepting most of the settlement, disallowed the customer charge increase in order to lessen "the burden on lower-use customers during this period of increasing rates." Idaho Power's settlement in Idaho allowed it to raise the customer charge from $4 to $5 without commission challenge.

Effects of Economic Volatility on Rate Decisions

In Q4, Detroit Edison attempted to implement an interim rate increase until the company could get a decision in its rate filing. However, the commission disallowed 53% of the company's interim rate increase, citing in part the economic crisis in Michigan, from which, the commission said, the state was just beginning to emerge. At the same time, the commission awarded the company a 10.5% ROE, a 50-basis-point reduction from the company's previously awarded ROE, saying the reduction in ROE "reflects the reduction in the company's risk due to stabilization of the capital markets and general economic improvement since the time the Commission last authorized Detroit Edison's ROE."

Trackers and Other Rate Mechanisms

Q4 saw much activity related to trackers and other rate mechanisms in decided cases. The Michigan commission modified Detroit Edison's proposed revenue decoupling mechanism and eliminated the company's uncollectible expense tracking mechanism, restoration tracker, line clearance tracker and customer choice incentive mechanism. In Virginia, the commission approved Appalachian Power's proposed renewable portfolio standard revenue adjustment clause and the company's proposed increase in an environmental adjustment clause and a plant expense adjustment clause.

In Washington state, a settlement allows Avista to defer and amortize over a four-year period operation and maintenance expenses varying from what was approved in rates for certain generating facilities. While the commission approved the treatment, it said "this particular mechanism has never been examined, let alone approved, by the commission in a prior rate case." The commission said it approved the mechanism "only because it appears to reduce immediate costs to ratepayers and it will only operate provisionally. The fact that Avista will not collect a return on the deferred amount, as well as the reasonableness of a smoothing of only maintenance expenses above the baseline, allow us to conclude that approval on a provisional basis is appropriate. The company has also indicated that we can revisit the mechanism at a future time without undue administrative difficulty." The commission vowed continued scrutiny.

Employee Compensation Issues

In Michigan in Q4, the commission rejected, as it had previously, Detroit Edison's attempt to recover $37 million in non-executive incentive compensation, saying this compensation "is still tied to financial performance and the company's benefit/cost analysis contains assumptions that are not well supported. The Commission adds that in light of the economic difficulties faced by many of the company's ratepayers, it is essential Detroit Edison convincingly demonstrate that the benefits of any incentive program outweigh the costs of the program. The Commission nevertheless encourages the company, in future rate case filings, to provide more detail regarding its incentive program and better support for the assumptions contained in the benefit/cost analysis." The commission also disallowed $7 million in executive benefits for non-qualified pension and deferred compensation costs, finding the company "failed to persuade the Commission that these plans are now redesigned to benefit ratepayers rather than shareholders."

In Washington, the commission ordered Avista to file, before its next rate case, information on its executive compensation packages. The commission intends to use this information to evaluate the company's revenue requirement associated with executive compensation.

In Wisconsin, the commission reduced Northern States Power's request for incentive plan compensation for non-bargaining-unit employees by $1.9 million, saying "Consistent with other large investor-owned utilities in Wisconsin in which the costs associated with incentive pay plans are not included in revenue requirements, and the current economic conditions in Wisconsin, it is appropriate for the Commission to limit the financial impact on ratepayers and exclude these costs from revenue requirements." The company had proposed merit pay increases of 2.5% for employees. The commission limited the increases to 1.5% for non-union employees.

Decoupling

In Q4 in Michigan, the commission adjusted Detroit Edison's revenue decoupling mechanism such that the mechanism does not adjust rates to account for revenue variations caused by weather. The revised mechanism also caps under- and over-recovery at 1.5% the first year and 3% in subsequent years. Also in Michigan, a settlement required Upper Peninsula Power to terminate its pilot revenue decoupling program on 1/1/2012. The program compared actual (non-weather normalized) revenue per customer with the base revenue per customer. The settlement requires the company on 1/1/2013 to implement a new revenue decoupling mechanism that compares weather-normalized revenue by rate class with the base level established by the settlement. Thus the revised mechanism does not adjust rates to account for revenue variations caused by weather. In addition, as with Detroit Edison, the revised mechanism has annual caps on under- and over-recovered revenues of 1.5% the first year and 3% subsequent years. In Ohio, stipulations approved by the commission allow Columbus Southern Power and Ohio Power to implement pilot decoupling programs. Annual increases in these programs are capped at 3% for each customer class.

Energy Efficiency and DSM

In Virginia in Q4, Kentucky Utilities entered into a settlement that approved the company's proposed enhanced energy efficiency and demand side management (DSM) programs. However, the commission prohibited the company from implementing the enhanced programs because of the size of rate increase they would entail and "the potential impacts on customers that will not receive benefits of these programs." The commission said it did not prohibit the company from requesting enhanced energy efficiency and DSM programs in the future. In Nevada, the commission approved incentive revenue for DSM investments, awarding the company a return 500 basis points above base ROE for the investments.

Forecasted Test Year

In Virginia, the commission rejected Appalachian Power's request to use forecasted rate year projections to adjust test-year rate base for certain items such as plant in service, CWIP, accumulated depreciation, and accumulated deferred income taxes. The commission said "We do not find the company's overall forecasted projections of these future costs reasonably can be predicted to occur during the rate year." In New Mexico, a settlement entered into by Southwestern Public Service sets guidelines for the use of a future test year in the next rate case, if the commission has not established rules on future test years by that time.

Focus on Appalachian Power, Virginia

Appalachian Power had a rate case decided in Virginia in Q4 in which the commission said it awarded the company a 50-basis-point ROE premium (awarded ROE was 10.9%) because the company had achieved renewable portfolio standard targets. However, the commission excluded from rate base the company's prepaid pension asset, saying although "the Commission has previously approved rate base treatment of this asset, we find . . . based on the record in this proceeding . . . that rate base treatment places unreasonable and unnecessary costs on ratepayers." The commission noted that contributions to pension funding are at management's discretion and that management made a large contribution to be financed using low-cost commercial paper. Consequently, including this asset in rate base at the company's overall cost of capital would require customers to pay a higher carrying cost than the company was paying.

The commission also rejected the company's inclusion of costs associated with its accounts receivables factoring program in the cash working capital component of rate base. Under the program, the company sells accounts receivable to an affiliate that uses them to obtain financing. The commission concluded that the company was applying a higher overall cost of capital to the program than the commission specified when it originally approved the program.

The company also wanted to defer and amortize the costs associated with a workforce reduction program. However, the commission determined "it is appropriate for the amortization of the costs of this program to commence with — and to track — the realization of savings related thereto in a manner that effectuates a matching of costs and savings. . . . we find the savings realized from this cost-reduction initiative exceed the costs thereof prior to the start of the rate year and in this case. As a result, these costs will be completely amortized before the beginning of the rate year, and thus, no such costs shall be included in rates prospectively."

ROE

The Colorado commission, in setting ROE for Black Hills Colorado Electric, relied solely on a discounted cash flow analysis. The commission said that "even though other cost of equity models may serve to check the reasonableness of ROE calculations, the DCF is more reflective of why an investor buys utility stock." In Wisconsin, in determining the ROE for Northern States Power, the commission said "while financial models show that the required returns are declining, [the company] has entered into a major construction phase. The commission finds that a 10.4% ROE under these circumstances should allow the company to attract capital at reasonable terms without unduly burdening consumers with excessive financing costs."

Full-Year 2011's Decided Cases

Employee Compensation

2011 saw numerous attempts by commissions to trim employee compensation largely to protect a customer base suffering from the weak economy. The Wisconsin commission lowered Wisconsin Public Service's requested payroll expenses by $5 million by eliminating expenses associated with goal-sharing plans for exempt and non-union employees and expenses associated with stock options, restricted stock, and performance shares, among other items. In New York, the commission disallowed $19 million of variable pay expense for Niagara Mohawk Power, saying such expense should be self-supported by cost savings generated "through the efforts and programs for which variable compensation is provided." In Minnesota, the commission denied Otter Tail Power the costs of a supplemental pension program for officers and certain other employees.

Decoupling

Decoupling was also a subject appearing in numerous cases in 2011. The Delaware commission approved a settlement giving Delmarva Power & Light a modified fixed-variable rate design. (The modified fixed-variable rate design essentially decouples rates from revenues.) In New York, the commission adopted a revenue decoupling mechanism for Niagara Mohawk, but rejected the company's proposal to index the mechanism to inflation. In Massachusetts, the commission similarly approved a revenue decoupling mechanism for Western Massachusetts Electric but rejected adjustments for inflation, replacement of aging infrastructure, storm hardening, and distribution automation. Part of the commission's reason for rejecting these adjustments was the company's lack of funding in these areas over the past ten years. The commission said the company does not need an inflation adjustment factor in an era of low inflation and that the "Company's allowed ROE provides it with a reasonable means of compensation for assuming the normal business risk of inflation."

Return on Equity

Return on equity was a contentious issue in 2011, in part because awarded ROEs were at the lowest levels in decades. In New York, the commission gave Niagara Mohawk the option of a $112.7 million increase based on an ROE of 9.1% or a $119.3 million increase based on an ROE of 9.3% and conditioned on the utility not filing another rate case until 1/1/2012. The utility chose the latter, but even at the higher ROE level, the awarded ROE was the third lowest in the industry over the last two decades. In determination of the ROE, the commission largely accepted staff's recommendation, which was to double emphasis on the discounted cash flow methodology and reduce the ROE to reflect Niagara Mohawk's better credit quality than that of the proxy group.

For Kansas City Power & Light subsidiaries in Missouri, the commission adopted a 10% ROE as within the "zone of reasonableness", or 100 basis points above and below the recent average ROE authorized for electric utilities nationwide, and as "very near" the average of equity returns for Midwest utilities in 2010. The companies had wanted to incorporate a 25-basis-point adder to reflect achievements in reliability and customer satisfaction, but the commission rejected the adder, citing increases in customer complaints between 2008 and 2010.

In New Mexico, Public Service New Mexico entered into a settlement that would have given the utility a 10.25% ROE. However, the commission lowered the ROE to 10%, saying the stipulation did not follow the commission standard of basing ROE on a peer group of dividend yields for a full 360 days.

Trackers, Adjustment Clauses, and Other Rate Mechanisms

As is often the case, rate mechanisms played a large role in decisions during the year. In New Mexico, Public Service New Mexico had entered into a settlement allowing the utility to implement a capital additions rider, but the commission did not approve the rider, saying such a rider would represent "a major departure from and violation of the Commission's long-standing policy against piecemeal ratemaking. . . . Piecemeal ratemaking mechanisms like the Additions Rider allow the utility to escape the true-up of rates for load growth."

In Indiana, the commission rejected Southern Indiana Gas & Electric's proposed decoupling mechanism, saying that, because the fixed costs of a vertically integrated electric utility company are greater than those of gas utilities or distribution-only electric utilities, customers are less likely to benefit from conservation efforts. However, the commission said that "creative rate designs which enhance the efficient use of energy, such as time-differentiated rates, may influence the attractiveness of a decoupled rate design."

In Missouri, commission staff had recommended that the company's fuel adjustment sharing ratio be changed from 95%/5% (the company recovers 95%, rather than 100%, of the cost difference between the fuel costs approved in rates and actual fuel costs as an incentive for the company to pursue efficient fuel procurement) to 75%/25%. The commission retained the 95%/5% ratio, saying the lack of finding of imprudence in the company's fuel procurement did not warrant a change in the ratio.

Trackers v. ROE

2011 saw several instances of commissions moderating ROEs, claiming trackers or other rate mechanisms employed by the utilities shifted risk from the utility to the customer. In Hawaii, the commission granted Hawaiian Electric a lower ROE (10%) than the commission had granted the company for the purposes of collecting interim rates. Part of the reason for the lower ROE was that the commission thought the rate mechanisms also granted in the case — a revenue decoupling mechanism, an earnings sharing mechanism, and a purchased power adjustment clause — reduced the company risk to the point that a lower ROE was warranted. One commissioner dissented, preferring an even lower ROE of 9.5%.

In Indiana, the commission said that an ROE higher than 10.4% was not warranted for Southern Indiana Gas & Electric given the numerous cost recovery mechanisms the company has. And in Massachusetts, one reason the commission gave for awarding Fitchburg Gas & Electric a 9.2% ROE was the company's recovery mechanisms, including mechanisms for supply-related bad debt, demand-side management and residential customer assistance, pension and post-retirement benefits other than pension, and a revenue decoupling mechanism. The commission said these provide for more timely and predictable recovery of costs than does traditional regulation, and they therefore result in lower risk to the company.

Because recovery through rate mechanisms are subject to disallowances, just as in fully litigated rate cases, reducing ROE to reflect less risk may be premature in many cases.

Customer Charges

During 2010, electric utilities continued their efforts to raise customer charges to better reflect the nature of cost causation within the industry. In Massachusetts, the commission rejected Western Massachusetts Electric's proposal to increase customer charges, saying "lowering the customer charge so that more revenues will be recovered through volumetric charges best balances our rate design goals." In Arkansas, while Oklahoma Gas and Electric had proposed significant increases in customer charges, the settlement the company entered into only allowed for modest increases in the customer charge, except for the industrial customer charge, which increased from $300 to $450. In Illinois, the commission authorized Commonwealth Edison to increase its residential customer charge such that 50% of the company's fixed costs are recovered through the charge. The commission said its decision to do this is intended to "gradually move toward more realistic cost causation and avoid rate shock."

Storm Recovery

The impact of stormy weather in the U.S. in 2011 and previous years played a part in some 2011 rate case decisions. In West Virginia, Appalachian Power entered into a settlement that allowed the company to defer extraordinary storm damages and amortize the deferral over eight years. In Maryland, Delmarva Power & Light entered into a settlement that allows the company to amortize extraordinary storm costs of $1.5 million over five years.

In Massachusetts, the commission awarded Fitchburg Gas & Electric a low 9.2% ROE. While the commission allowed most of the costs associated with the storm, it disallowed overtime pay for salaried employees and carrying costs and legal consulting fees associated with the investigation into the company's handling of the storm.

Smart Grid Investment Recovery

In 2011, advanced metering infrastructure costs were approved for Hawaiian Electric. Pacific Gas and Electric entered into a settlement that allows the company to establish a balancing account to recover smart meter costs outside of a general rate case and with an initial $62 million for electric recovery. The Pennsylvania commission also approved smart meter investments for Duquesne Light; a settlement the utility entered specified that a 10% ROE and a 46% equity ratio should be used for the purposes of recovering those investments. ■