



National Average of Allowed Utility Return on Equity Hits Record Low Levels

Driven by lower interest costs and a sluggish economy, the national average of allowed return on equity (ROE) levels for electric utilities by state utility regulatory commissions cracked below the 10% ROE glass floor for both the 2nd and 3rd quarters of 2012. Similarly, the allowed ROE for natural gas distribution companies has also averaged below 10% in each of the last six calendar quarters.

While no rate case applications are currently before the Public Utility Regulatory Authority (PURA), major rate cases that appear before PURA in the next year will be influenced by this trend of decreasing ROEs. This is one revenue requirement component in future rate cases where ratepayers are likely to see a reduced cost of service. These reductions in capital costs may also allow utility companies to refinance existing long-term debt, enabling them to push-off filing rate applications.