

RRA REGULATORY FOCUS

Water utility ROE average declines steeper than electric and gas utilities

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By Heike Doerr
Market Intelligence

In the first half of 2020, water utility ROEs averaged 8.82%, compared to the 9.63% average ROE in water utility rate cases completed in 2019. This downward trend is steeper than the declines in equity returns authorized for electric and gas utilities nationwide, during the same period.

2020 water utility rate decisions

State	Company	Order date	Decision type	Rate increase (\$M)	Rate increase (%)	Return on rate base (%)	Return on equity (%)	Common equity/ Total cap (%)	Test year end	Rate base (\$M)
SC	Blue Granite Water Service*	3/25/20	Litigated	4.958	NA	6.65	7.46	47.09	06/30/19	77
NC	Carolina Water Service of North Carolina*	3/31/20	Litigated	4.945	14.8	7.39	9.5	49.1	03/31/19	133
DE	SUEZ Water Delaware	6/3/20	Settled	5.24	20.3	7.18	9.5	NA	06/30/19	NA

As of July 20, 2020.

* Rate proceeding was a combined filing for water and wastewater tariffs.

NA = Not available

Source: S&P Global Market Intelligence

The discrepancy between water utility average returns compared to electric and natural gas utilities is largely due to a small data set, and one return that includes a punitive return. Only three water utility rate cases were completed through June 30. During 2019, 13 water utility rate cases were completed, with traditional cost of capital parameters disclosed in just six cases, with an average ROE of 9.63%.

The 7.46% ROE authorized for Blue Granite Water Co. by the Public Service Commission of South Carolina is the lowest authorized ROE as monitored by Regulatory Research Associates, a group within S&P Global Market Intelligence, across over 250 water rate proceedings completed between 2007 and present day. Though the order does not explicitly quantify how punitive the ruling is, it states, that the ROE has taken into consideration "quality of service issues." Blue Granite is a subsidiary of Utilities Inc, owned by Corix Infrastructure Inc.

Water utility rate case decisions: Jan. 1, 2019 — June 30, 2020

Date	Company	State	ROR (%)	ROE (%)	Common equity as % of capital	Rate base (\$M)	Test year
01/07/19	Hawaii Water Service (Waikoloa Resorts Utilities Inc.)	HI	7.48	9.20	53.40	29	12/18
01/17/19	The York Water Co.	PA	NA	NA	NA	NA	2/20
02/05/19	Maryland American Water ¹	MD	NA	NA	48.66	NA	5/18
02/08/19	West Virginia American Water Co.	WV	7.21	9.75	49.79	650	12/17
02/11/19	Water Service Kentucky ²	KY	NA	NA	NA	277	12/17
02/21/19	Carolina Water Service of North Carolina	NC	7.75	9.75	50.91	115	12/17
05/09/19	Aqua Pennsylvania	PA	NA	NA	NA	NA	3/20
05/28/19	Aqua New Jersey	NJ	7.28	9.60	53.00	185	4/19
05/30/19	Golden State Water Co.	CA	NA	NA	NA	899	12/19
06/27/19	Suburban Water Systems	CA	NA	NA	NA	444	6/20
06/27/19	Kentucky American Water Co.	KY	7.69	9.70	48.76	444	6/20
07/01/19	Indiana American Water Co.	IN	6.17	9.80	53.41	1061	4/19
10/16/19	SWWC Utilities	TX	NA	NA	NA	12	12/16
2019	Average rate award		7.26	9.63	51.13		
03/25/20	Blue Granite Water Service	SC	6.65	7.46	47.09	77	6/19
03/31/20	Carolina Water Service of NC	NC	7.39	9.50	49.10	133	3/19
06/03/20	SUEZ Water Delaware	DE	NA	9.50	NA	NA	6/19
2020	Average rate award		7.02	8.82	48.10		

As of July 20, 2020.

NA = not available; ROR = return on rate base; ROE = return on equity

In some rate proceedings, utilities tender a combined filing for water and wastewater tariffs. W = water; WW = wastewater.

¹ Case was resolved by a black box settlement with no traditional rate case parameters specified in the order. However, staff had recommended a return on equity of 9.9%.

² Case was resolved using an operating margin, not ROE/rate base method, for determining a fair return.

Source: S&P Global Market Intelligence

ROE trends compared to electric, gas utilities

The average ROE authorized gas utilities was 9.40% in cases decided during the first half of 2020 versus 9.71% for cases decided during the full year 2019. There were 12 gas cases that included an ROE determination in the first half of 2020, versus 32 in full year 2019.

For electric distribution-only utilities, the average ROE authorized during the first half of 2020 was 9.16%, compared to 9.37% in 2019. There were three distribution-only rate cases completed during the current period, compared to eight in 2019.

Average ROEs authorized 2017-2020

Year	Period	Water utilities		Electric utilities**		Gas utilities	
		ROE (%)	Number of observations*	ROE (%)	Number of observations*	ROE (%)	Number of observations*
	1st quarter	9.56	(4)	9.40	(3)	9.60	(3)
	2nd quarter	9.18	(2)	9.53	(3)	9.47	(7)
	3rd quarter	10.40	(1)	9.63	(3)	10.14	(6)
	4th quarter	9.55	(2)	9.26	(5)	9.68	(8)
2017	Full year	9.56	(9)	9.43	(14)	9.72	(24)
	1st quarter	9.23	(6)	9.00	(1)	9.68	(6)
	2nd quarter	10.50	(1)	9.23	(4)	9.43	(7)
	3rd quarter	9.07	(2)	9.63	(4)	9.69	(13)
	4th quarter	9.54	(8)	9.39	(7)	9.53	(14)
2018	Full year	9.43	(17)	9.38	(16)	9.59	(40)
	1st quarter	9.57	(3)	9.42	(3)	9.55	(4)
	2nd quarter	9.70	(2)	NA	(0)	9.73	(3)
	3rd quarter	9.80	(1)	9.60	(2)	9.80	(3)
	4th quarter	NA	(0)	9.17	(3)	9.73	(22)
2019	Full year	9.63	(6)	9.37	(8)	9.71	(32)
2020	1st quarter	8.48	(2)	9.07	(5)	9.35	(9)
	2nd quarter	9.50	(1)	9.40	(2)	9.55	(3)

As of July 20, 2020.

* Number of observations identifies the amount of ROE data points available, not the number of rate cases completed during the period.

** Electric ROE includes distribution-only rate proceedings

Source: S&P Global Market Intelligence

RRA evaluates water utility regulation in 25 state jurisdictions and monitors rate proceedings involving rate change requests of \$0.5 million or greater.

Regulatory Research Associates is a group within S&P Global Market Intelligence.

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