Rate & Regulatory Update

AGA

A Summary of State Rate & Regulatory Activity

A Publication for AGA Members

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

Rate Case Data for this Period	
Orders Issued	12
Average ROE	9.94
Trends and Analysis	

The average ROE authorized gas utilities was 9.94% in the third quarter of 2019 compared to 9.69% in the second quarter. Six of the rate cases decided this quarter contained a definitive ROE determination. The average ROE authorized for gas utilities was 9.68% in cases decided during the first nine months of 2019, just above the 9.59% in full-year 2018. There were only 10 gas cases that included an ROE determination in the first three quarters of 2019, versus 40 in 2018. In the first nine months of 2019, the median authorized ROE for gas utilities was 9.72%, versus 9.60% in 2018.

Increased costs associated with environmental compliance, infrastructure upgrades and expansion, storm and disaster recovery, cybersecurity and employee benefits argue for the continuation of an active rate case agenda over the next several years.

Furthermore, rising interest rates may also play a role in increased rate case activity. However, with concerns of slowing growth, fears of a global recession and the impact of U.S.-China trade tensions negatively weighing on the U.S. economy, the Fed, after more than a decade without a cut, has lowered rates twice by a quarter point in July and again in September; the new target range is now 1.75% to 2%. Fed watchers expect a third cut of similar magnitude later in October.

While increases in the federal funds rate do not move in lockstep with longer-term treasuries and authorized ROEs do not move in lockstep with interest rates, the expectation is that as interest rates change, authorized ROEs would also begin to change in similar fashion. However, several factors impact the timing and magnitude of this anticipated shift. Normal regulatory lag, i.e., the amount of time it takes for a utility to put together a rate case filing and tender it to the commission and then for the commission to process the case, would without any other influences delay a change in average authorized ROEs relative to interest rates.

To counter the negative cash flow impact of the Tax Cuts and Jobs Act, many utilities sought higher common equity ratios, and the average authorized equity ratio adopted by utility commissions in the first nine months of 2019 were modestly higher than the levels observed in 2018 and 2017. The average allowed equity ratio for gas utilities nationwide was 52.52% in the first nine months of 2019; compared to 50.09% in 2018 and 49.88% in 2017. The aforementioned averages include allowed equity ratios adopted by utility commissions in Arkansas, Florida, Indiana and Michigan – jurisdictions that authorize capital structures that include cost-free items or tax credit balances.

EXHIBIT #1
WIT: OCS Cross
DATE: 12-17-19
ADVANCED REPORTING SOLUTIONS

Taking a longer-term view, equity ratios have generally increased over the last 15 years — the average equity ratio approved in gas rate cases decided during 2004 was 45.81%.

Other Regulatory Developments

Commission Changes & Updates

CA: Marybel Batjer was appointed to serve as president of the California Public Utilities Commission. Batjer will replace current PUC President Michael Picker, who had announced that he would retire after almost five years on the job. The term extends to January 2021.

ME: The Maine Senate recently confirmed Philip Bartlett, a former state lawmaker and Democratic Party chair, to serve as a commissioner on the Maine Public Utilities Commission for a six-year term that extends to March 2025. Mills also designated Bartlett as PUC chair.

MI: Gov. Whitmer recently named Tremaine Phillips to the Michigan PSC to serve a term expiring July 2, 2025. The appointment is subject to state Senate confirmation. He succeeds Norm Saari, whose term expired July 2. Phillips' term will commence Sept. 9 and expire July 2, 2025.

NH: Dianne Martin was nominated to succeed Martin Honigberg as chair of the New Hampshire Public Utilities Commission. Honigberg resigned on Aug. 29 to serve as a state Superior Court judge. Confirmed by the Executive Council, Martin's new six-year term will extend to June 2025.

PA: Commissioner Norman Kennard participated in his last open commission meeting on Sept. 19. Kennard was serving beyond the end of a term that expired in April 2019 through the end of September. In June, Gov. Tom Wolf nominated Ralph Yanora to succeed Kennard.

RI: Laura Olton, nominated to chair the Rhode Island Public Utilities Commission, withdrew her name from consideration following issues that surfaced about her residency.

WV: Gov. Jim Justice appointed Charlotte Lane to the PSC for a term that extends to June 30, 2025. Lane will also serve as commission chairman. She is to begin serving immediately, but her appointment is subject to state Senate confirmation.

Other Noteworthy Regulatory Action

The following companies initiated rate proceedings during Q3 2019: Questar Gas Co. (UT), Columbia Gas of Virginia (VA), Kansas Gas Service Co. (KS), Washington Gas Light Co. (VA), Fitchburg Gas & Electric Light (MA), and NSTAR Gas Co. (MA).

M&A Activity

Aqua America Inc./Peoples Natural Gas Co. LLC — Aqua America Inc. agreed to acquire PNG Companies LLC from infrastructure funds managed by SteelRiver Infrastructure Partners LP in an all-cash deal valuing the natural gas distribution company at approximately $4.28 billion. Aqua America plans to fund the deal through a fully committed bridge facility. The deal is scheduled to close in mid-2019, pending regulatory approvals from the public utility commissions of Pennsylvania, Kentucky and West Virginia.

Rate Case Decisions

July 17, 2019	
Company	New Mexico Gas Co.
State	New Mexico
Docket Number	Case No. 18-00038-UT
Approved Increase	$2.5 million
Approved ROE	
Intervenors	New Mexico Attorney General, US Department of Energy, National Nuclear Security Administration, and New Mexico Industrial Energy Consumers

Case Summary

On July 17, 2019 the New Mexico Public Regulation Commission adopted a settlement authorizing New Mexico Gas Company a $2.5 million two-step rate increase, less than one-third of the single-step increase initially sought by the company.

The agreement and order are silent with respect to the rate of return and other ratemaking parameters underlying the stipulated rate increase. While no specific ratemaking adjustments were identified, it is important to note that the case relies on a test year that was historical at the time the proceeding was initiated, and because it took more than 17 months for the case to be decided, the test year was close to two years old when the company was permitted to implement the first step of the rate increase in August 2019.

Per the Phase 1 settlement, the PRC order authorized NMGC a $2.5 million two-step increase. The $1 million first step rate increase was implemented with the first billing cycle in August 2019, and an incremental $1.5 million second-step increase is to become effective with the first billing cycle in August 2020.

The settlement allows for a pilot weather normalization adjustment program applied to the residential and small general service classes. The WNA is to be in place for a five-year period, beginning with the first billing cycle in October.

The Phase II settlement solely addressed issues related to the disposition of any over-collections stemming from the lag between the effective date of reduction in corporate federal income taxes to 21% from 35%, Jan. 1, 2018, and the date new rates were implemented, in August 2019. The parties to the Phase II settlement agreed that should the PRC order refunds, the amount of the refund would be $7.8 million.

August 20, 2019	
Company	Oklahoma Natural Gas Company
State	Oklahoma
Docket Number	Ca-PUD201900018
Approved Increase	-28,236,690
Approved ROE	
Intervenors	

Case Summary
In the proceeding, the company indicated that it earned above the upper end of the deadband for the evaluation period. The company proposed to implement an aggregate $28.1 million rate reduction/credit that includes a $14.7 million credit pursuant to the terms of the PBR plan, adjusted to reflect the terms of the commission's Jan. 8, 2019, order addressing the impact of federal tax reform that requires the company to credit ratepayers in this case with all earnings in excess of a 9.5% ROE. The proposed rate reduction/credit also includes $0.7 million of interest for the period between Jan. 8, 2019, and February 2019, when base rates were reduced to reflect the lower corporate income tax rate that is also reflected in the instant filing; and a one-time annual credit of $12.7 million associated with excess deferred income taxes, or ADIT. The company's performance-based ratemaking, or PBR, plan incorporates a 100-basis-point dead-band around a 9.5% authorized ROE benchmark. If the earned ROE were to exceed the benchmark return by more than 50 basis points (above a 10% ROE), the incremental return is to be allocated 75%/25% to ratepayers and shareholders. In addition, should the company's earned ROE fall below the lower end of the dead-band (below a 9% ROE), rates would be increased to achieve the mid-point ROE (9.5%). There is to be no rate adjustment if the earned ROE falls within the dead-band. A settlement was subsequently filed calling for a $15.6 million PBR credit and an additional credit of $12.7 million associated with excess ADIT. An administrative law judge recommended that the OCC approve the settlement. The settlement was approved by the commission without any modifications.

August 21, 2019	
Company	Union Electric Company
State	Missouri
Docket Number	GR-2019-0077
Approved Increase	-$1,000,000
Approved ROE	9.4% to 9.95%
Intervenors	Missouri School Boards' Association, Missouri Division of Energy, Renew Missouri, The Missouri Industrial Energy Consumers, National Housing Trust, and Spire Missouri.

Case Summary
On August 21 the Missouri Public Service Commission adopted partial settlements providing for Ameren Corp. subsidiary Union Electric Co. to implement a $1 million permanent gas distribution base rate reduction. After consideration of a $1.9 million interim rate reduction that was implemented earlier in the proceeding, the incremental impact to ratepayers is effectively a $0.9 million rate hike. The settling parties had said, and the commission agreed, that a return on equity in a range of 9.4% to 9.95% is deemed to be "reasonable." For purposes of prospective rate adjustments under the company's infrastructure system replacement surcharge rider, a 9.725% ROE is to be used.

Union Electric is to implement a "volume indifference reconciliation to normal," or VIRN, rider that is effectively a partial decoupling mechanism for residential and commercial customers

Union Electric's ratemaking capital structure is its actual capital structure as of May 31, 2019, and apparently includes a 52.05% common equity component.

The settlements and PSC order are otherwise silent regarding rate of return and rate base. Union Electric is required to file its next gas rate case at the same time as its next electric base rate case.

August 23, 2019	
Company	CenterPoint Energy Resources
State	Arkansas
Docket Number	D-17-010-FR
Approved Increase	$7,300,000
Approved ROE	
Intervenors	The Office of the Arkansas Attorney General, Arkansas Gas Consumers, Inc., and the Board of Trustees of the University of Arkansas on behalf of the University of Arkansas System

Case Summary

Initially filed in April 2019 CenterPoint Energy Resources asked the Arkansas Public Service Commission for a $15.4 million, or 8.14%, gas base rate increase, based on a 9.5% return on equity (32.22% of a regulatory capital structure) and a 4.84% return on year-end rate base valued at $825.8 million for a test period ending Sept. 30, 2020. While the revenue change needed to restore the company's target ROE is $15.4 million, its requested revenue change is limited to $13.4 million due to the formula rate plan, or FRP, requirement that no rate class receive a revenue change greater than 4% in any given year.

Legislation enacted in 2015 allows Arkansas utilities to seek PSC approval to operate under an annually adjusted FRP. In filing to operate under an FRP, the utilities are be required to select either an historical or a projected test year. All FRPs must incorporate a plus-or-minus 50 basis point deadband around the ROE most recently approved for the utility; no rate adjustment is made if the company's earned ROE is within the deadband.

CenterPoint on 7/31/19 filed a joint settlement agreement with staff and certain other intervenors including the Arkansas attorney general that reflects a total increase of $7.3 million.

August 28, 2019	
Company	Vectren Energy Delivery Ohio
State	Ohio
Docket Number	Case No. 18-0298-GA-AIR
Approved Increase	$22,700,000
Approved ROE	

Intervenors	Ohio Consumers' Counsel, Ohio Partners for Affordable Energy and The Environmental Law & Policy Center, Retail Energy Supply Association, IGS Energy, City of Dayton, and Honda of America Mfg., Inc,

Case Summary

The Public Utilities Commission of Ohio adopted a settlement on Aug. 28, providing for CenterPoint Energy Inc. subsidiary Vectren Energy Delivery of Ohio Inc. to increase its gas distribution base rates by $22.7 million.

The settlement and PUC order are largely silent regarding rate of return parameters but specify an overall return that approximates the upper-end of the return range recommended by the PUC staff earlier in the proceeding. The approved settlement provides for VEDO to continue to use its distribution replacement rider for investments to be made through at least Dec. 31, 2023, subject to certain per-customer rate caps, and to utilize a straight-fixed-variable rate design for certain customers that were not already subject to such provisions.

The authorized rate increase is premised upon a 7.48% return on a $622.3 million rate base. The settlement and PUC order are silent regarding return on equity and capital structure. The PUC acknowledged that the stipulated return was within the range of returns recommended by the staff and is a "reasonable compromise and, as part of the entire settlement package, is in the public interest."

The approved settlement provides for VEDO to continue to use its distribution replacement rider to account for investments to be made through at least Dec. 31, 2023, subject to certain monthly per-customer rate caps.

VEDO is to credit ratepayers, through a rider that is to be implemented at the conclusion of Case No. 19-0029-GA-ATA, the excess accumulated deferred income taxes, or EADIT, attributable to federal tax reform and the reduced income tax expense for the "stub" period Jan. 1, 2018, through Sept. 1, 2019, the date new rates took effect in this case.

VEDO is also required to implement a modified version of its proposed energy conversion factor. The company is required to submit a notice of intent to file its next rate case utilizing a "date certain" to value rate base of no later than Dec. 31, 2024.

August 29, 2019

Company	Virginia Natural Gas Inc.
State	Virginia
Docket Number	C-PUR-2019-00095
Approved Increase	$4,923,633
Approved ROE	9.50%
Intervenors	

Case Summary

On August 29 the State Corporation Commission of Virginia approved the annual SAVE Rider update for Virginia Natural Gas. The order approved the Company's recovery of SAVE Rider revenues through a fixed rather than a volumetric rate. The SCC approved a rate increase of $4.9

million based on a 9.5% return on equity and 6.86% return on year-end rate base valued at $66.9 million for a test period ending August 31, 2020.

The requested ROE is as agreed by the parties to the company's 2017 base rate case for use in "non-base-rate-case" proceedings.

Staff proposed modest adjustments to plant retirements, property taxes and other items that modestly increased the revenue requirement. While the commission approved the slightly higher revenue requirement proposed by the staff, the company will implement rates that are designed to reflect the lower initially proposed amount, in keeping with typical commission practice. The related under collection will be addressed as part of the true-up in the next SAVE rider adjustment proceeding.

September 4, 2019	
Company	Northern States Power Co – WI
State	Wisconsin
Docket Number	Docket 4220-UR-124
Approved Increase	$1,079,829
Approved ROE	10%
Intervenors	Walmart, Wisconsin Industrial Energy Group, Citizens Utility Board, RENEW Wisconsin, and Wisconsin Paper Council

Case Summary

The Public Service Commission of Wisconsin issued an interim order on Sept. 4 approving a settlement with Northern States Power Co. - Wisconsin and intervenors that authorizes a modest natural gas rate increase of $1.1 million.

The rate change is premised upon a 10% return on equity (52.5% of capital) and a gas rate base valued at $160.9 million for a 2020 test year.

The approved settlement agreement also includes an earnings sharing mechanism for 2020 and 2021, under which NSP-W retains all earnings if its return on equity, or ROE, is less than or equal to 10.25%. NSP-W will return to customers an amount equal to 50% of earnings between 10.25% and 10.75% ROE. Finally, NSP-W will return to customers 100% of earnings greater than 10.75% ROE.

September 12, 2019	
Company	Pacific Gas & Electric Co.
State	California
Docket Number	Application 17-11-009
Approved Increase	$31,299,000
Approved ROE	
Intervenors	Calpine Corporation, Northern California Generation Coalition, Indicated Shippers, Public Advocates Office at the California Public Utilities Commission, The Utility Reform Network, Sacramento Municipal Utility

	District, ABAG POWER, California Manufacturers & Technology Association, Coalition of California Utility Employees, and Commercial Energy of California,

Case Summary

The California Public Utilities Commission on Sept. 12 voted to authorize Pacific Gas and Electric Co. a $31.3 million, or 2.4%, increase in gas transmission and storage rates premised upon a $4.46 billion penalty-adjusted average rate base and a calendar 2019 test year.

The PUC also authorized incremental "attrition" rate increases of $99.7 million, $84.3 million and $64.3 million in 2020, 2021 and 2022, respectively. In this case, the commission took the unusual step of granting a fourth attrition year. The PUC has opened a rulemaking into considering a fourth attrition year for all investor-owned utilities. Rate of return was not an issue in this proceeding, as it was determined in a separate automatic adjustment mechanism incorporating a 10.25% return on equity (52% of capital) and a 7.69% overall return authorized for the company for 2018.

The PUC authorized a test-year 2019 rate base of $4.98 billion. However, the commission reduced the rate base to $4.46 billion to account for a safety penalty adjustment associated with the Sept. 9, 2010, gas transmission pipeline explosion and subsequent fire in San Bruno, Calif. The commission authorized penalty-adjusted post-test year rate bases of $4.98 billion, $5.37 billion and $5.71 billion for 2020, 2021 and 2022, respectively.

A significant issue in the latest rate case involved PG&E's gas storage fields. The PUC approved PG&E's request to decommission or sell its Los Medanos and Pleasant Creek gas storage fields, which represented a policy shift for the PUC to favor independent storage providers over incumbent utility ownership of storage fields. Under a settlement between PG&E and intervenors and filed with the commission, PG&E agreed to seek to sell the storage fields but, if a sale is not possible, to decommission them beginning no later than Jan. 2, 2022.

PG&E also proposed a new two-way gas storage balancing account to address uncertainty surrounding other anticipated, but not definitive, DOGGR regulations and proposed a new memorandum account to track costs related to other anticipated new regulations.

The PUC found PG&E's request for the new two-way gas storage balancing account reasonable and ordered the utility to provide an analysis of total recorded costs with the authorized amount for a PUC reasonableness review in its next rate case.

September 19, 2019

Company	UGI Utilities Inc.
State	Pennsylvania
Docket Number	Docket No. R-2018-3006814
Approved Increase	$30,000,000
Approved ROE	10%
Intervenors	UGI Energy Services Inc., PUC Bureau of Investigation and Enforcement, PUC Office of Consumer Advocate, PUC Office of Small Business Advocate, the Coalition for Affordable Utility Services and Energy Efficiency

	in Pennsylvania, the Commission for Economic Opportunity, the Natural Gas Supplier Parties, the Retail Energy Supply Association, Direct Energy, and the Laborers' District Council of Eastern Pennsylvania

Case Summary

On September 19, the Pennsylvania Public Utility Commission adopted, with only minor modifications, a settlement providing for the consolidation of the rate structures for UGI subsidiaries UGI Utilities Inc., UGI Penn Natural Gas Inc. and UGI Central Penn Gas Inc. The consolidated entity will do business as UGI Utilities - Gas Division, or UGI Gas. The PUC action comports with the administrative law judge's August 22 recommendation that the commission adopt a "black box" agreement calling for a $30 million rate increase.

The $30 million base rate increase specified in the settlement is less than half that initially sought by UGI Gas. The agreement was silent with respect to the rate of return and rate base parameters giving rise to the stipulated rate increase. As a result, for purposes of calculating the revenue requirement under its distribution system improvement charge, UGI Gas will use the 10% equity return specified by the PUC in conjunction with the release of the staff's quarterly review of the utilities' earnings.

Vice Chairman David Sweet submitted a motion modifying the settlement and law judge's recommendation to omit a line regarding recovery of information technology costs through the utility's USP rider. The motion passed unanimously and provided a five-day period in which the settling parties may withdraw from the settlement.

The USP rider is to include a 9.2% CAP bad debt offset if CAP enrollment exceeds 19,672 customers. UGI Gas is to eliminate a restriction on its budget billing program that precludes customers with overdue balances from participating.

The approved agreement also implements consolidated rate structures for UGI subsidiaries UGI Utilities Inc., UGI Penn Natural Gas Inc. and UGI Central Penn Gas Inc. The three companies were merged in October 2018 and now do business as UGI South District, UGI North District and UGI Central District, respectively. Going forward, the consolidated entity will do business as UGI Utilities - Gas Division, or UGI Gas.

The filing identified revenue requirement increases of $46.5 million for the South District, $17.8 million for the North District and $8.2 million for the Central District and rate bases valued at $1.303 billion for the South District, $669.6 million for the North District and $404.6 million for the Central District.

The approved agreement also provides that following implementation of new rates in this case, UGI Gas would be eligible to include plant additions in the Distribution System Improvement Charge, or DSIC, once the total net plant balances reach the levels projected by the company to be in service as of Sept. 30, 2020: $2.875 billion.

New rates are to become effective Oct. 1.

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September 26, 2019	
Company	San Diego Gas & Electric
State	California
Docket Number	A-17-10-007
Approved Increase	$71,710,000
Approved ROE	10.2%
Intervenors	Consumer Federation of California, Sierra Club, Union of Concerned Scientists, Calpine Corporation, City of Long Beach Gas & Oil Department, Protect Our Communities Foundation, The Utility Reform Network, Utility Consumers' Action Network, Indicated Shippers, Coalition of California Utility Employees, Small Business Utility Advocates, Southern California Generation Coalition, City of Lancaster, National Diversity Coalition, and National Asian American Coalition

Case Summary

The California Public Utilities Commission voted Sept. 26 to authorize a combined electric and gas rate increase of $422 million in 2019 for San Diego Gas & Electric Co. and Southern California Gas Co., both subsidiaries of Sempra Energy.

The commission authorized San Diego Gas & Electric a $71.7 million increase in gas base rates effective beginning Jan. 1, 2019.

The PUC decision also adopts post-test year revenue requirement adjustments for SDG&E's combined gas and electric operations of $134.2 million for 2020 (a 6.74% increase) and $102.5 million for 2021 (a 4.83% increase). The decision denied the utilities a third PTY revenue adjustment for 2022; however, the commission is considering a third PTY adjustment for all large investor-owned utilities under a separate proceeding.

Cost of capital was not an issue in this proceeding, as it is determined in a separate automatic adjustment mechanism. SDG&E is currently authorized a 10.2% ROE (52% of capital) and a 7.55% overall return.

A large part of the revenue requirement increases represent costs for incremental safety-related programs and activities that are being added to the rate case for the first time as a result of the PUC's Risk Assessment Mitigation Phase, which requires SDG&E and SoCalGas to identify key safety risks and to propose programs to mitigate them. The funding allows SDG&E and SCG to perform increased mitigation efforts to mitigate key safety risks such as wildfires caused by SDG&E equipment.

September 26, 2019	
Company	Southern California Gas Co.
State	California
Docket Number	A-17-10-008
Approved Increase	$314,356,000
Approved ROE	10.05%
Intervenors	Consumer Federation of California, Sierra Club, Union of Concerned Scientists, Calpine Corporation, City of Long Beach Gas & Oil Department, Protect Our Communities Foundation, The Utility Reform Network, Utility Consumers' Action Network, Indicated Shippers, Coalition of California Utility Employees, Small Business Utility Advocates, Southern California Generation Coalition, City of Lancaster, National Diversity Coalition, and National Asian American Coalition

Case Summary

The California Public Utilities Commission voted Sept. 26 to authorize a combined electric and gas rate increase of $422 million in 2019 for San Diego Gas & Electric Co. and Southern California Gas Co., both subsidiaries of Sempra Energy.

The PUC authorized SoCalGas a $314.4 million increase in gas base rates effective beginning Jan. 1, 2019.

For SoCalGas, the decision also authorizes post-test-year revenue increases of $219.5 million for 2020 (a 7.92% increase) and $149.6 million for 2021 (a 5% increase). The decision denied the utilities a third PTY revenue adjustment for 2022; however, the commission is considering a third PTY adjustment for all large investor-owned utilities under a separate proceeding.

Cost of capital was not an issue in this proceeding, as it is determined in a separate automatic adjustment mechanism. SoCal Gas is currently authorized a 10.05% ROE.

A large part of the revenue requirement increases represent costs for incremental safety-related programs and activities that are being added to the rate case for the first time as a result of the PUC's Risk Assessment Mitigation Phase, which requires SDG&E and SoCalGas to identify key safety risks and to propose programs to mitigate them.

September 26, 2019	
Company	Consumers Energy Co.
State	Michigan
Docket Number	C-U-20322
Approved Increase	$143,531,000
Approved ROE	9.9%
Intervenors	Residential Customer Group, Lansing Board of Water & Light, Michigan State University, Michigan Attorney General, Energy Michigan Inc., Retail Energy Supply Association, and Association of Businesses Advocating Tariff Equity.

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Case Summary
On Sept. 26, 2019, the PSC authorized Citizens Energy a $143.5 million rate increase effective Oct. 1, 2019, premised upon a 9.90% return on equity (41.78% of a regulatory capital structure) and a 5.84% return on a rate base valued at $6.429 billion and a test year ending Sept. 30, 2020. While the PSC made several adjustments to net operating income, these adjustments do not appear to inhibit CE from earning its authorized return. The PSC adopted a modestly lower equity ratio, finding that an equity ratio that is unnecessarily equity-heavy burdens ratepayers because equity capital is more expensive than debt capital and carries with it the additional expense of a tax burden that is not present with debt capital. PSC adjustments to rate base reduced the revenue requirement by about $6 million. The major adjustment appears to be related to CE's capital expenditures associated with a new business program with a group of three new agri-business customers in St. Johns, Mich. The commission also disallowed capital expenditures associated with the company's pipeline integrity transmission work. In addition, the PSC disallowed costs related to CE's Vintage Service Replacements Program, which targets the replacement of vintage service lines, such as copper and bare steel lines that do not have active leaks and are not otherwise associated with a planned main replacement project under some other program. The company is expected to remove all remaining vintage service lines by 2036. In its filing, CE proposed to continue to utilize a revenue decoupling mechanism and sought to continue to utilize an investment recovery mechanism to recover annual revenue requirements associated with incremental capital expenditures and associated direct expenses for specified distribution and transmission programs beyond the level provided in rates through the projected test year. Both mechanisms were approved in the company's previous base rate cases. The company withdrew its request for an investment recovery mechanism in its rebuttal testimony after concerns were raised by the PSC staff and attorney general. The commission authorized the continuation of the revenue decoupling mechanism, which reduces the company's business risk going forward and gives the company a better opportunity to earn its authorized return. The commission also rejected an earnings sharing mechanism proposed by one of the case intervenors.