RRA Regulatory Focus
Major Rate Case Decisions
July 27, 2022

Major energy rate case decisions in the US –

January-June 2022

Lisa Fontanella, CFA Research Director

The average electric and gas authorized returns on equity remain at all-time lows as per averages calculated for the first half of 2022.

For detailed data

Access RRA's electric and gas rate cases as of the first half of 2022 data tables.

S&P Global
Market Intelligence

DM-S-4

Table of Contents

Executive Summary **3**

Introduction 3

About this report 4

The Take **4**

Overview of electric and gas authorizations **5**

Capital structure trends **7**

A more granular look at ROE trends **8**

Further Reading **11**

About the Author(s) **11**

About Regulatory Research Associates **11**

DM-S-4

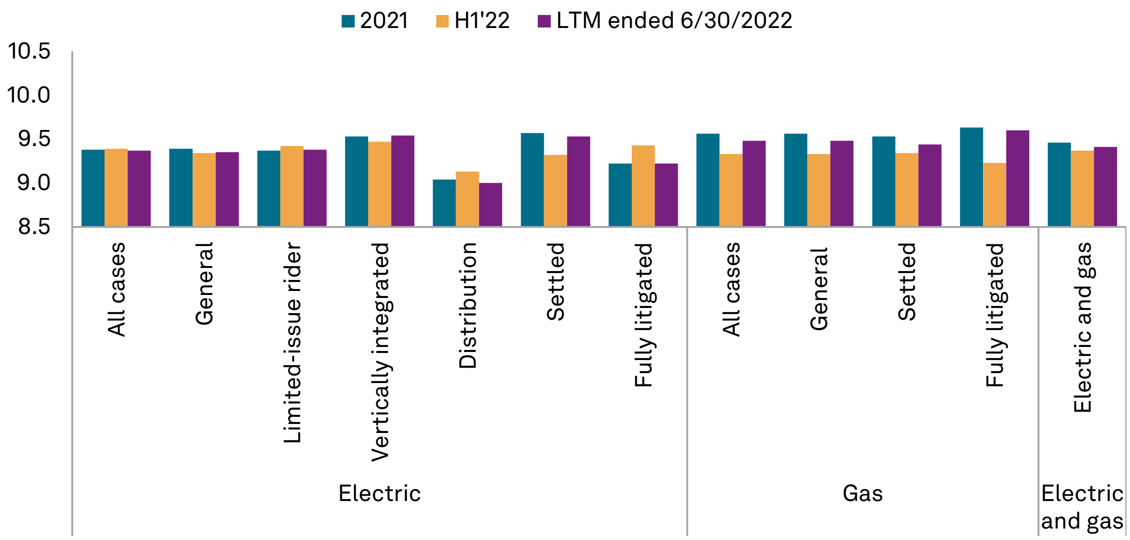
Executive Summary

Introduction

The average electric and gas authorized returns on equity remain at all-time lows as per averages calculated for the first half of 2022.

The average authorized return on equity for electric utilities was 9.39% in rate cases decided in the first half of 2022 — in line with the 9.38% average for full-year 2021. There were 19 electric ROE authorizations in the first half of 2022 versus 55 in full-year 2021.

Average authorized return on equity (%)



Electric averages	2021	H1'22	LTM ended 6/30/2022
All cases	9.38	9.39	9.37
General rate cases	9.39	9.34	9.35
Limited-issue rider cases	9.37	9.42	9.38
Vertically integrated cases	9.53	9.47	9.54
Distribution cases	9.04	9.13	9.00
Settled cases	9.57	9.32	9.53
Fully litigated cases	9.22	9.43	9.22
Gas averages			
All cases	9.56	9.33	9.48
General rate cases	9.56	9.33	9.48
Settled cases	9.53	9.34	9.44
Fully litigated cases	9.63	9.23	9.60
Composite electric and gas averages			
Electric and gas	9.46	9.37	9.41
U.S. Treasury			
30-year bond yield	2.06	2.65	2.29

Data compiled July 22, 2022.
LTM = Last 12 months.
Sources: Regulatory Research Associates, a group within S&P Global Commodity Insights; U.S. Department of the Treasury

DM-S-4

The average authorized ROE for gas utilities was 9.33% in cases decided in the first half of 2022 versus 9.56% in full-year 2021. There were nine gas cases that included an ROE determination in the first half of 2022 versus 43 in full-year 2021.

Amid ongoing COVID challenges, 2021 was a record year in terms of rate case activity, which neared all-time highs with over 150 decisions issued by state public utility commissions — the highest level since the early 1980s.

While the reasons for a rate case filing are numerous, the main driver continues to be recovery of capital expenditures. Energy utilities are investing in infrastructure to modernize transmission and distribution systems, build new natural gas, solar and wind generation, and deploy new technologies to accommodate the expansion of electric vehicles, battery storage and advanced metering infrastructure that facilitate the transition toward decarbonization. Other reasons for rate filings include rising expenses, revised cost of capital parameters, and the impact of broader economic and sector-wide forces on operations.

About this report

This report, which is updated quarterly, offers a detailed overview of completed electric and gas rate case decisions in the U.S. The information presented in this report utilizes the data compiled by Regulatory Research Associates for its rate case database, available on the S&P Capital IQ Pro platform. RRA endeavors to follow all "major" rate cases for investor-owned utilities nationwide, with "major" defined as a case in which the utility's request would result in a rate change of at least $5 million or in which the commission approves a rate change of at least $3 million. In addition to base rate cases, the rate case history database includes details regarding certain limited-issue rider proceedings, primarily those that involve significant rate base additions that are recognized outside of a general rate case. In some of these cases, the rate change coverage criteria may not apply. In an effort to align data presented in this report with data available in S&P Global Market Intelligence's online database, earlier historical data provided in previous reports may not match historical data in this report due to certain differences in presentation, including the treatment of cases that were withdrawn or dismissed, as well as the addition of cases that were not included previously as part of RRA's coverage.

The Take

Averages calculated for the first half of 2022 show electric and gas authorized returns on equity remain at all-time lows. Rate case activity for investor-owned electric and gas utilities in the U.S. has been at elevated levels in recent years and neared-all time highs in 2021 with more than 150 rate cases decided — the highest level since the 1980s. With interest rates on the rise, RRA anticipates rate case filings will remain robust.

Authorized returns may edge slightly higher going forward as the U.S. Federal Reserve continues efforts to tamp down soaring inflation via a series of interest rate hikes, the first of which was announced in March. The effect of future interest rate increases by the Federal Reserve on authorized returns is unlikely to be dramatic, however, as state utility regulatory commissions have generally taken a more gradual and measured approach to changes in authorized ROE levels.

State regulatory support and the authorization of adequate returns to ensure ongoing capital attraction in the utility sector will be instrumental as the industry shifts away from fossil fuels to renewables and storage and invests in strengthening the nation's power grid against climate and other risks.

Overview of electric and gas authorizations

The average electric and gas authorized returns on equity for the first half of 2022 remain at all-time lows.

The average authorized return on equity for electric utilities was 9.39% in rate cases decided in the first half of 2022 — largely in line with the 9.38% average for full-year 2021. There were 19 electric ROE authorizations in the first half of 2022 versus 55 in full-year 2021.

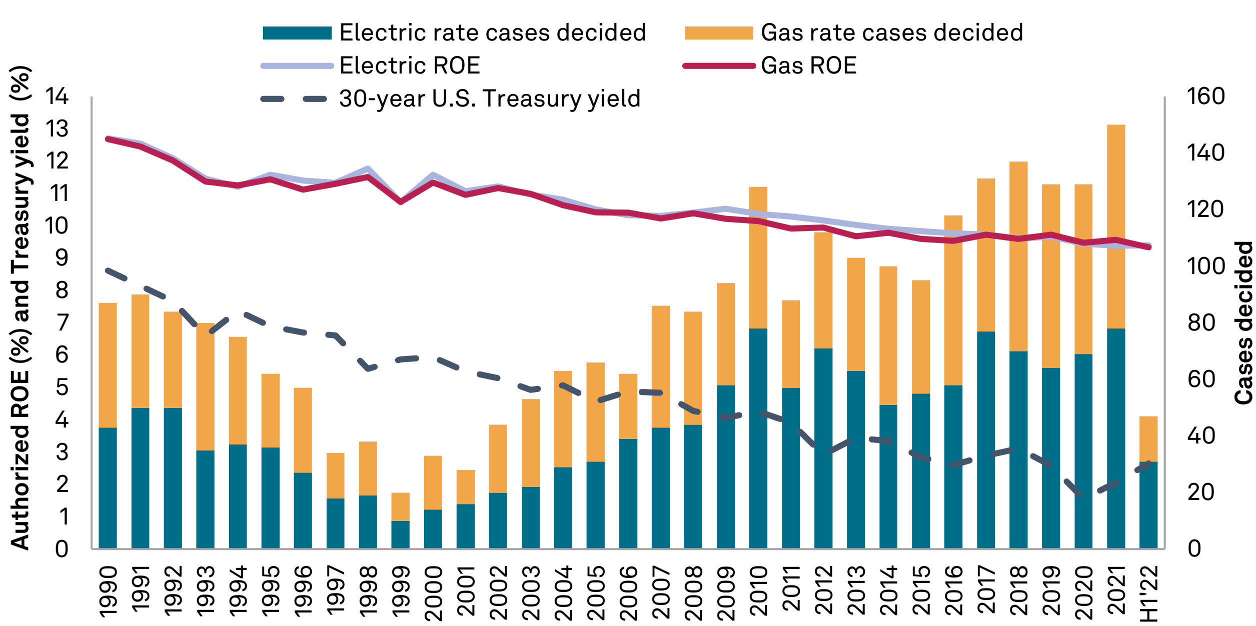
The average authorized ROE for gas utilities was 9.33% in cases decided in the first half of 2022 versus 9.56% in full-year 2021. There were nine gas cases that included an ROE determination in the first half of 2022 versus 43 in full-year 2021.

The electric data set includes several limited-issue rider cases, however, excluding the rider cases makes little difference in the average ROE. Historically, the annual average authorized ROEs in electric cases that involved limited-issue riders were meaningfully higher than those approved in general rate cases, driven primarily by substantial ROE premiums authorized in generation-related limited-issue rider proceedings in Virginia. However, these premiums were approved for limited durations and have since begun to expire. As a result, the gap between the average ROE in the rider cases and in general rate cases has narrowed. In the gas industry sector, there has not been much use of limited issue rider cases as most of the gas riders rely on ROEs approved in a previous base rate case. Excluding rider cases, the average authorized ROE for electric cases was 9.34% in the first half of 2022 versus 9.39% in full-year 2021.

In the first half of 2022, the median ROE authorized in all electric utility rate cases was 9.20%, versus 9.38% in full-year 2021; for gas utilities, the metric was 9.25% in the first half of 2022, versus 9.60% in full-year 2021.

Looking at the 12 months ended June 30, 2022, the average ROE authorized in all electric utility rate cases was 9.37% and the median was 9.35%. For gas utilities in the 12 months ended June 30, 2022, the average was 9.48% and the median was 9.45%.

Average electric and gas authorized ROEs and total number of rate cases decided



Data compiled July 22, 2022.
Sources: Regulatory Research Associates, a group within S&P Global Commodity Insights; U.S. Department of the Treasury

DM-S-4

The full-year averages in recent years are at the lowest levels ever witnessed in the industry. The electric ROE average in 2021 was weighed down by three ROE determinations in Illinois and Vermont that were calculated utilizing a formulaic approach tied to U.S. Treasury bond yields. Excluding these three ROE determinations, the average return authorized for electrics in 2021 was 9.47%.

The 2021 calendar-year results reflect the low-interest-rate environment and the regulatory reaction to COVID-19 challenges.

Looking longer-term, interest rates, as measured by the 30-year U.S. Treasury bond yield, fell almost steadily from the early 1980s until 2015 or so, placing downward pressure on authorized ROEs. Even though the decline in authorized ROEs was less dramatic in the period since 1990, average authorized ROEs fell below 10% for gas utilities in 2011 and for electric utilities in 2014. The calendar-year averages hovered between 9.5% and 9.8% through 2019, falling below 9.5% for the first time in 2020.

These declines in ROE have coincided with an upswing in rate case activity. There have been 100 or more cases adjudicated in 10 of the last 12 calendar years. This count includes electric and gas cases where no ROEs were specified but does not include withdrawn cases. At over 150 cases, rate case activity in 2021 was the most robust observed in any year during the 1990-2021 period. In 2019 and 2020, there were about 130 cases decided annually.

Absent the pandemic, increased costs associated with environmental compliance, generation and delivery infrastructure upgrades and expansion, renewable generation mandates, storm and disaster recovery, cybersecurity and employee benefits have contributed to an active rate case agenda over the last decade.

Due to COVID-19 and the challenging economic landscape, many utilities and state commissions sought to limit the immediate impact of rate hikes during 2020 by pushing rate changes into a future period or agreeing to forgo rate hikes and using accounting mechanisms, such as the accelerated recovery of excess accumulated deferred tax liabilities, to mitigate requested increases. In 2021, utilities were back before state regulators seeking the highest combined increase in electric and gas rates since RRA began tracking rate cases.

Currently, there are almost 115 electric and gas rate cases pending. With interest rates now on the rise, RRA anticipates that 2022 will be another fairly active year for rate determinations, even if it does not quite match the 2021 case total.

With inflation running at multi-decade highs, the Federal Reserve, has increased its benchmark interest rate several times since March 2022. Additional hikes are expected throughout 2022, as the Fed has signaled that aggressive steps will be taken to combat high and persistent inflation pressures.

The recent hikes come after a long period of low interest rates. Following the financial crisis, the Fed cut its benchmark interest rate to near zero, and after holding rates at that level for several years, the Fed began raising rates in 2015. After several cuts in 2019, due to signs of a slowing economy, the Fed again slashed rates to near zero in March 2020 amidst the COVID-19 pandemic.

While changes in the benchmark interest 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 change in a similar fashion. However, several factors impact the timing and magnitude of such a shift. For example, normal regulatory lag — 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.

It is also worth noting that while both interest rates and authorized ROEs have generally been declining since 1990, the gap between authorized ROEs and interest rates widened somewhat over this period, largely as a result of regulators' often-unstated understanding that the drop in interest rates caused by Federal Reserve intervention was unusual. Consequently, regulators did not necessarily fully reflect the interest rate drop in newly authorized ROEs in some instances; in others, regulators acknowledged that the changing dynamics of the industry and instability in the overall economy presented increased risks for investors, justifying a higher premium over interest rates.

In more recent periods, with the focus on affordability and the need to maintain universal service during the pandemic, regulators were more apt to lower authorized ROEs to mitigate the level of bill increases.

DM-S-4

With interest rates now on the rise, the average authorized returns for full year 2022 and 2023 may edge higher, albeit at a moderate pace as state utility regulatory commissions generally have taken a more gradual and measured approach to changes in authorized ROE levels. In addition, affordability concerns are likely to continue as regulators grapple with rate increases stemming from the recovery of pandemic-related costs and stranded costs related to the energy transition. These considerations could be further impacted by the overall state of the economy, rising natural gas prices and the significant level of planned capital spending expected in the industry, particularly to fund the energy transition.

Capital structure trends

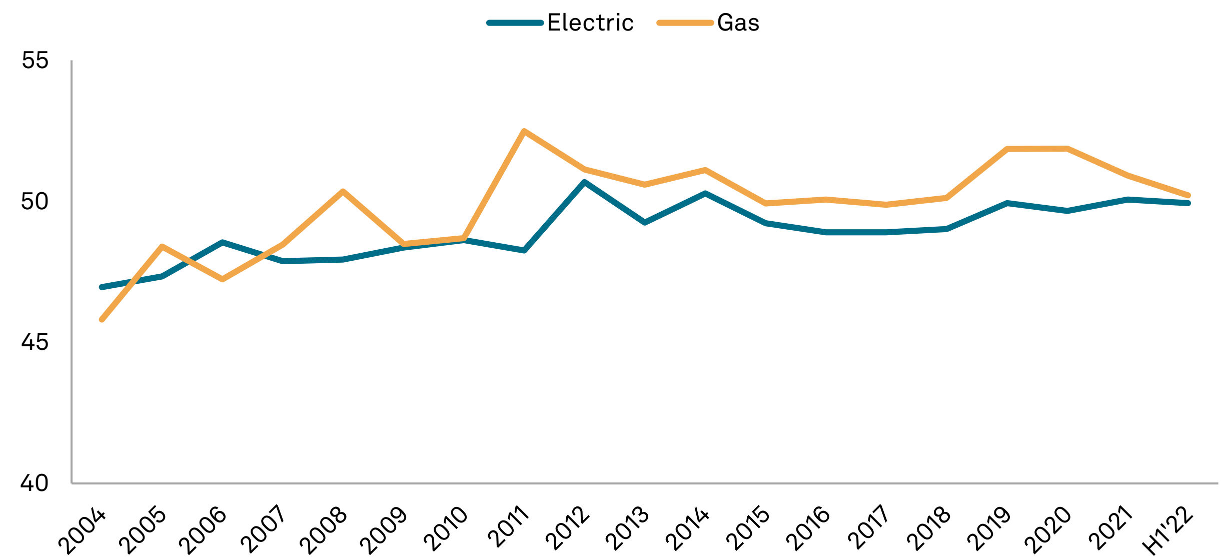
The negative cash flow impact of federal tax changes that took effect in 2018 raised concerns regarding utility liquidity and credit metrics. In response, many utilities sought higher common equity ratios, and the average authorized equity ratios adopted by utility commissions in 2019 were modestly higher than the levels observed in 2018 and 2017.

For full years 2021, 2020, 2019, 2018 and 2017, the average equity ratios authorized in electric utility cases were 50.06%, 49.69%, 49.94%, 49.02% and 48.90%, respectively. The average equity ratios authorized gas utilities were 50.92%, 51.87%, 51.86%, 50.12% and 49.88%, respectively.

In the first half of 2022, the average authorized equity ratio for electric utility cases nationwide was 49.94%. For gas utilities, the average authorized equity ratio nationwide was 50.21%.

Taking a longer-term view, equity ratios have generally increased over the last several years — the average equity ratio approved in electric rate cases decided during 2004 was 46.96%, while the average for gas utilities was 45.81%. Many commissions began approving more equity-rich capital structures in the wake of the 2008 financial crisis. For the bulk of the period since 2004, allowed equity ratios for gas utilities have been above those authorized for electrics.

Average authorized equity ratio (%)



Data compiled July 22, 2022.
Source: Regulatory Research Associates, a group within S&P Global Commodity Insights

DM-S-4

A more granular look at ROE trends

The discussion thus far has looked broadly at trends in authorized ROEs; the sections that follow provide a more granular view.

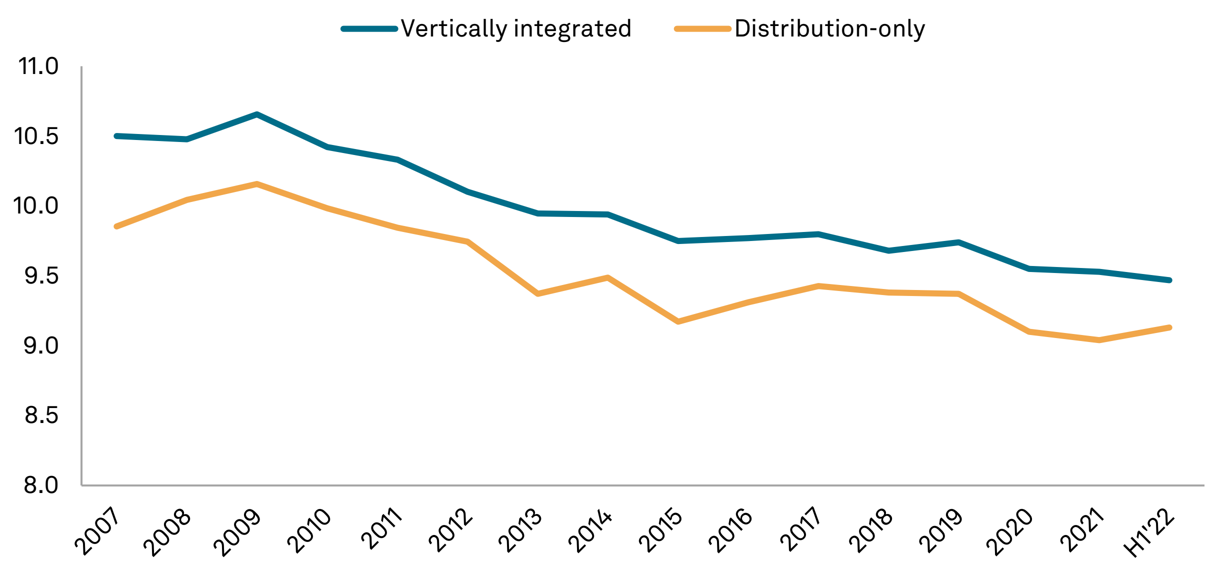
RRA has observed that there can be significant differences between average ROEs based upon the types of proceedings/decisions in which these ROEs were established.

As a result of electric industry restructuring, certain states unbundled electric rates and implemented retail competition for generation. Commissions in those states now have jurisdiction only over the revenue requirement and return parameters for distribution operations.

RRA finds that the annual average authorized ROEs in vertically integrated cases, which involve generation, have been about 30 to 65 basis points higher than in distribution-only cases, arguably reflecting the increased risk associated with ownership and operation of generation assets.

The industry average ROE for vertically integrated electric utilities was 9.47% in cases decided in the first six months of 2022, versus the 9.53% average posted in full year 2021. For electric distribution-only cases, the industry average ROE was 9.13% in the first six months of 2022, versus 9.04% in full year 2021.

Average authorized electric ROEs (%)



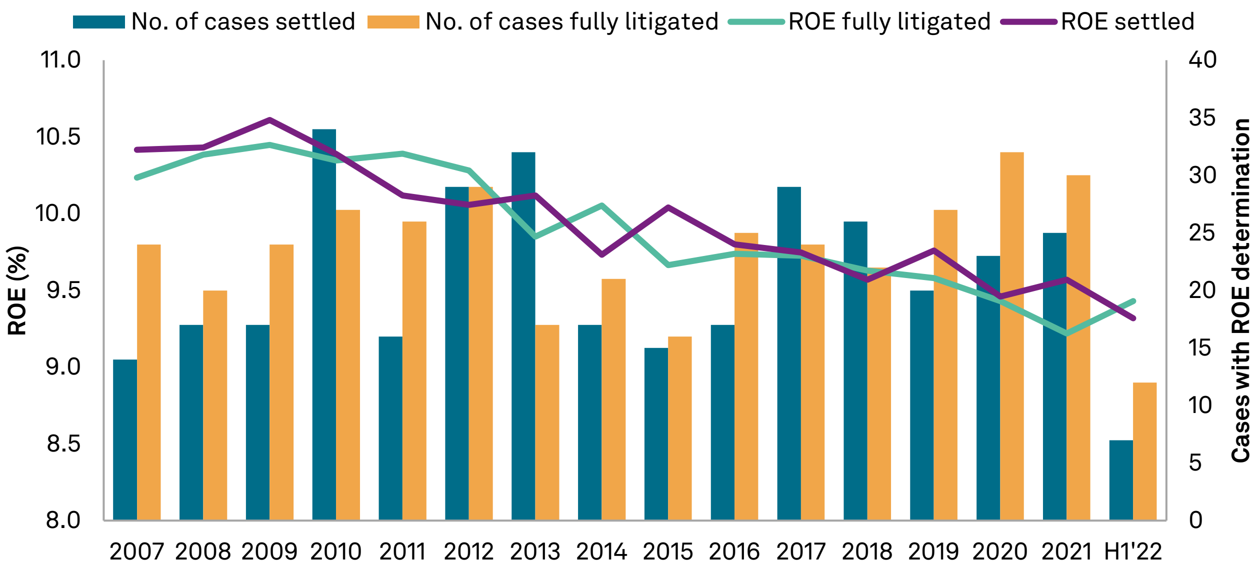
Data compiled July 22, 2022.
Source: Regulatory Research Associates, a group within S&P Global Commodity Insights

Settlements have frequently been used to resolve rate cases over the last several years, and in many cases, these settlements are "black box" in nature and do not specify the ROE and other typical rate case parameters underlying the stipulated rate change. However, some states preclude this type of treatment, and settlements must specify these values, if not the specific adjustments from which these values were derived.

For both electric and gas cases, RRA has found no discernible pattern in the average authorized ROEs in cases that were settled versus those that were fully litigated. In some years, the average authorized ROE was higher for fully litigated cases, while in others, it was higher for settled cases.

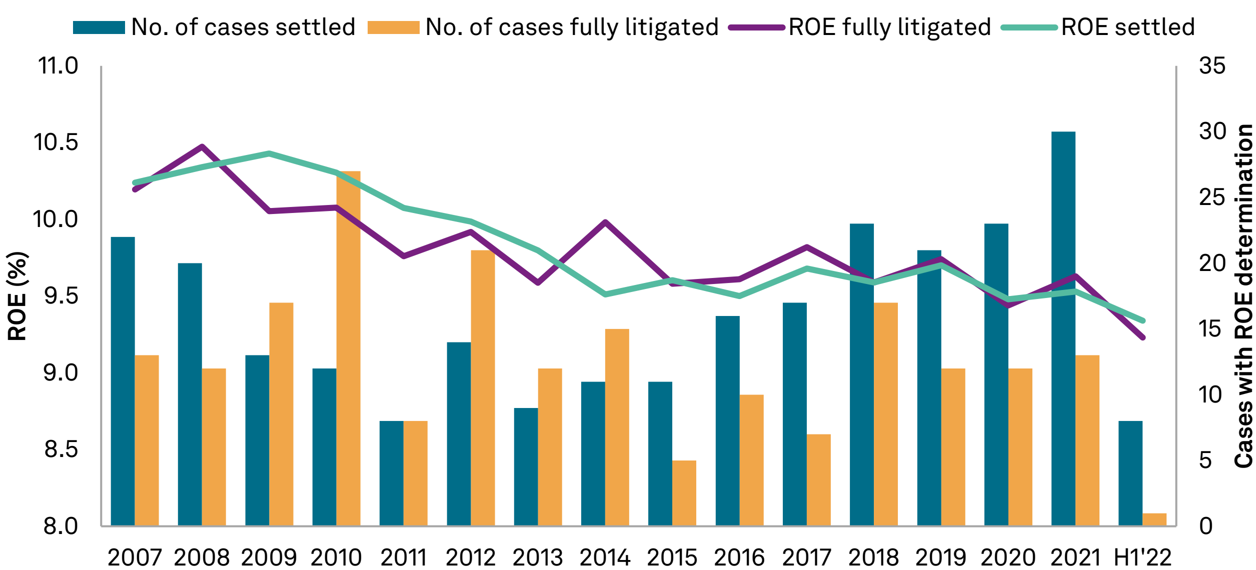
DM-S-4

Average authorized electric ROEs: settled vs. fully litigated cases



Data compiled July 22, 2022.
Source: Regulatory Research Associates, a group within S&P Global Commodity Insights

Average authorized gas ROEs: settled vs. fully litigated cases



Data compiled July 22, 2022.
Source: Regulatory Research Associates, a group within S&P Global Commodity Insights

DM-S-4

Major Energy Rate Case Decisions

The following discussion focuses on the corresponding tables available here.

Table 1 shows the average ROE authorized in major electric and gas rate decisions annually since 1990 and by quarter since 2017, followed by the number of observations in each period. **Table 2** indicates the composite electric and gas industry data for all major cases, summarized annually since 2004 and by quarter since 2020.

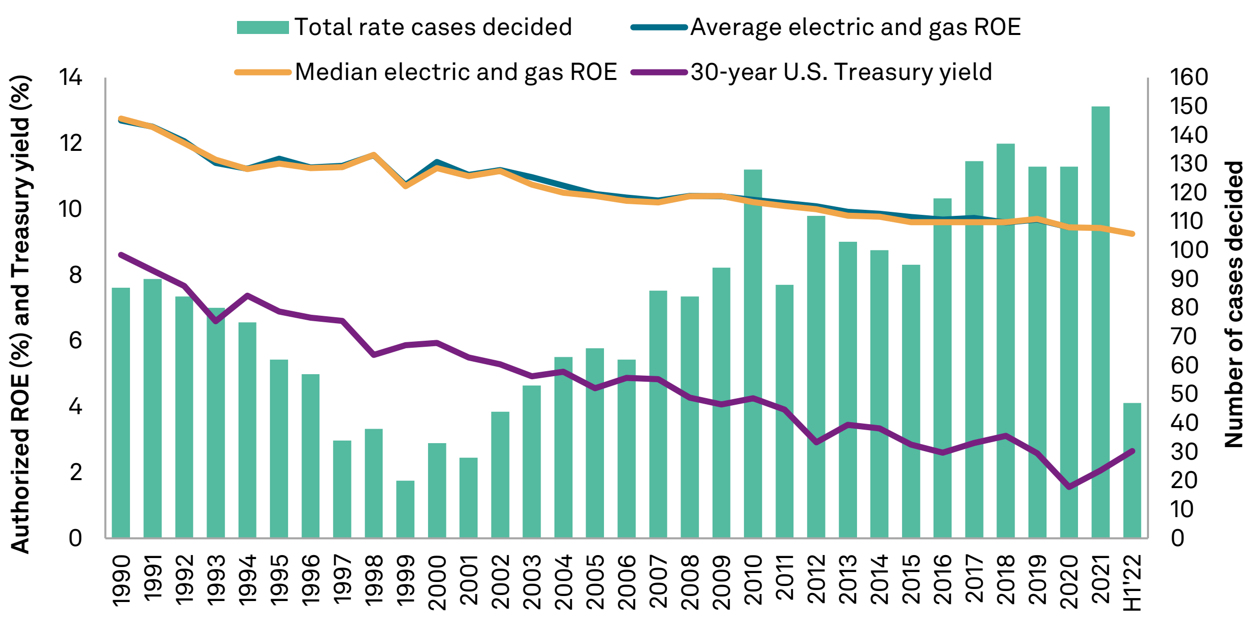
Tables 3 and 4 provide comparisons since 2007 of average authorized ROEs for settled versus fully litigated cases, general rate cases versus limited-issue rider proceedings and vertically integrated cases versus delivery-only cases for electric and gas utilities, respectively.

The individual electric and gas cases decided in the first half of 2022 are listed in **Table 5**, with the decision date shown first, followed by the company name, the abbreviation for the state issuing the decision, the authorized rate of return, the ROE and the percentage of common equity in the adopted capital structure. Next, RRA indicates the month and year in which the adopted test year ended, whether the commission utilized an average or a year-end rate base and the amount of the permanent rate change authorized. The dollar amounts represent the permanent rate change ordered at the time the decisions were rendered. Fuel adjustment clause rate changes are not reflected in this study.

The simple mean is utilized for the return averages. In addition, the average equity returns indicated in this report reflect the ROEs approved in cases decided during the specified time periods and are not necessarily representative of either the average currently authorized ROEs for utilities industrywide or the returns actually earned by the utilities.

Table 6 and the graph below track the combined average and median equity return authorized for all electric and gas rate cases since 1990. As the table indicates, since 1990, authorized ROEs have generally trended downward, reflecting the significant decline in interest rates and capital costs that has occurred over this time frame.

Composite electric and gas average authorized ROEs and total number of rate cases



Data compiled July 22, 2022.
Sources: Regulatory Research Associates, a group within S&P Global Commodity Insights; U.S. Department of the Treasury

DM-S-4

Further Reading

The rate case process: a conduit to enlightenment

Rate base: How would you rate your knowledge of this utility industry fundamental?

Adjustment Clauses — a State by State Overview

Adjustment Clauses — Data tables

Major Utility Cases in Progress in the US

Major Utility Cases in Progress in the US - Databook

Major utility cases in progress — Pending significant non-rate case activity

Utility Asset Securitization in the U.S.

State Regulatory Evaluations – Energy

Utility Capital Expenditures Update — Energy and water utility capex plans on-track for record breaking 2022

State lawmakers zero in on electric vehicles, nuclear generation during Q1'22

US regulators juggle stranded cost recovery, abatement strategies

Gas Ban Monitor: West Coast pushes new boundaries; pro-gas state bills stall

Utility Asset Securitization in the U.S.

About the Author(s)

Author: Lisa Fontanella, Research Director

Contributors: Brian Collins, Jim Davis, Russell Ernst, Lillian Federico, Monica Hlinka, Jason Lehmann, Dan Lowrey

About Regulatory Research Associates

Regulatory Research Associates, a group within S&P Global Commodity Insights, is the leading authority on utility securities and regulation. Understanding the financial and strategic impact of federal and state regulation is a key to success in the energy business. For nearly 40 years, Regulatory Research Associates has been the leading provider of independent research, expert analysis, proprietary data and consultation on utility securities and regulation. S&P Global Commodity Insights produces content for distribution on S&P Capital IQ Pro.

DM-S-4

CONTACTS

The Americas
+1 877 863 1306
market.intelligence@spglobal.com

Europe, Middle East & Africa
+44 20 7176 1234
market.intelligence@spglobal.com

Asia-Pacific
+852 2533 3565
market.intelligence@spglobal.com

www.spglobal.com/marketintelligence