

Duke Energy Progress (SC)



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Public Service Commission of South Carolina

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General Information

Contact information

101 Executive Center Drive
Suite 100
Columbia, SC 29210
(803) 896-5100
<http://www.psc.sc.gov>

No. of Commissioners

7 of 7

Method of Selection

Commissioners: Elected by the Legislature
Chairperson: Elected by fellow Commissioners

Term of Office

Commissioners: 4 years
Chairperson: 2 years

Chairperson

Nikiya Hall

Deputy Chairperson

Swain Whitfield

Governor

Nikki Haley (R)

Services Regulated

Electric utilities, Gas utilities, Hazardous waste carriers, Household goods carriers, Sewer utilities, Telecommunications utilities, Water utilities

RRA Ranking

Average/1 (12/1/1998)

Commission Budget

\$4.5 million

Commissioner Salaries

Commissioners: \$104,400
Chairperson: \$106,300

Size of Staff

40

Rate Cases

Public Service Commission of South Carolina's Rate Case History

Research Notes

RRA Articles

RRA Contact

Dennis Sperduto

Commissioners

| Name | Party | Began Serving | Term Ends |
|--------------------------------------|-------|---------------|-----------|
| Nikiya Hall Chairman | | 06/2010 | 06/2018 |
| Swain Whitfield Vice Chairman | | 07/2008 | 06/2016 |
| John E. Howard | | 03/2004 | 06/2016 |
| G. O'Neal Hamilton | | 03/2004 | 06/2016 |
| Elizabeth B. Fleming | | 03/2004 | 06/2018 |
| Comer H. "Randy" Randall | | 07/2013 | 06/2016 |
| Elliot Elam | | 07/2014 | 06/2018 |

Miscellaneous Issues

Commissioner Selection Process—Commissioners are elected by the Legislature to four-year staggered terms from candidates nominated by a 10-member Legislative Public Utilities Review Committee, which nominates up to three candidates for each PSC seat. One commissioner is elected from each of South Carolina's seven Congressional districts. Commissioners must have a background and expertise in at least one of the following: energy issues; telecommunications issues; consumer advocacy and protection issues; water issues; finance, economics, and statistics; accounting, engineering; or, law. The chairman and vice chairman are elected by the commissioners for two-year terms that begin in July of even-numbered years.

Services Regulated—In addition to investor-owned electric, gas, and telephone utilities, the PSC regulates investor-owned water and sewer companies, intrastate motor carriers of household goods and hazardous waste for disposal, and taxicabs and other passenger carriers.

Staff Contacts: Jocelyn Boyd, Chief Clerk and Administrator, (803) 896-5114

(Section updated 8/27/15)

RRA Evaluation

RRA views South Carolina utility regulation as relatively constructive and stable from an investor perspective. The state has not restructured the electric industry and utilities remain vertically integrated and traditionally regulated. Recently authorized equity returns have been at or slightly above industry averages at the time established, and electric fuel clauses are in place. State law authorizes the PSC to issue an upfront "used and useful" determination, approve recovery of certain pre-construction costs, and allow a cash return on construction work in progress for new nuclear generating plants. One major utility in the state is involved in the construction of two new nuclear units and has availed itself to these provisions of the state's regulatory framework. In addition, with respect to the two major mergers that occurred over the past several years, the PSC did not impose restrictive conditions. In the gas industry, while large customers have had the option to purchase their gas supply from competitive suppliers for many years, no efforts have been made to extend retail choice to smaller customers. Gas utilities are subject to annual "make-whole" rate adjustments if their earned equity return is outside a band of +50 basis points around the last authorized return. Purchased gas adjustment clauses are in place, and weather normalization mechanisms have been utilized for the two major gas utilities for several years. We continue to accord South Carolina regulation an Average/1 rating. (Section updated 8/27/15)

RRA Ranking History

| Date of Ranking Change | RRA Ranking |
|------------------------|-------------------|
| 12/1/1998 | Average / 1 |
| 10/10/1989 | Above Average / 3 |
| 1/3/1986 | Average / 1 |
| 10/2/1984 | Average / 2 |
| 4/4/1984 | Average / 3 |

RRA maintains three principal rating categories for regulatory climates: Above Average, Average, and Below Average. Within the principal rating categories, the numbers 1, 2, and 3 indicate relative position. The designation 1 indicates a stronger rating; 2, a mid-range rating; and, 3, a weaker rating. The evaluations are assigned from an investor perspective and indicate the relative regulatory risk associated with the ownership of securities issued by the jurisdiction's utilities. The evaluation reflects our assessment of the probable level and quality of the earnings to be realized by the state's utilities as a result of regulatory, legislative, and court actions.

| | |
|----------|-------------------|
| 7/1/1983 | Below Average / 1 |
| 7/2/1982 | Average / 3 |

Consumer Interest

The public interest is represented by the South Carolina Office of Regulatory Staff (ORS), a separate state agency. The ORS is statutorily charged with balancing: the concerns of customers; economic development and job retention; and, the preservation of utility financial integrity and continued investment in, and maintenance of, utility facilities. The executive director of the ORS is nominated by the Legislature's Public Utilities Review Committee for consideration by the governor. The current executive director is C. Dukes Scott, a former (1994-1999) PSC commissioner. Industrial intervenors and consumer groups also participate in certain proceedings. (Section updated 8/27/15)

Rate Case Timing/Interim Procedures

A utility must give the PSC 30 days' notice of its intention to file a rate case. The Commission is required to issue a written order within six months after an application is filed, but in gas, water, and sewer cases, may extend the six-month period for an additional five days. Gas, water, and sewer utilities may implement a requested rate increase if the PSC fails to act within six months and five days of the filing. For electric utilities, once the six month period has expired, the requested rates may be implemented if the Commission does not issue an order within ten days of being provided written notice from a party. Any such increase is treated as an approved rate schedule. If a utility appeals a PSC order, the utility may place the requested rates in effect under bond during the appeal.

Rate increase applications may be filed no more frequently than every 12 months. The PSC may allow new rates to be put into effect, without hearings, when: (1) the tariffs do not require determination of the entire rate structure and overall rate of return; (2) the rates or tariffs do not result in a revenue increase; or, (3) the rates or tariffs are for experimental purposes. (Section updated 8/27/15)

Return on Equity

The PSC's return on equity (ROE) determinations have generally approximated or been slightly above industry averages when established. Most recently, in September 2013, the PSC adopted a settlement for Duke Energy Carolinas (DEC) that incorporated a 10.2% ROE. In 2012, the Commission adopted a Memorandum of Understanding in a South Carolina Electric & Gas (SCE&G) electric rate case that incorporated a 10.25% ROE. In 2005, the Commission adopted a settlement, and in so doing, authorized a 10.25% ROE for SCE&G's gas operations. **SCE&G is a subsidiary of SCANA Corporation. Duke Energy Progress (DEP), formerly Carolina Power & Light, is authorized a 12.75% equity return that was established by the Commission in 1988. DEC and DEP are subsidiaries of Duke Energy.**

State law permits natural gas utilities, upon PSC approval, to adjust rates annually in a "make-whole" rate proceeding if a company's earned ROE is outside a band of ± 50 basis points around the previously authorized ROE. Any rate adjustment would be based on the last authorized ROE. (For additional detail see the Alternative Regulation section.)

In a 2002 base rate case decision, the PSC authorized Piedmont Natural Gas (PNG) a 12.6% ROE. However, in a small "make-whole" rate proceeding decided on Oct. 13, 2015, the PSC adopted a settlement that specified a 10.2% ROE to be utilized only for rates effective beginning in November 2015. (Section updated 10/22/15)

Rate Base and Test Period

The PSC generally relies upon a year-end rate base for a historical test period, with adjustments. The PSC has allowed a cash return on construction work in progress (CWIP).

The Base Load Review Act (BLRA), which became law in 2007, authorizes the PSC to issue a project development order (PDO) affirming the prudence of a utility's decision to incur pre-construction costs for a nuclear plant. When issuing a PDO, the PSC does not rule on the prudence or recoverability of specific cost items, but instead rules on the prudence of the decision to incur pre construction costs for the project. The PSC can order certain restrictions and has limited Duke Energy Carolinas' ongoing spending at its Lee nuclear plant to the amount needed to keep the project viable. Unless an intervenor demonstrates in a subsequent proceeding that individual cost items were imprudent, all pre-construction costs incurred for the potential nuclear plant, in accordance with the PDO, would be fully recoverable in future proceedings.

For base load coal and nuclear plants, the BLRA also authorizes the PSC to issue a BLRA order. A BLRA order constitutes an upfront determination that a plant is "used and useful," and that associated proposed capital expenditures are prudent and ultimately should be reflected in rates as long as the plant is constructed within the estimated construction schedule, including authorized contingencies, and capital budget. After PSC issuance of a BLRA order, the utility is required to file quarterly reports with the PSC and the Office of Regulatory Staff detailing the construction progress and costs of the plant until it begins commercial operation. For nuclear plants only, if requested by a utility, the BLRA order is to specify initial revised rates reflecting the utility's pre-construction and development costs. At least one year after the filing of an application for a BLRA order, and no more frequently than annually thereafter, the utility is permitted to file for PSC approval of revised rates reflecting a cash return on a nuclear plant's CWIP.

In 2010, the South Carolina Supreme Court affirmed the PSC's 2009 approval of South Carolina Electric & Gas' (SCE&G's) application to build two 1,117-MW nuclear generating units at the site of the 966-MW V.C. Summer Nuclear Station, and the Commission's concurrent issuance of a BLRA order. The PSC's actions had been appealed by an environmental group, Friends of the Earth, who had challenged the need for, and the costs of, the units and argued that SCE&G failed to adequately consider alternatives to nuclear generation.

In a separate, but related, decision also in 2010, the Supreme Court ruled that consideration of capital cost contingencies is not permitted as a part of approved capital expenditure forecasts under the state's BLRA until the costs can be identified, itemized, and designated to specific items. The Supreme Court's decision permits SCE&G to request that the PSC update the cost projections for V.C. Summer Units 2 and 3 to reclassify contingent costs to specific capital expenditure accounts. The PSC subsequently approved an updated capital expenditure allocation associated with the two units, consistent with the Court's decision. (Section updated 8/27/15)

Accounting

Duke Energy Progress, Duke Energy Carolinas, and South Carolina Electric & Gas (SCE&G) have established external trust funds for the decommissioning of their respective nuclear facilities. SCE&G utilizes an unusual method of funding decommissioning costs for the V.C. Summer Nuclear Station. Amounts collected through rates are used to pay premiums on insurance policies on the lives of certain company and affiliated personnel, and SCE&G is the beneficiary of these policies. SCE&G transfers to an external trust fund the amounts collected through rates, insurance proceeds, and interest on proceeds. The trust fund balance reflects the net cash surrender value of the insurance policies and cash held by the trust. Through these insurance contracts, SCE&G is able to take advantage of income tax benefits and accrue earnings on the fund on a tax-deferred basis.

The PSC has approved an accelerated capital recovery plan for SCE&G's 420-MW coal-fired Cope Generating Station. The plan, which was initially established in 2000 and has been extended through 2015, permits SCE&G to accelerate the depreciation of the Cope plant by as much as \$36 million annually. Any unused portion of the annual \$36 million maximum may be applied in a subsequent year. As of Dec. 31, 2014, no accelerated depreciation had been recorded. (Section updated 8/27/15)

Alternative Regulation

State law provides for natural gas utilities to be subject to annual rate adjustments if their earned ROE is outside a band of ± 50 basis points around the previously authorized ROE. Any rate adjustment would be based on the last authorized ROE. The gas utilities must request any rate change by June 15 of each year in conjunction with their March 31 quarterly surveillance filings, and a written PSC order must be issued by October 15, with any new rates to be effective in November. (Section updated 8/27/15)

Court Actions

PSC rate case decisions may be appealed directly to the State Supreme Court. Non-rate case decisions are heard by the State Court of Appeals. Judges are elected by the Legislature from candidates submitted on a non-partisan basis by the Legislature's Judiciary Committee. No major utility-related issues were decided by the courts in the last couple of years. (Section updated 8/27/15)

Legislation

The South Carolina Legislature is a bicameral body, which meets annually beginning in January for a session that continues until the first Thursday in June. The Senate is currently comprised of 18 Democrats and 28 Republicans, while the House of Representatives contains 46 Democrats and 78 Republicans. In June

2014, the Distributed Energy Resource Program Act (Act No. 236, Senate Bill No. 1189) was enacted. The legislation provides for participating regulated utilities to implement programs designed to achieve the goal of 2% of the utilities' peak demand being supplied by renewable energy resources by 2021. Act No. 236 contains provisions regarding the creation, implementation, and regulation of distributed energy resource plans, net metering tariffs, and solar lease agreements. (Section updated 8/27/15)

Corporate Governance

Mergers involving utilities operating in South Carolina are subject to PSC review. In the context of merger-related proceedings, the PSC has adopted certain "ring-fencing" provisions (see the Merger Activity section). (Section updated 8/27/15)

Merger Activity

Mergers involving utilities operating in South Carolina are subject to review by the PSC. South Carolina law does not specify the standard that the PSC must apply in reviewing and approving mergers and acquisitions. However, the Commission has sought to ensure that South Carolina retail customers are protected from any adverse effects of a proposed transaction. The PSC has considered factors such as whether the proposed transaction would have any adverse effect on the utility's rates, whether the utility's cost of service and jurisdictional revenues or expenses would be adversely affected by the transaction, and whether the transaction would result in any benefits to South Carolina customers.

In 2005, the PSC adopted a stipulation in a proceeding in which it considered the proposed merger of Duke Energy and Cinergy, which was completed in 2006. The adopted stipulation required DEC (then Duke Power) to reduce base rates by \$40 million (4%) for a one-year period after the merger closed. The stipulation also contained a "most favored nation" provision for DEC's South Carolina customers. DEC was required to transition its capital structure used for quarterly PSC surveillance reports to a capital structure benchmark consisting of 55% equity and 45% debt by Dec. 31, 2007, with this capital structure to remain in effect until changed by the PSC, either in a general rate case or in response to a request by the company or other party. (In a base rate case decided in January 2010, the PSC adopted a settlement that incorporated a 53% equity ratio.) Direct costs to achieve the merger are excluded from retail cost-of-service for ratemaking purposes. Any increase in DEC's debt costs due to credit rating downgrades resulting from the merger are also to be excluded from retail rates. The PSC also approved a second settlement that required additional transmission planning activity.

In 2012, the PSC approved a joint dispatch agreement between Duke Energy Carolinas (DEC) and Duke Energy Progress' (DEP's) predecessor Carolina Power & Light that was part of the merger of DEC's parent Duke Energy (Duke) and DEP's parent Progress Energy (Progress), which was completed in July 2012. Because the Commission found "that there is an absence of harm to South Carolina ratepayers as a result of the proposed merger," the PSC did not have to determine if its approval of the transaction was required. In approving the dispatch agreement, the PSC also approved several commitments that had been made by the companies. The commitments specify that the companies would not seek recovery from retail customers of losses and costs associated with interim wholesale market power mitigation sales agreements contained in a related Federal Energy Regulatory Commission (FERC) approved mitigation plan. In addition, during the interim mitigation period (which was completed in July 2014), DEC and DEP reduced retail rates by \$64.6 million on a total-system-basis (South Carolina retail allocable portion was about \$10.4 million for DEC and \$2.3 million for DEP) to reflect the removal from retail rates of certain plant capacity that was not available to retail customers during the interim mitigation period. The rate reductions were achieved through a credit-rider. For five years following the merger's close, DEC and DEP are to refrain from seeking recovery of the costs of transmission projects associated with the FERC-approved market power mitigation plan. After the initial five years, the companies may recover these costs, subject to a demonstration that the projects are needed to provide adequate and reliable retail service regardless of the merger. This commitment does not apply to the Greenville-Kinston-DuPont transmission project; the companies may request recovery of the cost of this project any time after the line is placed into service. In 2014, the PSC approved a capacity sharing agreement between DEC and DEP that allows DEC or DEP to make excess capacity available to the other when one company is projected to have more than adequate operating reserves and the other would benefit from a capacity acquisition.

In addition, DEC and DEP are to provide annual community support and charitable contributions in South Carolina of at least \$1.9 million and \$0.8 million, respectively, for four years following the close of the transaction. Also, the companies were required to contribute a total of \$5.2 million for purposes such as workforce development and low income energy assistance in South Carolina in the first year following the merger's close. Finally, DEC and DEP re-affirmed their previous commitments to provide South Carolina customers pro rata benefits equivalent to those approved by the North Carolina Utilities Commission. This included a guarantee that South Carolina retail customers receive their jurisdictional share of \$687 million in total (North Carolina and South Carolina) fuel and joint dispatch savings expected to be achieved over the first five years following the closing of the merger. Under certain conditions, the five-year time frame may be extended by 18 months. Also, DEC and DEP will not seek recovery of employee severance costs incurred to reduce the workforce in order to achieve merger savings. These costs were forecasted to be \$226 million on a system-wide basis and \$44 million on a South Carolina-retail basis. (Section updated 8/27/15)

Electric Regulatory Reform/Industry Restructuring

No restructuring action has been taken. (Section updated 8/27/15)

Gas Regulatory Reform/Industry Restructuring

Large-volume customers have been permitted to purchase natural gas from alternative suppliers for a number of years; however, this option is not available for small-volume commercial or residential customers. For South Carolina Electric & Gas, any interruptible customer may choose transportation-only service, while firm customers must use a minimum of 50 dekatherms of gas on a peak day in order to purchase gas competitively. Industrial customers of Piedmont Natural Gas with an average daily usage of 50 dekatherms may purchase gas from a competitive supplier. No initiatives are currently underway regarding supplier choice for small-volume customers. (Section updated 8/27/15)

Adjustment Clauses

Non-automatic electric fuel and purchased gas adjustment clauses are in place for the state's utilities. Each electric utility is required to furnish the PSC an estimate of its fuel costs, including the cost of purchased power, for a prospective 12-month period. The PSC then determines the fuel-related costs to be included in base rates for that period, including adjustments for over- or under-recovery from the preceding 12-month period. Electric companies are required to account on a monthly basis for the difference between fuel costs recovered through base rates and actual fuel costs. Emissions allowance costs and the cost of certain materials used in reducing or treating emissions are reflected in the fuel clause.

Gas utilities use an adjustment clause that enables the pass-through to customers of increases or decreases in the cost of gas. The companies' rates are based on the projected cost of gas, with differences between actual and projected costs deferred and reviewed by the PSC. South Carolina Electric & Gas (SCE&G) is permitted to make monthly adjustments to its gas cost recovery as calculated based on a rolling 12-month forecast of purchased gas costs. Piedmont Natural Gas' costs are projected for a 12-month period, and the company may adjust rates periodically. The company's gas costs are reviewed annually by the PSC.

In December 2013, the PSC authorized SCE&G to terminate, effective in January 2014, an electric weather normalization adjustment (eWNA) mechanism that the PSC had authorized in 2010, to be effective on a pilot basis for residential and small general service commercial customers. The PSC found that "the eWNA's calculation presented difficulty, and customers complained that they could never predict what their bills would be. Also, the eWNA presented difficulty for those customers who wanted to employ and measure energy efficiency in their homes. The two components were difficult to measure when examined at the same time in the same residence."

Gas weather normalization adjustments have been in place for several years for SCE&G and Piedmont Natural Gas that apply to residential and small commercial customers during winter months. (Section updated 8/27/15)

Integrated Resource Planning

Electric utilities are required to annually submit 15-year integrated resource planning (IRP) proposals encompassing supply-side and demand-side management (DSM) alternatives. Duke Energy Carolinas, Duke Energy Progress, and South Carolina Electric & Gas have been authorized to recover through an annual rider DSM costs, including incentives.

Major projects require the PSC to issue a certificate of public convenience and necessity determining that the project is needed. If the project is completed at a cost at or below that projected in the certification process, utility cost recovery should not be an issue. Costs that exceed the projection would need to be justified by the utility. Special certification and cost recovery treatment applies to base load coal and nuclear generation (see the Rate Base and Test Period section).


There are no IRP requirements for the state's gas utilities. (Section updated 8/27/15)

Renewable Energy

In June 2014, the Distributed Energy Resource Program Act (Act No. 236, Senate Bill No. 1189) was enacted. The legislation provides for participating regulated utilities to implement programs designed to achieve the goal of 2% of the utilities' peak demand being supplied by renewable energy resources by 2021. Act No. 236 contains provisions regarding the creation, implementation, and regulation of distributed energy resource plans, net metering tariffs, and solar lease agreements. (Section updated 8/27/15)

Rate Structure

The PSC has approved several specific rates designed to increase economic development in the state. (Section updated 8/27/15)

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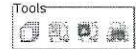
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D-2014-UN-0132

Rate Case Profile



| | |
|-----------------------|---------------------------------|
| State: | Mississippi |
| Company: | Entergy Mississippi, Inc. |
| Action/Status: | New rates effective (estimated) |
| Docket: | D-2014-UN-0132 |

Case History

| Date | Action | Millions |
|------------|---|----------|
| 6/10/2014 | Electric base rate increase requested | \$204.5E |
| 10/14/2014 | Partial settlement filed | \$ |
| 10/31/2014 | Additional settlement filed, base rate increase specified | \$177.7E |
| 12/11/2014 | Base rate increase authorized | \$177.7E |
| 1/30/2015 | New rates effective (estimated) | \$177.7E |

| | Present Case | | Previous Case |
|------------------------------------|--------------------------------|-------------------------------------|-------------------------------------|
| | Requested by Company 6/10/2014 | Authorized by Commission 12/11/2014 | Authorized by Commission 12/13/2002 |
| Rate Change Amount (\$) | 204,541,807 | 177,658,000 | 48,200,000 |
| Rate Change/ Revenue (%) | 6.10 | 5.30 | 5.30 |
| Rate Case Test Year End Date | 12/31/2015 | 12/31/2015 | 12/31/2003 |
| Rate Base (\$) | 2,022,490,016 | 2,014,330,539 | 1,174,900,000 |
| Rate Base Valuation Method | Average | Average | Average |
| Return on Equity (%) | 10.59 | 10.07 | 11.75 |
| Common Equity to Total Capital (%) | NA | NA | 44.99 |
| Rate of Return (%) | 7.81 | 7.51 | 9.09 |

[View previous rate case profile \(D-02-UN-0526\)](#)

Commission Ranking

Above Average / 3

Footnotes

After accounting for the transfer of certain rider amounts to base rates, customers would have experienced a net \$93 million increase if the company's initial request were to have been adopted by the PSC.

On 10/14/14, the company and the Mississippi Public Utilities Staff filed a partial settlement. A second settlement was filed on 10/31/14 addressing additional issues.

After accounting for the transfer to base rate of certain amounts currently being collected through a rider, ratepayers are to experience a net rate increase of roughly \$66 million.

Certain elements of the capital structure (including the equity % of capital) were redacted in this proceeding.

The decision provides for the company to operate under a formula rate plan.

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Teco

Electric's base rates and charges and to avoid the inherent risks, uncertainties and costs of further litigation; and

WHEREAS, the legal system favors the settlement of disputes by mutual agreement between the contending parties and the Commission has long favored negotiated settlements that are in the public interest;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants contained herein, which the Parties agree and acknowledge constitute good and valuable consideration, the Parties hereby stipulate and agree as follows:

1. Term.

(a) This Agreement will become effective upon Commission approval and shall be implemented on the date of the meter reading for the first billing cycle of November 2013 ("the Implementation Date") and continue at least through the date of the last billing cycle in December 2017. These base rates, charges and credits may continue beyond December 2017 unless otherwise changed by Commission Order. The period from the Implementation Date through the last billing cycle in December 2017 may be referred to herein as the "Minimum Term".

(b) The Parties reserve all rights, unless such rights are expressly waived or released, under the terms of this Agreement.

2. Return on Equity and Equity Ratio.

(a) Subject to the adjustment trigger provision in paragraph 2(b), Tampa Electric's authorized return on common equity ("ROE") shall be within a range of 9.25% to 11.25%, with a mid-point of 10.25%. Except as otherwise specifically provided in this Agreement, Tampa Electric's authorized ROE range and mid-point using a 54% equity

ratio (investor sources with any difference to actual equity ratio spread ratably over long-term and short-term debt) shall be used for all purposes during the Term, including cost recovery clauses, earnings surveillance reporting, paragraph 7 of this Agreement regarding an ROE adjustment and the calculation of the Company's Allowance for Funds Used During Construction ("AFUDC") rate and associated amounts of AFUDC in accordance with Rule 25-6.0141, F.A.C..

(b) If at any time during the Term, the average 30-year United States Treasury Bond yield rate for any period of six (6) consecutive months is at least 75 basis points greater than the yield rate on the date the Commission votes to approve this Agreement ("the Trigger"), Tampa Electric's authorized return on common equity ("ROE") shall be increased by 25 basis points to be within a range of 9.50% to 11.50%, with a mid-point of 10.50% ("Revised Authorized Return on Equity") from the Trigger Effective Date defined below for and through the remainder of the Minimum Term, and for any period in which the Company's rates continue in effect after December 31, 2017 until the Commission issues a final order in a future proceeding changing the Company's rates and its authorized ROE. The Trigger shall be calculated by summing the reported 30-year U.S. Treasury bond rates for each day over any six-month period, e.g., January 1, 2014 through July 1, 2014, or March 17, 2014 through September 17, 2014, for which rates are reported, and dividing the resulting sum by the number of reporting days in such period. The effective date of the Revised Authorized Return on Equity ("Trigger Effective Date") shall be the first day of the month following the day in which the Trigger is reached. If the Trigger is reached and the Revised Authorized Return on Equity becomes effective, except as otherwise specifically provided in this Agreement, Tampa Electric's Revised

Rate Case Profile

Duke Energy Carolinas (NC)

D-E-7, Sub 1026

| | |
|-----------------------|---|
| State: | North Carolina |
| Company: | Duke Energy Carolinas, LLC |
| Action/Status: | Revised settlement adopted, base rate increase authorized |
| Docket: | D-E-7, Sub 1026 |

| Case History | | |
|--------------|--|----------|
| Date | Action | Millions |
| 1/4/2013 | Notice of intent to request unspecified electric rate increase filed | \$ |
| 2/4/2013 | Electric base rate increase requested | \$446.1E |
| 6/12/2013 | Settlement in principle filed, base rate increase specified (Formal settlement filed on 6/17/13) | \$235.0E |
| 7/12/2013 | Revised settlement filed, base rate increase specified | \$234.5E |
| 9/24/2013 | Revised settlement adopted, base rate increase authorized | \$234.5E |

| | Present Case | | Previous Case |
|------------------------------------|-------------------------------|------------------------------------|------------------------------------|
| | Requested by Company 2/4/2013 | Authorized by Commission 9/24/2013 | Authorized by Commission 1/27/2012 |
| Rate Change Amount (\$) | 446,101,000 | 234,480,000 | 368,000,000 |
| Rate Change/ Revenue (%) | 9.70 | 5.10 | 8.60 |
| Rate Case Test Year End Date | 6/30/2012 | 6/30/2012 | 12/31/2010 |
| Rate Base (\$) | 11,951,325,000 | 11,512,631,000 | 11,097,000,000 |
| Rate Base Valuation Method | Year-End | Year-End | Year-End |
| Return on Equity (%) | 11.25 | 10.20 | 10.50 |
| Common Equity to Total Capital (%) | 53.00 | 53.00 | 53.00 |
| Rate of Return (%) | 8.45 | 7.88 | 8.11 |

[View previous rate case profile \(D-E-7, Sub 989\)](#)

Commission Ranking

Above Average / 3

Footnotes

The adopted revised settlement specifies that in each of the first two years that the new rates are in effect, the company is to utilize \$30 million of a regulatory liability to reduce the rate increase to \$204.5 million.

On 6/26/13, the company filed testimony supporting the settlement. The company also filed rebuttal testimony containing updated cost-of-service information that indicated a revenue requirement deficiency of \$423.7 million premised upon an 11.25% return on equity (53% of capital) and an 8.45% return on a year-end rate base valued at \$11.89 billion for a test year ended 6/30/12.

Veeco

Virginia Riders

| | ROE | | Weighted |
|--------------|-----------------|------------------------|---------------------------|
| | Approved | Rate Base (\$M) | ROE |
| Rider B | 11.60 | 131.7 | 0.65 |
| Rider R | 10.60 | 355.7 | 1.60 |
| Rider S | 10.60 | 1,219.0 | 5.47 |
| Rider W | 10.60 | 655.7 | 2.94 |
| Total | | 2,362.1 | 10.66 ¹ |

4) Weighted average ROE for various limited-issue generation riders authorized on February 29, 2016 ranging from 10.60% to 11.60% utilizing a base ROE of 9.60%



Tuesday, March 01, 2016 3:29 PM ET RRA

Virginia SCC approves lower ROE, adjustments to VEPCO generation riders

By Lillian Federico

On March 1, the Virginia State Corporation Commission (SCC) released orders dated Feb. 29, in several generation rider cases for Virginia Electric and Power Co., or VEPCO. In aggregate the orders provide for a net rate increase of about \$1.5 million, as estimated by S&P Global Market Intelligence affiliate Regulatory Research Associates. The rate changes reflect a 9.6% base ROE, versus the 10% base ROE approved in VEPCOs' 2013 biennial review proceeding (Case No. PUE-2013-00020). The approved rate changes are effective April 1. VEPCO is a subsidiary of Dominion Resources Inc.

By way of background, state law requires the SCC to conduct biennial earnings reviews for the state's major investor-owned utilities. In the context of these reviews, the SCC establishes a prospective ROE to be utilized to calculate under- or over-earnings in the context of the next review. That ROE is also used as the base ROE for setting the revenue requirement in various rider mechanisms utilized by the companies. State law permits the establishment of rider mechanisms for expedited recovery of certain generation facilities, with incentives, in the form of ROE premiums, permitted for certain investments.

However, in 2015 legislation was enacted temporarily suspending the biennial review process. When VEPCO filed for annual adjustments under Riders B, Rider R, Rider S and Rider W on June 1, 2015, the company contended that the 2015 law precluded the SCC from setting a new rate of return, and hence, the proposed revenue requirements reflected the previously approved 10% base ROE. The SCC staff and various intervenors disagreed (see the Virginia Commission Profile).

The issue was bifurcated from the rider proceedings and was litigated separately, but concurrently, with the ROE ultimately determined by the SCC to apply as the base ROE for all of the rider cases. The staff supported a 9.25% base ROE, while VEPCO asserted that a 10.75% base ROE would be appropriate if the SCC were to reset the authorized base ROE.

The SCC found that the state law "gives the Commission discretion as to when (i.e., 'from time to time') it may determine the general [or base] rate of return" for a rate adjustment clause and "directs the Commission how to determine the general rate of return....The plain meaning of the phrase 'from time to time' does not limit the Commission's ROE determination to a prescribed time, but, rather, allows the Commission to choose the occasions at which such ROE is determined. Accordingly, the Commission has the discretion to determine ROE for the [adjustment clause] in the...proceeding (which we do below)."

In addition, the SCC ruled that "the Commission's discretion in the instant case cannot be modified by the enactment of [the 2015 legislation noted above that] "became effective on July 1, 2015, while the instant case was pending. [The legislation] does not include language manifesting an intent that such enactment apply retroactively or specifically to this proceeding, the provisions thereof do not apply to the instant case."

With respect to the ROE to be utilized in the rider cases, the PSC found "that a market cost of equity of 9.6% fairly represents the actual cost of equity in capital markets for companies comparable in risk to Dominion seeking to attract equity capital. We conclude that this return is supported by evidence in the record, results in a fair and reasonable return on common equity, and satisfies the constitutional standards" of maintenance of financial integrity, the ability to attract capital on reasonable terms and earnings commensurate with returns on investments of comparable risk.

Details concerning each proceeding are provided below.

Rider B

Rider B pertains to its investment in biomass conversions at the previously coal-fired Hopewell, Altavista and Southampton plants (Case No. PUE-2015-00058). Rider B was established in 2012, at which time the SCC determined that the related investment would be accorded a 200-basis-point ROE premium through the first five years of the reconfigured plants' useful lives, and has been updated annually since then. The modified facilities achieved commercial operation in 2013. The annual revenue requirement to be collected under the Rider has been adjusted annually since 2012, and for the 12 months ended March 31, 2016, is \$8.6 million.

VEPCO filed for a \$21.1 million revenue requirement increase premised upon a 12% return on equity (49.99% of capital based on VEPCO's capital structure as of Dec. 31, 2014) and an 8.1% return on an average Rider B-specific rate base valued at \$126.3 million for a test year ending March 31, 2017. On Sept. 14, 2015, VEPCO filed supplemental testimony supporting a \$21.3 million revenue requirement increase reflecting the initial return parameters and a \$126.6 million rate base.

On Dec. 18, 2015, the staff recommended that the SCC approve a \$20.6 million rate increase that reflected an 11.25% return on equity (49.99% of capital based on VEPCO's capital structure as of Dec. 31, 2014) and a 7.73% return on a Rider B-specific rate base valued at \$131.7 million.

On Jan. 12, 2016, the parties filed a settlement specifying a \$21.1 million Rider B rate increase premised upon a 12% return on equity (49.989% of capital) and an 8.104% return on a rate base valued at \$131.7 million. The stipulated ROE was a placeholder pending a final ROE determination by the SCC. On Feb. 11, the Hearing Examiner recommended that the SCC approve the settlement.

The SCC apparently approved a \$21 million Rider B revenue requirement increase premised upon an **11.6% return on equity** (49.989% of capital) and a **7.904% return on a rate base valued at \$131.7 million**.

Rider R

Rider R pertains to VEPCO's in the Bear Garden generation facility, a 580-MW combined-cycle natural gas- and oil-fired facility that achieved commercial operation in May 2011. The SCC granted VEPCO a certificate of public convenience and necessity for the project, with rate recognition of the related investment to flow through Rider R in 2012.

The Commission approved a 100-basis-point ROE premium that is to apply through the first 10 years of Bear Garden's operation. The initial revenue requirement under the rider was set at \$64.4 million, and, as a result of subsequent adjustments, the authorized annual revenue requirement through March 31, 2016 is \$83.6 million.

VEPCO initially sought \$9.3 million rate reduction that reflected an 11% return on equity (49.99% of capital, based on VEPCO's year-end 2014 capital structure) and a 7.60% return on an average rate base valued at \$351.4 million for a test year ending March 31, 2017 (Case No. PUE-2015-00059). The company subsequently filed supplemental testimony supporting a \$7.8 million rate reduction premised upon the initially filed return parameters and a rate base estimated by RRA at \$353.9 million.

On Oct. 14, 2015, the staff filed testimony recommending a \$10.3 million reduction premised upon a 10.25% return on equity (49.99% of capital) and a 7.228% return on a rate base valued at \$351.3 million.

On Nov. 10, 2015, the parties filed a settlement specifying a \$7.6 million reduction that reflected an 11% return on equity (49.99% of capital, based on VEPCO's year-end 2014 capital structure) and a 7.60% return on a rate base valued at \$355.7 million. The stipulated ROE is placeholder pending separate SCC determination of ROE for rider cases. On Jan. 26, 2016, the Hearing Examiner recommended that the SCC adopt the settlement.

It appears that the SCC approved a \$9.3 million reduction that reflects a 10.6% return on equity (49.99% of capital) and a 7.4% return on a rate base valued at \$355.7 million.

Rider S

Rider S pertains to the company's investment in the Virginia City Hybrid Energy Center (VCHEC), a 600 MW coal-fueled generating plant that achieved commercial operation in 2012. Rider S was implemented in 2008, at which time the SCC ruled that a 100-basis-point ROE premium is to be used to calculate the revenue requirement under the rider, through the first 12 years of VCHEC's operation. Rider S is updated annually, and the annual revenue requirement approved under the rider through March 31, 2016 is roughly \$244.5 million (Case No. PUE-2015-00060).

VEPCO requested a \$5.7 million Rider S revenue requirement increase premised upon an 11% ROE (49.989% of capital) and a 7.6% return on a \$1.209 billion average Rider S rate base for a test period ending March 31, 2017. At the end of the case VEPCO supported an \$11.5 million increase that reflected the initially filed return parameters and a rate base valued at \$1.211 billion.

On Nov. 10, 2015, the staff recommended a \$4 million increase that reflected a 10.25% return on equity (49.989% of capital) and a 7.228% return on a rate base valued at \$1.211 billion.

On Nov. 24, 2015, the parties filed a settlement specifying an \$11.5 million increase that reflected an 11% return on equity (49.989% of capital) and a 7.6% return on a \$1.219 billion Rider S rate base. On Feb. 12, 2016, the Hearing Examiner recommended that the SCC approve the settlement.

It appears that the SCC has approved a \$6.6 million increase that reflects a 10.6% return on equity (49.989% of capital) and a 7.4% return on a \$1.219 billion Rider S rate base.

Rider W

Rider W pertains to VEPCO's investment in Warren County plant, a 1,329 megawatt natural gas-fired, combined-cycle facility that achieved commercial operation in December 2014. Rider W was initiated in 2012, at which time the SCC indicated that a 100-basis-point ROE premium is to be utilized to calculate the annual revenue requirements under Rider W through the first 10 years of Warren County's operation. The initial revenue requirement under the rider was set at \$34.1 million, and, as a result of subsequent adjustments, the authorized annual revenue requirement effective through March 31, 2016 is \$134.7 million (Case No. PUE-2015-00061).

VEPCO initially proposed a \$16.8 million revenue requirement decrease premised upon an 11% return on equity (49.989% of capital) and a 7.6% return on a \$644.9 million average Rider W-specific rate base for a test period ending March 31, 2017. On Sept. 14, 2015, VEPCO filed updated testimony supporting a \$15.5 million Rider W decrease based upon the initially filed return parameters and a \$645.4 million rate base.

On Oct. 20, 2015, the Staff filed testimony recommending that VEPCO be required to reduce rates by \$19.5 million through Rider W, premised upon a 10.25% return on equity (49.989% of capital) and a 7.23% return on a \$644.7 million Rider W-specific rate base.

On Nov. 13, 2015, the parties filed a settlement specifying a \$14.5 million Rider W decrease that reflected 11% return on equity (49.989% of capital) and a 7.6% return on a \$655.7 million Rider W-specific rate base. The stipulated ROE was a placeholder pending separate SCC determination of base ROE for rider cases. On Jan. 26, 2016, the Hearing Examiner recommended that the SCC adopt the settlement, but reduce the revenue requirement by about \$16.8 million.

It appears that the SCC approved a \$16.7 million rate increase premised upon 10.6% return on equity (49.989% of capital) and a 7.4% return on a \$655.7 million average Rider W-specific rate base. However, the Commission adopted the Examiner's recommendation to limit the total revenue requirement to be collected under the rider, such that VEPCO will implement a \$16.8 million decrease. Under-recovered amounts are to be trued up in the next Rider W case.

Other Proceedings

The ROE approved in this proceeding will also apply to VEPCO's pending Rider BW, Rider GV and Rider U proceedings.

Rider BW pertains to VEPCO's investment in the Brunswick County Power Station, a 1,358-MW combined-cycle natural gas-fired facility that is expected to achieve commercial operation in May 2016 at estimated cost of \$1.21 billion, excluding financing costs.

Rider BW was initially implemented in 2013, and in its 2013 order initially approving Rider BW, the SCC indicated that a 100-basis-point ROE premium would apply to VEPCO's investment in the facility from inception of construction through the first 10 years of the plant's useful life. Rider BW initially reflected a \$43.5 million annual revenue requirement, which was increased to \$84.6 million in 2014 (a \$41.1 million rate increase), and \$145.1 million in April 2015 (a

\$60.5 million two-step increase).

On Oct. 1, 2015, VEPCO filed for an \$8 million revenue requirement increase under Rider BW, premised upon an 11% return on equity (49.989% of capital based on the company's year-end 2014 capital structure) and a 7.6% return on an average rate base valued at \$947.1 million rate base for a test year ending Aug. 31, 2017 (Case No. PUE-2015-00102).

On Feb. 9, 2016, the staff filed testimony recommending a \$28.1 million rate reduction that reflects a 10.25% return on equity (49.989% of capital, based on VEPCO's capital structure as of Dec. 31, 2014) and a 7.228% return on an average rate base valued at \$825 million.

Rider GV pertains to the Greensville Power Station, an approximately 1,588 MW natural gas-fired combined-cycle electric generating facility to be constructed in Greensville County, Virginia. VEPCO seeks an initial revenue requirement under Rider GV of \$41.6 million premised upon a 10% return on equity (49.989% of capital) and a 7.104% return on an average rate base valued at \$389.2 million for a test period ending March 31, 2017 (Case No. PUE-2015-00075).

The staff has recommended a \$39.2 million initial revenue requirement premised upon a 9.25% return on equity (49.989% of capital) and a 6.73% return on a rate base valued at \$389.1 million.

Rider U pertains to VEPCO's investment and costs associated with a project to underground certain distribution lines. VEPCO seeks an initial revenue requirement under Rider U of \$24.2 million premised upon a 10% return on equity (49.989% of capital) and a 7.104% return on an average rate base valued at \$120.9 million for a test period ending Aug. 31, 2017 (Case No. PUE-2015-00114).

For a full listing of past and pending rate cases, rate case statistics, and upcoming events, visit RRA's Home Page.

For a complete, searchable listing of RRA's in-depth research and analysis please go to the SNL Research Library.

Rate Case Profile

C-PUE-2014-00026

| | |
|----------------|--|
| State: | Virginia |
| Company: | Appalachian Power Company |
| Action/Status: | Request for rehearing denied, final order affirmed |
| Docket: | C-PUE-2014-00026 |

| Case History | | |
|--------------|---|----------|
| Date | Action | Millions |
| 3/31/2014 | Biennial earnings review filing tendered, no rate change proposed (schedules support a \$41.7 million revenue "sufficiency"). | \$0.0E |
| 8/20/2014 | Staff recommends no rate change proposes refunds (Staff schedules specify an \$83.9 million revenue "sufficiency"). | \$0.0E |
| 11/26/2014 | Final order calls for no rate change, refunds required (no prospective revenue requirement specified) | \$0.0E |
| 2/3/2015 | Request for rehearing denied, final order affirmed | \$ |

| | Present Case | | Previous Case |
|------------------------------------|--------------------------------|-------------------------------------|-------------------------------------|
| | Requested by Company 3/31/2014 | Authorized by Commission 11/26/2014 | Authorized by Commission 11/30/2011 |
| Rate Change Amount (\$) | 0 | 0 | 55,071,025 |
| Rate Change/ Revenue (%) | 0.00 | 0.00 | 4.10 |
| Rate Case Test Year End Date | 12/31/2013 | 12/31/2013 | 12/31/2010 |
| Rate Base (\$) | 2,372,984,491 | NA | 2,172,000,000 |
| Rate Base Valuation Method | Year-End | NA | Year-End |
| Return on Equity (%) | 10.52 | 9.70 | 10.90 |
| Common Equity to Total Capital (%) | 45.14 | 42.89 | 42.69 |
| Rate of Return (%) | 7.47 | 6.88 | 7.82 |

[View previous rate case profile \(C-PUE-2011-00037\)](#)

Commission Ranking

Above Average / 2

Footnotes

Case is APCO's legislatively mandated biennial earnings review covering the calendar-years 2012 and 2013. In its filing, the company stated that for the two-year period, it had earned a 10.8% return on equity (ROE), slightly below the 10.9% specified in its last review (decided in 2011) and within the 100-basis-point deadband around that return, as established by state law. Consequently, the company asserted that no rate change or refund is necessary at this time.

On a prospective basis, the company sought a 10.52% ROE, which would be applied to 2014 and 2015 earnings in its next review, to be conducted in 2016. While the company proposed no rate change, schedules included in the filing indicated that APCO would have a \$41.7 million revenue requirement "sufficiency" based on the parameters listed above.

For the 2012-2013 period, the Staff calculated that the company had earned a 12.85% ROE, and recommended that APCO be required to make refunds totaling \$22.5 million. While the Staff proposed no prospective rate change, the schedules included in the testimony indicated that APCO had an \$83.9 million revenue requirement "sufficiency" based on a 9.3% return on equity (42.889% of a year-end 2013 capital structure) and a 6.705% return on a rate base valued at \$2.311 billion for a calendar-2013 test year (updated for certain known and measurable changes).

The SCC order directed APCO to refund \$5.8 million customers, as the SCC concluded that APCO had earned an 11.86% ROE for the two-year period under review. The SCC did not specify a prospective overall revenue requirement or rate base, but approved the shown parameters for rate of return and capital structure. These parameters are to be used to calculate the revenue requirement for any rider mechanisms that the company has in place and other regulatory purposes until the allowed return is re-set by the SCC in future reviews.

Rate Case Profile

Duke Energy Carolinas (SC)

D-2013-59-E

| | |
|-----------------------|--|
| State: | South Carolina |
| Company: | Duke Energy Carolinas, LLC |
| Action/Status: | Written order issued (First-step increase effective 9/18/13) |
| Docket: | D-2013-59-E |

| Case History | | |
|--------------|--|----------|
| Date | Action | Millions |
| 2/15/2013 | Notice of Intent to request unspecified electric rate increase filed | \$ |
| 3/18/2013 | Electric base rate increase requested | \$220.1E |
| 7/1/2013 | Rate increase recommended by Office of Regulatory Staff | \$118.7E |
| 7/23/2013 | Settlement reached, two-step rate increase indicated | \$118.6E |
| 9/11/2013 | PSC adopts settlement, two-step rate increase authorized | \$118.6E |
| 9/18/2013 | Written order issued (First-step increase effective 9/18/13) | \$118.6E |

| | Present Case | | Previous Case |
|------------------------------------|--------------------------------|------------------------------------|------------------------------------|
| | Requested by Company 3/18/2013 | Authorized by Commission 9/11/2013 | Authorized by Commission 1/25/2012 |
| Rate Change Amount (\$) | 220,064,000 | 118,622,000 | 92,844,000 |
| Rate Change/ Revenue (%) | 15.10 | 8.16 | 5.98 |
| Rate Case Test Year End Date | 6/30/2012 | 6/30/2012 | 12/31/2010 |
| Rate Base (\$) | 4,313,858,000 | 4,228,964,000 | 3,963,064,000 |
| Rate Base Valuation Method | Year-End | Year-End | Year-End |
| Return on Equity (%) | 11.25 | 10.20 | 10.50 |
| Common Equity to Total Capital (%) | 53.00 | 53.00 | 53.00 |
| Rate of Return (%) | 8.45 | 7.89 | 8.1 |

[View previous rate case profile \(D-2011-271-E\)](#)

Commission Ranking

Average / 1

Footnotes

The settlement that was filed on 7/23/13 and adopted on 9/11/13 specifies a two-step \$118.6 million electric rate increase. An \$80.4 million (5.53%) increase was implemented on 9/18/13, and an incremental \$38.2 million (2.63%) increase is to be implemented on 9/18/14. Included in the \$80.4 million first year rate increase is \$6.8 million of carrying charges on coal inventory levels in excess of a 40-day supply. The company is not permitted to earn such carrying charges after the first year that the new rates are in effect. In addition, for the first year that new rates are in effect, DEC is to utilize \$45 million of its cost-of-removal reserve to increase net income.

In the previous case, the PSC adopted a revised settlement.

Duke Energy Progress (NC)

Rate Case Profile

D-E-2, Sub 1023

| | |
|-----------------------|--------------------------------------|
| State: | North Carolina |
| Company: | Duke Energy Progress, LLC |
| Action/Status: | First-step rate increase implemented |
| Docket: | D-E-2, Sub 1023 |

| Case History | | |
|--------------|---|----------|
| Date | Action | Millions |
| 9/5/2012 | Notice of intent to request unspecified electric rate increase filed | \$ |
| 10/12/2012 | Electric base rate increase requested | \$386.8E |
| 2/25/2013 | Settlement in principle reached, two-step base rate increase specified (Full settlement filed on 2/28/13) | \$211.1E |
| 3/14/2013 | Amended settlement filed, two-step rate increase specified | \$178.7E |
| 5/30/2013 | Amended settlement adopted, two-step rate increase authorized | \$178.7E |
| 6/1/2013 | First-step rate increase implemented | \$147.4E |

| | Present Case | | Previous Case |
|------------------------------------|------------------------------------|---------------------------------------|--------------------------------------|
| | Requested by Company 10/12/2012 | Authorized by Commission 5/30/2013 | Authorized by Commission 8/5/1988 |
| Rate Change Amount (\$) | 386,777,000 | 178,712,000 | 134,800,000 |
| Rate Change/ Revenue (%) | 12.00 | 5.50 | 9.10 |
| Rate Case Test Year End Date | 3/31/2012 | 3/31/2012 | 3/31/1987 |
| Rate Base (\$) | 6,928,062,000 | 6,701,450,000 | 3,677,200,000 |
| Rate Base Valuation Method | Year-End | Year-End | Year-End |
| Return on Equity (%) | 11.25 | 10.20 | 12.75 |
| Common Equity to Total Capital (%) | 55.39 | 53.00 | 44.00 |
| Rate of Return (%) | 8.27 | 7.55 | 10.45 |

[View previous rate case profile \(D-E-2, SUB 537\)](#)

Commission Ranking

Above Average / 3

Footnotes

In the present case:

The test year was adjusted for certain known changes in revenue, expenses, and rate base through 1/31/13.

Under the amended settlement that was adopted on 5/30/13, a \$147.4 million rate increase became effective on 6/1/13 and an incremental \$31.3 million rate hike is to become effective 6/1/14.

In the previous case, the rate increase was phased-in over three years.

OPC 002294
FPL RC-16

Duke Energy Florida

Rule ("CAIR") from the ECRC and transfer those capital assets to base rates in an amount which will equal the annual retail revenue requirements of the assets projected to be in-service as of December 31, 2013 (excluding O&M-related costs), which is reflected in the Company's filing (Form 42-4P; Project 7.4) in Docket No. 120007-EI. Such base rate adjustment shall be established by the application of a uniform percentage increase to the demand and energy charges of the Company's base rates including delivery voltage credits, power factor adjustments, and premium distribution service. This uniform percent increase will be calculated using the billing determinants for the projected year of 2014, consistent with the format shown in Exhibit 1, Attachment A to this Revised and Restated Settlement Agreement, adjusted for the increases provided herein. These adjustments are in addition to the base rate adjustments provided for in paragraphs 5e, 7b, 11, 13, 16, and 23 of this Revised and Restated Settlement Agreement.

15. DEF shall have an authorized return on equity of 10.5% with a range of reasonableness of +/-100 basis points for the purpose of addressing earnings levels, earnings surveillance and cost recovery clauses. The applicable annual AFUDC rate will be 7.44%. (See Exhibit 2 to this Revised and Restated Settlement Agreement).

16. a. Subject to the Intervenor Parties' right to challenge the need for or prudence of any costs associated with the construction, purchase, or acquisition of any such units or uprates, DEF shall have the ability to recover the full, prudently incurred revenue requirement of any: (1) combustion turbine unit(s) constructed and associated transmission required to integrate and deliver power from such unit(s) into the DEF system; (2) any power uprates to existing DEF unit(s); and/or (3) any existing

Alabama Power

Alabama Power Formula Rate

| Allowed ROE | | Mid-Point |
|--------------|--------|-----------|
| 12.78% | 13.80% | 13.29% |
| Equity Ratio | | |
| 45% | | |
| Weighted ROE | | |
| 5.75% | 6.21% | |



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Karen Hauck
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Alabama Public Service Commission

Go to Section:



General Information

Contact information 100 N. Union Street, RSA Union
Montgomery, AL 36104
(334) 242-5218
<http://www.psc.state.al.us/>

No. of Commissioners 3 of 3

Method of Selection Commissioners: Elected in statewide elections
Chairperson: Elected in statewide elections

Term of Office Commissioners: 4 years
Chairperson: 4 years

Chairperson Twinkle Andress Cavanaugh

Deputy Chairperson NA

Governor Robert Bentley (R)

Services Regulated Air carriers, Electric utilities, Gas utilities, Motor carriers, Pipeline companies, Railroad companies, Steam utilities, Telecommunications utilities, Water utilities

RRA Ranking Above Average/2 (1/8/1993)

Commission Budget \$12.6 million

Commissioner Salaries Commissioners: \$96,600
Chairperson: \$103,500

Size of Staff 80

Rate Cases Alabama Public Service Commission's Rate Case History

Research Notes RRA Articles

RRA Contact Dennis Spurduto

Commissioners

| Name | Party | Began Serving | Term Ends |
|--|-------|---------------|-----------|
| Twinkle Andress Cavanaugh President | R | 11/2010 | 11/2016 |
| Jeremy Oden | R | 12/2012 | 11/2018 |
| Chip Beeker | R | 11/2014 | 11/2018 |

Miscellaneous Issues

Commission Membership: On 3/1/16, current PSC President Twinkle Andress Cavanaugh (R) defeated former PSC commissioner Terry Dunn (R) in the Republican primary election for PSC President. Since no Democrats have qualified to seek the PSC presidency, Commissioner Cavanaugh will remain PSC president for a new four-year term beginning in November 2016.

Staff Contact: Angier Johnson, Public Information Manager, Electricity Policy Division, (334) 242-5868

(Section updated 3/7/16)

RRA Evaluation

As has been the case for many years, Alabama regulation continues to be constructive from an investor viewpoint, largely the result of formulary rate adjustment mechanisms that provide for timely rate recognition of utility investments and costs, and tend to de-politicize the regulatory process. While the PSC modified the mechanisms in 2013, the equity return ranges included in the revised frameworks remain above the average equity returns that have been authorized energy utilities nationwide over the last few years. In addition, the PSC has instituted separate rate mechanisms for the recovery of power supply costs, new generation costs, and environmental compliance costs. The Commission has also authorized increased charges to provide for the recovery of restoration costs resulting from severe storms and other natural disasters. The state's two major gas utilities have utilized transportation-only tariffs for large volume customers for a number of years, but there has been no movement to extend such service to small-volume customers. Gas cost recovery mechanisms and weather normalization clauses are also in place. In July 2014, the PSC approved the acquisition of the largest gas utility in the state without imposing any significant conditions. We continue to accord Alabama regulation an Above Average/2 rating. (Section updated 10/12/15)

RRA Ranking History

| Date of Ranking Change | RRA Ranking |
|------------------------|-------------------|
| 1/8/1993 | Above Average / 2 |
| 7/8/1988 | Above Average / 3 |
| 10/5/1987 | Average / 1 |
| 1/3/1986 | Average / 2 |
| 4/4/1985 | Average / 3 |
| 9/1/1983 | Below Average / 1 |
| 2/1/1983 | Below Average / 2 |
| 7/2/1982 | Below Average / 3 |

RRA maintains three principal rating categories for regulatory climates: Above Average, Average, and Below Average. Within the principal rating categories, the numbers 1, 2, and 3 indicate relative position. The designation 1 indicates a stronger rating; 2, a mid-range rating; and, 3, a weaker rating. The evaluations are assigned from an investor perspective and indicate the relative regulatory risk associated with the ownership of securities issued by the jurisdiction's utilities. The evaluation reflects our assessment of the probable level and quality of the earnings to be realized by the state's utilities as a result of regulatory, legislative, and court actions.

Commission Staff

There are approximately 80 Staff members. All employees are hired through the State Merit System, except for "technically qualified personnel," who are selected by the commissioners. (Section updated 10/12/15)

Consumer Interest

The consumer interest is represented by the Office of the Attorney General. (Section updated 10/12/15)

Rate Case Timing/Interim Procedures

Alabama's three major electric and gas utilities have been operating under Rate Stabilization and Equalization (RSE) frameworks and other formulaic rate adjustment mechanisms for many years (see the Alternative Regulation and Adjustment Clauses sections). As a result, there have been no recent traditional rate cases for these utilities. However, in the event a utility were to file a traditional rate case, by law, the Commission may suspend the rate application for up to six months from the proposed effective date, which generally must be 30 days after the initial filing by the utility. Emergency interim rate increases are permitted. (Section updated 10/12/15)

Return on Equity

The PSC has not set a definitive equity return for the state's three major utilities in recent years. Instead, the Commission has utilized return on equity (ROE) ranges and rate-setting adjustment points under Rate Stabilization and Equalization (RSE) frameworks that have been above the average of ROEs approved for energy utilities nationwide, although the common equity ratios for Alabama Power have been below industry averages (see the Alternative Regulation section). RSE frameworks have been in place for Alabama Power and Alabama Gas since 1982 and 1983, respectively. In 2013, Alabama Power's RSE framework was modified to utilize a "weighted cost of equity" metric (the product of the ROE and common equity ratio), with an authorized range of 5.75% to 6.21% (see the Alternative Regulation section). In 2014, the RSE framework for Alabama Gas began utilizing an ROE range of 10.5% to 10.95%. An RSE mechanism was implemented for Mobile Gas Service (MGS) in 2002; beginning in 2013, MGS's authorized ROE range was set at 10.45% to 10.95% (see the Alternative Regulation section). Alabama Power is a subsidiary of Southern Company; Alabama Gas is a subsidiary of The Laclede Group; and, MGS is a subsidiary of EnergySouth, which is a subsidiary of Sempra Energy. (Section updated 10/12/15)

Rate Base and Test Period

Alabama statutes permit the use of both a historical test year, adjusted for known-and-measurable changes, and formulaic rate adjustment mechanisms. A cash return on construction work in progress (CWIP) has not been permitted in Alabama. Instead, CWIP is included in rate base, with a corresponding inclusion in income of non-cash allowance for funds used during construction. Alabama Power utilizes a Certificated New Plant mechanism, under which rates are adjusted, subject to PSC review, shortly after new capacity comes on line (see the Adjustment Clauses section). (Section updated 10/12/15)

Accounting

Alabama Power is authorized to recover Plant Farley nuclear decommissioning costs from ratepayers, with such amounts placed in external trust funds. However, from 2005 to the present, the company has not collected any nuclear decommissioning funds from ratepayers. In 2005, the Nuclear Regulatory Commission granted Alabama Power's request for a 20-year extension of the operating licenses for both units at Plant Farley; the license for Unit 1 extends until June 25, 2037 and for Unit 2 until March 31, 2041.

Alabama Power is permitted to collect from ratepayers funds necessary to maintain a \$75 million natural disaster reserve (NDR) against which extraordinary operation and maintenance (O&M) expenses resulting from natural disasters may be charged. Also, the PSC has authorized Alabama Power to make additional accruals to the NDR above \$75 million and to designate a portion of the NDR to reliability-related expenditures. Actual costs in excess of the reserve have been permitted to be recovered through a surcharge.

Since 1998, Alabama Gas has utilized an Enhanced Stability Reserve (ESR). Under the current version of the ESR, the company may charge to the reserve, subject to certain conditions, limitations, and thresholds: (1) extraordinary O&M expenses resulting from force majeure events such as storms, severe weather, and outages; (2) revenue losses related to the departure of individual industrial and commercial customers; and, (3) O&M expenses related to environmental costs and to self-insurance costs. The maximum ESR funding level is \$4 million. The PSC approved a similar ESR for Mobile Gas Service (MGS) with an initial ESR balance of \$1 million recorded on Oct. 1, 2002. Effective in 2012, the PSC authorized a self-insurance reserve of up to \$2 million with an associated funding mechanism for MGS.

In several instances, the PSC has authorized Alabama Gas and MGS to record property acquired from municipal systems at fair market value, and to recover the above book costs from ratepayers, over periods of 22 to 30 years. (Section updated 10/12/15)

Alternative Regulation

The PSC first established a Rate Stabilization and Equalization (RSE) framework for Alabama Power in 1982, and the most recent revisions became effective in September 2013. RSE adjustments are based on forward-looking data for the upcoming calendar year. Any annual rate increase is limited to 5%, and rate increases for any two-year period, when averaged, cannot exceed 4% per year. However, authorized ROEs and capital structures are no longer specifically utilized to calculate rate adjustments under the mechanism. Instead, the framework employs a "weighted cost of equity" (WCE) metric (the product of the ROE and common equity ratio), with an authorized range of 5.75% to 6.21% and an adjusting point of 5.98%. If Alabama Power's projected WCE is outside the authorized WCE range, rates are to be adjusted, subject to the above limits on rate increases, to establish a 5.98% WCE. If the actual earned WCE is above 6.21%, Alabama Power is to refund the incremental revenues to customers unless the PSC directs otherwise. However, there is no provision for recovering prior-year shortfalls if the earned WCE is below 5.75%. The modified Rate RSE framework provides Alabama Power the possibility of a performance based adder of seven basis points (0.07%) to the WCE adjusting point if the company has an "A" credit rating equivalent with at least one of the rating agencies or is in the top one-third of a designated customer value benchmark survey.

An RSE framework for Alabama Gas was first established in 1983, and the plan has been extended and modified several times. The most recent modifications became effective in 2014, and are to extend through Sept. 30, 2018. The authorized ROE range is 10.5% to 10.95%, with a 10.8% adjusting point, and the ceiling on the common equity component of capital is 56.5%. In addition, for years in which the RSE mechanism produces a revenue adjustment, Alabama Gas is eligible to receive a performance-based adder of five basis points (0.05%) to the adjusting point, based on the company's score in certain customer satisfaction surveys. Alabama Gas may request a review of the RSE mechanism to reexamine the authorized ROE should the interest rate for 30-year Treasury Bonds increase by more than 300 basis points prior to Sept. 30, 2018. Conversely, the PSC may reexamine the authorized ROE should the interest rate for 30-year Treasury Bonds decrease by more than 200 basis points during the same period.

The PSC also modified a cost-control measure (CCM), under which Alabama Gas' recovery of changes in operation and maintenance (O&M) expenses is subject to caps based on changes in the Consumer Price Index (CPI). Under the modified CCM, the PSC adopted a base-year level of O&M expenses upon which each annual CCM calculation will be based for the duration of the RSE plan, compared to the previous practice of establishing a new baseline each new year. Alabama Gas is authorized to set the CCM base level at the company's actual 2007 O&M expense level adjusted for inflation to September 30, 2013, using the CPI. In addition, the authorized CCIP range is to be the base-year O&M expense level adjusted for inflation using the change in the CPI from the beginning of the term of the modified RSE mechanism through June of each year, plus or minus 1.75%. If the change in the utility's O&M expenses is within the CPI range, no adjustment is made. If the change in O&M expenses exceeds the change in the CPI range, the utility must refund to customers 75% of the difference between the change in O&M expenses and the CPI range. To the extent the change in O&M expenses is less than the change in the CPI range, customers receive one half of the difference through future rate adjustments, and the utility retains the remainder. Non-recurring items and/or recurring items that fluctuate due to factors beyond Alabama Gas' control may be excluded from the cost-control measurement calculation.

An RSE mechanism was implemented for Mobile Gas Service (MGS) in 2002, and is to remain in place until the PSC either rescinds or modifies the framework. MGS' RSE mechanism is similar to that in place for Alabama Gas (see above). Effective December 2013, the authorized ROE range is 10.45%-to-10.95%, with a 10.7% adjusting point, and the ceiling on the common equity component of capital is 56%. (Section updated 10/12/15)

Court Actions

PSC rate decisions may be appealed directly to the Alabama Supreme Court. All other decisions (except those related to motor carriers) are appealable to the Circuit Court of Montgomery County. State court judges are elected on partisan ballots. No significant utility-related issues have been before the courts in the past few years. (Section updated 10/12/15)

Legislation

The Alabama Legislature, which meets annually beginning in early February and extending to mid-May, is a bicameral body composed of a Senate and a House of Representatives. The Senate has 35 members: currently 26 Republicans, 8 Democrats, and one independent. The House is comprised of 105 members: currently 71 Republicans, 33 Democrats, and one vacancy. No major energy-related legislation has been enacted in the last several years. (Section updated 10/12/15)

Corporate Governance

Alabama statutes prohibit a utility from paying a common stock dividend if doing so will impair the utility's ability to render reasonable and adequate service at reasonable rates. The PSC may also prohibit a utility from paying a common dividend if the Commission finds that the utility's access to capital is impaired. Utilities

are prohibited from issuing any securities or assuming any obligation or liability with respect to the securities of any other entity unless the PSC authorizes such issuance or assumption. The PSC must also approve the purpose for which utilities incur short- and long-term debt. The Commission also has authority over mergers involving the utilities it regulates (see the Merger Activity section).

For the purposes of Alabama Gas' and Mobile Gas Service's Rate Stabilization and Equalization mechanisms, the PSC has established limitations for the common equity component of capital for each company (see the Alternative Regulation section). (Section updated 10/12/15)

Merger Activity

State statutes require that any change of control of a utility and its plant, property, or facilities be consistent with the public interest, as determined by the PSC. Specifically, the merging entities must obtain from the PSC a certificate of convenience and necessity, and the Commission would have authority to impose conditions on any change of control. Sempra Energy's 2008 acquisition of Mobile Gas' parent EnergySouth, however, was not preceded by a hearing or formal PSC approval because the acquisition did not involve a change of control of the regulated utility, but of the unregulated parent. In July 2014, the PSC unanimously approved The Laclede Group's acquisition of Energen Corporation subsidiary Alabama Gas. The PSC found that the transaction was in the public interest and did not impose any significant conditions. (Section updated 10/12/15)

Electric Regulatory Reform/Industry Restructuring

No restructuring action has been taken. (Section updated 10/12/15)

Gas Regulatory Reform/Industry Restructuring

Alabama Gas and Mobile Gas Service (MGS) have had transportation-only tariffs in place for large-volume customers for a number of years; however, small-use commercial and residential customers may not purchase gas from alternative suppliers. Alabama Gas requires a customer to purchase 100 Mcf of non-space-heating load per day in order to qualify for transportation-only service. Alabama Gas allows up to seven customer locations to aggregate to meet this threshold, but one location must use at least 50 Mcf per day of non-space-heating load. MGS requires a customer to purchase 75 MMBtu per day in order to qualify for transportation-only service. No initiatives are in progress to consider the issue of supplier choice for small-volume customers. (Section updated 10/12/15)

Adjustment Clauses

Alabama Power, Alabama Gas, and Mobile Gas Service (MGS) are regulated under Rate Stabilization and Equalization frameworks that adjust base rates periodically (see the Alternative Regulation section). The tariffs of the major energy utilities include adjustment provisions to allow for recovery of changes in income taxes, and certain general and local taxes.

An Energy Cost Recovery (ECR) mechanism is also in place for Alabama Power. The ECR mechanism is established on the basis of estimates of electric sales, fuel-related costs, and purchased power costs, and reflects accumulated over- or under-recovered amounts. Alabama Power may recover specific costs associated with purchases of natural gas for its electric generating facilities, including the cost of financial tools used for hedging market price risk for up to 75% of the budgeted annual amount of natural gas purchases. The company may not engage in natural gas hedging activities that extend beyond a rolling 42-month window. Also, the premiums paid for natural gas financial options may not exceed 5% of the company's natural gas budget for that year.

The Certificated New Plant (Rate CNP) adjustment clause for Alabama Power provides for: recovery of capital costs related to the commercial operation of certified generating facilities; recovery of the costs (excluding fuel) associated with certified purchased power agreements; and, recovery of costs associated with governmental mandates (see below). Adjustments under Rate CNP are subject to a Staff and PSC review process and public meetings. Evidentiary hearings are also held in conjunction with the certification of generating facilities and purchased power agreements. Recoverable costs from governmental mandates include: (1) applicable O&M expenses; (2) depreciation and a return on capital; and, (3) a true-up of prior period over/under recovered amounts. Such costs are subject to a Staff and PSC review process and public meetings, but not a full evidentiary hearing.

Purchased Gas Adjustment (PGA) riders are in place for Alabama Gas and MGS. The PGA riders reflect virtually all gas cost changes and contain a provision for periodic true-up rate adjustments to provide for reconciliation of any excess or deficiency in gas cost recovery. Alabama Gas' PGA (called the Gas Supply Adjustment rider) provides for recovery of: the cost of gas delivered from underground storage, including carrying charges on the month-to-month investment required for stored gas; revenues from capacity-release arrangements made by Alabama Gas under Federal Energy Regulatory Commission (FERC) Order 636; any other costs the FERC allows interstate pipelines to recover; certain research and development expenses; and, the cost of energy-risk-management activities.

Also effective for Alabama Gas and MGS is the Competitive Fuel Clause, which allows the companies to immediately adjust prices in order to compete with any alternate fuel or gas supply source, with no loss of earnings margin. Alabama Gas and MGS also utilize temperature-based weather normalization mechanisms that mitigate the effect on the companies' earnings of variations from normal weather. (Section updated 10/12/15)

Integrated Resource Planning

There are no formal integrated resource plan (IRP) filing requirements for electric or gas companies. However, Alabama Power engages in integrated resource planning and provides the PSC Staff with IRP updates at least every three years that incorporate a 20-year planning horizon. (Section updated 10/12/15)

Renewable Energy


Alabama does not have a renewable portfolio standard. However, in September 2015, the PSC approved Alabama Power's request for a certificate of convenience and necessity for up to 500 MW of renewable energy and environmentally specialized generating resources over a six-year period. Projects must be reviewed by the PSC Staff and the Office of the Attorney General, and each project requires PSC approval. (Section updated 10/12/15)

Emissions Requirements

Alabama utilities are subject to the emissions requirements established by the federal government. As described in the Adjustment Clauses section, Alabama Power is authorized to recover costs associated with environmental laws, regulations, or other related mandates through the Certificated New Plant adjustment clause. Emission allowances are included as part of fuel costs and are reflected in the Energy Cost Recovery mechanism (see the Adjustment Clauses section). (Section updated 10/12/15)

Rate Structure

Alabama Power offers seasonal rates and time-of-day use rates to all customer classes, and offers real-time pricing to large industrial customers. Alabama Gas may offer an industrial development rate, under which new large industrial customers, or existing large industrial customers meeting certain expansion thresholds, may receive a base rate reduction of up to 10% for one to five years. (Section updated 10/12/15)

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Mississippi Power



SNLFinancial

Mississippi Public Service Commission

General Information

Contact information

501 North West Street
Woolfolk State Office Building
Jackson, MS 39201-1174
<http://www.psc.state.ms.us/>

No. of Commissioners

3 of 3

Method of Selection

Commissioners: Elected in statewide elections
Chairperson: Elected by fellow Commissioners

Term of Office

Commissioners: 4 years
Chairperson: 1 years

Chairperson

Brandon Presley

Deputy Chairperson

Cecil Brown

Governor

Phil Bryant (R)

Services Regulated

Electric utilities, Gas utilities, Pipeline companies, Sewer utilities, Telecommunications utilities, Water utilities

RRA Ranking

Above Average/3 (4/16/2012)

Commission Budget

\$6.3 million

Commissioner Salaries

Commissioners: \$78,000

Size of Staff

80

Rate Cases

Mississippi Public Service Commission's Rate Case History

Research Notes

RRA Articles

RRA Contact

Jim Davis

Commissioners

| Name | Party | Began Serving | Term Ends |
|---------------------------|-------|---------------|-----------|
| Brandon Presley Chairman | D | 01/2008 | 12/2019 |
| Cecil Brown Vice Chairman | D | 01/2016 | 12/2019 |
| Sam Britton | R | 01/2016 | 12/2019 |

Miscellaneous Issues

Commissioner Selection Criteria--Commissioners are elected from each of three judicial districts, and serve concurrent terms. The governor has the authority to name a replacement when a commissioner is unable to complete a term. The chairman is elected by his fellow commissioners, but the chairmanship typically rotates each year.

Commission Membership--Commissioner Renfroe is serving the remainder of an unexpired term that extends to December 2015.

Commissioner Election--On Nov. 3, 2015, Commissioner Presley was re-elected to the PSC (Southern District); Cecil Brown (D--Central District) and Sam Britton (R--Southern District) were also elected to the Commission. The newly-elected Commissioners will begin serving at the PSC in January 2016.

Services Regulated--The PSC regulates electric, gas, telephone, water and sewer utilities and has authority over intrastate pipelines, storm cost-related securities issuances, and pipeline safety.

PSC Contact:

Katherine Collier, Executive Secretary (601) 961-5405

(Section updated 11/4/15)

RRA Evaluation

We view the Mississippi regulatory climate as stable and relatively constructive from an investor perspective. Formula-based alternative regulation plans have been in place for the state's utilities for many years, and consequently, no base rate case applications have been filed with the PSC in the last decade. These plans provide for annual rate adjustments and reflect timely recognition of new investments and fluctuations in operating costs. When specified, authorized equity returns as calculated under the plans have generally exceeded prevailing industry averages at the time established. Fuel adjustment clauses are in place for both of the state's major electric companies. In accordance with state law, Mississippi's electric utilities were permitted to recover storm-related costs and were accorded the ability to re-build their storm damage reserves via securitization. Legislation enacted in 2013 now allows the utilities to securitize costs associated with new baseload generation. State law also permits the PSC to authorize utilities to earn a cash return on construction work in progress associated with new generation projects and to phase-in rate recognition of the new plants to avoid rate shock. We accord Mississippi regulation an Above Average/3 rating. (Section updated 5/5/14)

RRA Ranking History

| Date of Ranking Change | RRA Ranking |
|------------------------|-------------|
| | |

RRA maintains three principal rating categories for regulatory climates: Above Average, Average, and Below Average. Within the principal rating

| | |
|------------|-------------------|
| 4/16/2012 | Above Average / 3 |
| 7/15/2008 | Above Average / 2 |
| 12/1/2005 | Above Average / 3 |
| 11/1/2002 | Above Average / 3 |
| 10/19/1994 | Average / 1 |
| 7/16/1993 | Average / 2 |
| 6/1/1992 | Average / 3 |
| 3/1/1990 | Below Average / 1 |
| 4/6/1987 | Below Average / 2 |
| 8/1/1986 | Below Average / 1 |
| 10/7/1982 | Below Average / 2 |
| 7/2/1982 | Below Average / 1 |

categories, the numbers 1, 2, and 3 indicate relative position. The designation 1 indicates a stronger rating; 2, a mid-range rating; and, 3, a weaker rating. The evaluations are assigned from an investor perspective and indicate the relative regulatory risk associated with the ownership of securities issued by the jurisdiction's utilities. The evaluation reflects our assessment of the probable level and quality of the earnings to be realized by the state's utilities as a result of regulatory, legislative, and court actions.

Commission Staff

The PSC Executive Secretary is appointed by the Commission, with the consent of the Senate. The Commission Staff consists of approximately 80 positions. (Section updated 5/5/14)

Consumer Interest

The consumer interest is represented by the PSC Staff, the Public Utilities Staff (PUS), and the Office of the Attorney General. The PUS, which is separate and independent from the PSC and the Commission Staff, serves as a party in rate cases and consists of roughly 30 positions. The PUS' fiscal-2013 budget was \$2.5 million. The PUS is headed by an Executive Director (ED), who is appointed to a six-year term by the governor, with the consent of the Senate, from candidates selected by the PSC. Virden Jones is the current ED. (Section updated 5/5/14)

Rate Case Timing/Interim Procedures

The PSC must decide a rate case within 120 days of the filing of a Notice of Intent. If a decision is not forthcoming within the prescribed time, the full requested increase may be implemented, under bond, on a temporary basis. Interim increases have rarely been requested or authorized. (Section updated 5/5/14)

Return on Equity

In the most recent electric base rate case conducted in the state, Entergy Corp. subsidiary Entergy Mississippi (EM) was authorized a 10.07% return on equity (ROE) on Dec. 11, 2014, following settlements. There has been very little rate case activity in recent years, as Southern Company subsidiary Mississippi Power (MP) and EM have been operating under electric formula-based alternative rate plans (ARPs) for many years. The most recent performance-adjusted cost of common equity calculated under MP's ARP (for test-year 2013) is 9.813%. In the last electric base rate case for MP, the company was authorized a 12.88% ROE in 2001.

Atmos Energy's Mississippi Division has been operating under a gas ARP since 1992. The most recent performance-based benchmark ROE calculated under Atmos' ARP is 10.2% (for test-year 2013). (For further information regarding the utilities' ARPs, see the Alternative Regulation section). (Section updated 1/7/15)

Rate Base and Test Period

By law, in a traditional rate case, a utility may propose a rate change using a projected test period beginning with the proposed effective date of the new rates. In the two most recent major base rate cases, decided in 2001 and 2002, respectively, the PSC adopted fully-forecasted test years and average rate bases for Mississippi Power (MP) and Entergy Mississippi (EM). The current alternative rate plans (ARPs) in effect for MP and EM provide for annual rate reviews. MP's ARP utilizes a forward-looking test year and an average rate base in each review, while EM's ARP utilizes a historical test year and a year-end rate base.

Prior to 2008, a cash return on construction work in progress (CWIP) was not permitted in Mississippi. However, legislation enacted in 2008 authorizes the PSC to conduct prudence reviews, and issue a prudence determination as frequently as quarterly, regarding the construction costs of a new generating facility. Any prudence determination would be binding in all future regulatory proceedings involving the utility, unless the generating facility is imprudently abandoned or cancelled. The legislation also authorizes the PSC to permit rate recovery of all prudently incurred preconstruction, construction, and operating costs of new base-load coal-fired generation facilities of at least 300 MW and nuclear facilities of at least 800 MW, including a current cash return on CWIP. Recovery of relevant expenses is permitted, whether or not the facility's construction is commenced or completed. (Section updated 5/5/14)

Accounting

The PSC has authorized both Mississippi Power (MP) and Entergy Mississippi to establish storm damage reserves in the amount of \$64 million and \$31 million, respectively (see the Other--Hurricane Katrina Issues section).

MP received approval from the Commission in 2010 (and again in a 2012 order on remand) to construct a 582-MW integrated coal gasification combined-cycle plant in Kemper County, MS. The orders specified a \$2.88 billion cost cap for the plant. While the rulings permitted MP to earn a cash return on CWIP related to the Kemper plant beginning in 2012, the utility was not permitted to do so until April 2013. The CWIP funds collected during construction of the Kemper plant are not to be booked as revenue, and are instead booked as a regulatory liability that is to be held for the benefit of ratepayers for purposes of offsetting future rate increases once the plant achieves commercial operation (i.e., mirror CWIP).

In 2013, legislation was enacted permitting the PSC to allow the state's utilities to operate under a plan designed to mitigate the initial rate impacts associated with the construction of new generating facilities. Such plans allow the utilities to phase in a revenue requirement increase associated

with a newly constructed facility over a period not to exceed 10 years. The utilities are not permitted to seek such rate treatment more than 12 months prior to the start of the calendar year in which the plant is expected to achieve commercial operation. (Section updated 5/5/14)

Alternative Regulation

State statutes authorize the PSC to adopt alternative rate plans (ARPs). In 1986, the PSC adopted a Performance Evaluation Plan (PEP) for Mississippi Power (MP); the plan has been modified several times. The current PEP requires annual evaluations based upon data for the upcoming calendar year, with annual rate adjustments limited to 4% of retail revenues, but the company may file a base rate case if it deems it necessary. Rate adjustments are based upon a company performance rating (CPR), with a price indicator allocated a 40% weighting, customer satisfaction 20%, and service reliability 40%. The price indicator is calculated based upon a comparison of MP's rates with those of vertically integrated companies that operate within the member states of the Southeastern Association of Regulatory Utility Commissioners. MP's benchmark return on equity (ROE) is calculated annually as of Oct. 1, based upon an equal weighting of the following methodologies--discounted cash flow, risk premium, and a capital asset pricing model--plus a 12.5-basis-point flotation cost premium.

MP's "Performance-Based Return on Investment" (PROI) is determined using the company's projected capital structure and a Performance-Adjusted Cost of Common Equity, which is the benchmark ROE, plus 10% of the CPR for that evaluation period. A "range-of-no-change" is established based upon the company's PROI, plus or minus 50 basis points. If MP's earned return on investment is within the range, no revenue adjustment is made for the evaluation period. If the earned return is outside the range, a revenue adjustment is made based upon a graduated formula that incorporates MP's CPR.

Entergy Mississippi (EM) has been operating under a formula rate plan (FRP) since 1994. The current version of the FRP requires the company, beginning in 2016, to file a report with the PSC in the first quarter of each year (based on a projected test year ending Dec. 31, the year of the filing), with any rate adjustments to be implemented following PSC approval. The company calculates: (1) its earned Rate of Return on Rate Base (ERORB), defined as net utility operating income divided by rate base; (2) the Performance-Adjusted Evaluation Period Cost Rate for Common Equity (PCOE)--the PCOE is derived by adding a Performance Rating Adjustment (PADJ) and a 12.5-basis-point flotation cost premium to the average of a discounted cash flow analysis and a regression analysis; (3) the PADJ may fall in a range of zero to 100 basis points, with price performance weighted 40%, customer satisfaction weighted 20%, and reliability weighted 40%; (4) a benchmark RORB (BRORB), essentially the company's weighted average cost of capital incorporating the PCOE; and, (5) a BRORB bandwidth, equivalent to the BRORB plus or minus 50 basis points. If the ERORB is within the BRORB bandwidth, no change in rates is made. If the ERORB is outside the BRORB bandwidth, rates are adjusted based upon a graduated formula that incorporates EM's PADJ. Annual rate adjustments under the FRP are capped at 4% of retail revenues, but the company may initiate a base rate case if it deems it necessary.

Atmos Energy has been operating under a stable/rate adjustment (SRA) rider since 1992; the rider has been modified several times. Under the current framework, the company tenders an SRA filing by each Sept. 5, based on a 12-month test period ended the preceding June 30. In the filing, the company calculates a benchmark ROE based on the average of a discounted cash flow analysis and a regression analysis, plus a 12.5-basis-point flotation cost adjustment. A performance adjustment of between +/-50 basis points is then added to the benchmark ROE, based upon a weighted average scoring of Atmos' price performance (75%) and customer satisfaction (25%) levels, to produce the company's performance-based benchmark ROE. If the company's calculated "expected return" falls within a 100-basis-point dead-band around the performance-based benchmark ROE, rates remain unchanged. If the expected return falls below the dead-band, rates are increased by the amount necessary to make the expected return equal the performance-based ROE, less 25 basis points. If the expected return exceeds the dead-band, rates are decreased by the amount necessary to make the expected return equal the performance-based ROE, plus 25 basis points. Annual rate adjustments under the SRA are capped at 4% of annual revenues of the utility, but Atmos may file a base rate case if it deems it necessary. (Section updated 1/7/15)

Court Actions

PSC rate case decisions may be appealed directly to the State Supreme Court. Judges are elected on non-partisan ballots. In 2012, the Mississippi Supreme Court reversed a 2010 PSC decision granting Mississippi Power (MP) a certificate of public convenience and necessity (CPCN) to build a new generation facility in Kemper County, MS. In its decision, the Court found that the PSC's 2010 order did not cite sufficient detail regarding the determination of need in granting the CPCN, and remanded the case to the PSC to amend the order. In 2012, the Commission issued an order on remand affirming its 2010 decision to grant the company a CPCN to construct the plant (FN 4/27/12).

In 2012, MP appealed to the Supreme Court a PSC decision that rejected the company's request to implement a rider to earn a cash return on construction work in progress (CWIP) related to the Kemper plant. In 2013, the appeal was ultimately settled by MP and the Commission before the Court could issue a decision on the case (FN 2/1/13), and the PSC subsequently authorized the company to implement a Kemper-related CWIP rider. However, on Feb. 12, 2015, the Supreme Court overturned the PSC's 2013 authorization of a CWIP rider. MP subsequently filed a motion for a rehearing of the Court's ruling, and the matter is pending (FN 3/13/15). (Section updated 5/26/15)

Legislation

The Mississippi Legislature, a bicameral body, meets annually for a 90-day session beginning on the first Tuesday after the first Monday in January. Following a gubernatorial election, the Legislature meets for a 120-day session. The Senate is currently comprised of 20 Democrats and 32 Republicans. The House of Representatives is comprised of 56 Democrats and 65 Republicans.

In 2013, two energy related bills were enacted. House Bill (H.B.) 1134 grants the PSC the authority to allow the state's electric utilities to issue bonds to securitize certain costs related to the construction of new baseload generation assets. (For additional information, see the Securitization section.) H.B. 894 grants the PSC the authority to permit the state's electric utilities to operate under plans designed to mitigate the rate impacts associated with the construction of new generation facilities. (For further information, see the Accounting section.) The 2014 session convened on Jan. 7, and adjourned on April 4; no major utility related legislation was enacted. (Section updated 5/5/14)

Corporate Governance

The PSC has statutory authority over mergers involving utilities, corporate reorganizations, and storm-related securities issuances. (Section updated 5/5/14)

Merger Activity

State statutes specify that any sale, lease, assignment, transfer or disposal of certificates of public convenience and necessity or public utility property is subject to PSC oversight and approval. State law requires that in its review of a proposed transaction involving the rate based facilities of a public utility, the PSC "shall include, as a prerequisite to its finding that the transaction is consistent with the public interest, a finding that, upon

the consummation of the transaction proposed:(a) (i) the native load customers of the public utility will continue to have a first priority to the use and/or benefit of such facilities, or (ii) any loss of such first priority by native load customers to the use and/or benefit of such facilities is not contrary to the public interest; and, (b) any native load customers served by any transmission facilities shall be served on the same basis as before the transaction."

On Dec. 10, 2013, the PSC rejected a proposed transaction through which ITC Holdings would have acquired the transmission assets of Entergy Mississippi (EM) (FN 12/13/13). In its decision the Commission ruled that "customers would not be served on an equivalent basis as before the transaction because approval would unbundle retail transmission service and upend the...regulatory regime centered on Commission regulation of [EM] as a vertically integrated monopoly, while raising rates and permanently ceding effective state authority to the federal government." In light of the PSC's ruling, Entergy and ITC formally cancelled the transaction on Dec. 13, 2013. (Section updated 5/5/14)

Electric Regulatory Reform/Industry Restructuring

Retail competition has not been implemented. With regard to transmission issues, in November 2012, the PSC approved Entergy Mississippi's (EM's) request to transfer functional control of its transmission assets to the Midwest Independent Transmission System Operator (MISO) regional transmission organization (RTO). EM formally integrated into the MISO RTO in December 2013. (Section updated 5/5/14)

Gas Regulatory Reform/Industry Restructuring

Unbundled transportation-only service has been available for large-volume (demand greater than 8,500 Mcf/year) industrial customers since 1990. Local gas distribution companies, which are all quite small, are not required to act as the supplier-of-last resort for customers receiving transportation service. No legislative efforts or PSC proceedings to expand customer choice to smaller-volume users are currently active. (Section updated 5/5/14)

Securitization

Legislation enacted in 2006 permitted the PSC to approve a financing order, and the State of Mississippi, pursuant to the financing order, to issue bonds to securitize utilities' Hurricane Katrina-related system restoration costs and storm damage reserves, with the electric utilities to collect a system restoration charge from retail customers to service the bonds. In 2007, the state issued bonds to securitize the eligible costs of Entergy Mississippi (\$48 million) and Mississippi Power (\$121.2 million). (For additional information see the Other--Hurricane Katrina Issues section.)

In 2013, legislation was enacted allowing utilities to seek PSC approval to issue bonds to securitize certain costs related to the construction of new baseload generation assets. Such assets would need to exceed 300 MW, utilize coal gasification or clean-coal technologies, and achieve commercial operation on or before Dec. 31, 2020, in order to be eligible for such treatment. Specifically, the law allows the utilities to securitize construction costs that are in excess (by up to \$1 billion) of estimated costs as established in certificate of public convenience and necessity proceedings. (Section updated 5/5/14)

Adjustment Clauses

PSC rules provide for automatic electric fuel adjustment clauses, with the energy component of purchased power recovered through the fuel clause and the capacity component recovered in base rates. Both Mississippi Power (MP) and Entergy Mississippi (EM) use leveled fuel adjustment clauses based upon projected fuel use and costs, with a provision for the reconciliation of over- and under-recoveries. MP's fuel adjustment is set for a 12-month period, while EM's is adjusted quarterly. Atmos Energy operates under a purchased gas adjustment rider that is updated monthly. The PSC must conduct an annual audit of all fuel purchases and interchange contracts and submit an annual report to the Legislature. EM and MP also have separate energy cost management clauses to recover fuel hedging gains, losses, and expenses. EM and MP may recover emissions allowance expenses through their adjustment clauses.

Since 1992, MP has utilized an Environmental Compliance Overview (ECO) plan. The ECO plan establishes procedures to facilitate the PSC's review of the company's environmental compliance strategy and provides for the recognition of costs (including the cost of capital) associated with PSC-approved environmental projects, on an annual basis, outside of a base rate case. Any associated increase in annual revenue requirement is limited to 2% of retail revenues. However, the plan also provides for the carryover of any amount in excess of the 2% limit into the next year's revenue requirement.

Since 2005, EM had been recovering the costs of its 480-MW, gas-fired Attala power plant through its power management rider (PMR). In addition, since 2013, EM had been recovering costs associated with the 512-MW Hinds Energy Center through the PMR. However, as part of a rate case decision issued on Dec. 11, 2014, the Attala- and Hinds-related amounts were rolled into base rates, and removed from the PMR.

A rider is in place for EM, through which the company recovers certain costs associated with its participation in the Midcontinent Independent System Operator (MISO) regional transmission organization. The MISO rider is to be in place through Dec. 18, 2018.

Energy efficiency (EE) riders are in place for EM and MP through which the companies recover costs associated with their EE programs. The EE riders also provide for recovery of the lost contributions to fixed costs associated with such programs.

EM and MP have system restoration riders in place related to storm cost securitization.

Atmos Energy utilizes a weather normalization adjustment rider that is in place during the winter heating months of November through April and is adjusted monthly during that time. (Section updated 9/23/15)

Integrated Resource Planning

Mississippi has no formal integrated resource planning framework in place. In order to construct a new generation facility, a utility must obtain PSC approval via a certificate of public convenience and necessity. (Section updated 5/5/14)

Other

Hurricane Katrina Issues--Following significant damage to the systems of Mississippi Power (MP) and Entergy Mississippi (EM) caused in 2005 by Hurricane Katrina, legislation was enacted in 2006 authorizing the securitization of Hurricane-related costs. Specifically, the PSC was authorized to approve a financing order, and the State of Mississippi, pursuant to that financing order, to issue bonds to securitize the utilities' Hurricane Katrina-related system restoration costs and storm damage reserves, with the electric utilities to collect a system restoration charge from retail customers to service the bonds, subject to true-up.

In 2006, the PSC adopted a stipulation that provided for EM to recover \$89 million in net Hurricane Katrina restoration costs, subject to adjustments to reflect proceeds received from federal Community Development Block Grants (CDBG). In late-2006, EM received \$81 million in CDBG funding for Hurricane Katrina restoration costs. The PSC then issued a financing order authorizing the issuance of \$48 million of state bonds: \$8 million for EM's certified Hurricane Katrina restoration costs not reimbursed by the CDBG and \$40 million for an increase in EM's storm damage reserve. Of the \$40 million storm reserve, \$30 million was set aside in a restricted account. In accordance with state law, EM forwarded the financing order to the state bond commission, which issued the bonds in 2007.

In 2006, the PSC adopted a stipulation providing for MP to recover \$302.4 million of total Hurricane Katrina restoration costs, of which \$292.8 million were allocated to retail jurisdictional customers. The \$302.4 million of total recoverable costs is net of \$77 million of insurance proceeds. In late-2006, MP received from the MDA a CDBG payment of \$276.4 million, of which \$267.7 million was allocated to retail jurisdictional storm restoration costs. Also in late-2006, the PSC issued a financing order that authorized the issuance of \$121.2 million of system restoration bonds. This amount included \$25.2 million for the retail storm restoration costs not covered by the CDBG, \$60 million for a property damage reserve, and \$36 million for the retail portion of the construction of a storm operations facility. The bonds were issued in 2007. (Section updated 5/5/14)

Rate Structure


The PSC has approved economic development and load-retention rate discounts, with the terms of such contracts kept confidential. While PSC approval is required, hearings are not. Electric utilities may negotiate flexible tariffs with customers with a minimum annual electric consumption of 2,500 MVH; gas companies may negotiate similar contracts with customers whose daily usage is at least 50 Mcf. However, flexible electric or gas tariffs may be negotiated with manufacturers regardless of their consumption levels. (Section updated 5/5/14)

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Mississippi Power limited
issue order

Friday, December 04, 2015 11:35 AM ET  RRA

RRA Alert-- PSC authorizes Mississippi Power permanent rate increase in Kemper proceeding

By Jim Davis

On Dec. 3, the Mississippi Public Service Commission (PSC) voted to adopt a Nov. 17 settlement filed in a proceeding related to Mississippi Power Co.'s (MP's) 582-MW integrated coal gasification combined-cycle Kemper plant (Docket No. 2015-UN-0080). In so doing, the PSC authorized MP a plant-specific \$126 million permanent rate increase premised on a 9.225% return on equity (49.733% of capital) and a 6.683% return on a \$476.5 million rate base. As the adopted permanent increase is less than the \$159 million interim increase authorized by the PSC on Aug. 13, refunds will be required. The PSC is expected to issue a written order in the near future.

The authorized increase reflects only portions of the Kemper plant that are currently in service. Such assets include a lignite mine and transmission facilities (in service since August 2013), as well as the gas-fired combined-cycle portion of the plant (in service since August 2014) that includes a natural gas pipeline and a water pipeline. In addition, the adopted increase excludes the 15% share of the Kemper costs that were to have been allocated to the South Mississippi Electric Power Association (SMEPA--see below), a cooperative.

This proceeding was initiated on May 15, 2015, when MP submitted a Notice of Intent (NOI) to file a rate case. On July 10, following the PSC's rescission of a prior order providing rate recognition of the Kemper plant, the company filed supplemental testimony amending the NOI filing to include an "In-Service Asset Proposal" designed to provide for an approximate \$159 million Kemper-related rate increase based on a 9.7% return on equity. MP requested that this increase be implemented immediately on an interim basis, and subject to refund. The request excluded the 15% share of the Kemper costs that were to be allocated to SMEPA and reflected only portions of the Kemper facility in commercial operation. We note that subsequent to the company's May 15 NOI filing, SMEPA terminated its agreement to purchase a 15% interest in the Kemper plant.

On July 24, the Mississippi Public Utilities Staff (PUS) filed testimony conditionally supporting MP's interim rate request. The Staff listed a "range of options" for the PSC to consider in granting the company interim rate relief, including revenue requirement increases ranging from \$89 million to \$159 million based on asset amortization schedules of 40 years to 2 years, respectively.

On Aug. 13, the PSC approved MP's earlier request to implement a \$159 million interim rate increase. On Aug. 19, the company implemented the increase, on an interim basis and subject to refund, pending the Commission's final decision in the proceeding. In its order, the PSC stated that the "undisputed evidence reveals that [MP] stands on the brink of bankruptcy" and added that the company "is in a state of financial emergency and that its rates are insufficient, justifying providing interim and emergency relief of \$159 million to prevent further injury."

On Nov. 17, MP and the PUS filed a settlement calling for the company to be authorized a permanent \$126 million Kemper-related rate increase, which has now been adopted by the PSC.

By way of background, on Feb. 12, the Mississippi Supreme Court issued an order reversing and remanding to the PSC a 2013 decision (in Docket No. 2013-UN-0014) that authorized MP a \$156 million, two-step, plant-specific rate increase representing a cash return on Kemper-related construction work in progress. The rate increase was based on a 9.7% ROE and consisted of a \$125 million increase implemented in 2013, and an incremental \$31 million increase implemented in 2014. Subsequent motions for reconsideration were denied by the Court in a June 11, 2015 ruling. On July 7, the PSC issued an order on remand requiring MP to cease collecting, effective July 20, and refund to ratepayers amounts that had been authorized for recovery in the PSC's 2013 rate order. MP is a subsidiary of Southern Co.

For a complete, searchable listing of RRA's in-depth research and analysis, please go to the SNL Research Library.

Please note that any use of the word "we" in this article refers to the opinion of RRA, and not necessarily that of its affiliate SNL Financial. The author of this article can be reached at (201) 433-5507.

Georgia Power



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D-36989

Rate Case Profile



State: Georgia
Company: Georgia Power Company
Action/Status: Company compliance filing tendered for third-step rate increase to be effective on 1/1/16; third-step rate increase initially specified in 12/23/13 order proposed to be reduced.
Docket: D-36989

Case History

| Date | Action | Millions |
|------------|---|----------|
| 6/28/2013 | Permanent electric base rate increase requested | \$482.0E |
| 10/22/2013 | Multi-step, total rate increase apparently recommended by PSC Public Interest Advocacy Staff | \$333.0E |
| 11/18/2013 | Settlement filed, aggregate multi-step rate increase specified | \$466.6E |
| 12/17/2013 | Settlement adopted, aggregate multi-step rate increase authorized | \$466.6E |
| 12/23/2013 | Written order issued | \$466.6E |
| 1/1/2014 | First-step rate increase effective | \$110.0E |
| 1/1/2015 | Modified second-step rate increase implemented (modified in a 2/24/15 compliance filing order) | \$135.8E |
| 10/2/2015 | Company compliance filing tendered for third-step rate increase to be effective on 1/1/16; third-step rate increase initially specified in 12/23/13 order proposed to be reduced. | \$144.3E |

| | Present Case | | Previous Case |
|------------------------------------|--------------------------------|-------------------------------------|-------------------------------------|
| | Requested by Company 6/28/2013 | Authorized by Commission 12/17/2013 | Authorized by Commission 12/29/2010 |
| Rate Change Amount (\$) | 482,000,000 | 466,600,000 | 562,333,000 |
| Rate Change/ Revenue (%) | 6.10 | 5.90 | 7.50 |
| Rate Case Test Year End Date | 7/31/2014 | 12/31/2016 | NA |
| Rate Base (\$) | 15,697,000,000 | NA | NA |
| Rate Base Valuation Method | Average | NA | NA |
| Return on Equity (%) | 11.50 | 10.95 | 11.15 |
| Common Equity to Total Capital (%) | 50.60 | 50.84 | NA |
| Rate of Return (%) | 7.93 | 7.71 | NA |

View previous rate case profile (D-31958)

Commission Ranking

Above Average / 3

Footnotes

In the current case:

The requested \$482 million increase reflected the projected revenue requirement needs for the three-year period 2014 through 2016.

In its 10/22/13 testimony, the PSC Public Interest Advocacy Staff (PIAS) recommended that the PSC not approve Georgia Power's (GP's) proposed \$482 million rate increase. Instead, the PIAS recommends a step rate change approach for 2014, 2015, and 2016. The Staff calculates that GP has total revenue requirement excesses of \$131 million and \$9.7 million in 2014 and 2015, respectively, and a total revenue requirement deficiency of \$202 million in 2016, which apparently would indicate a \$131 million total rate reduction for 2014, an incremental \$121.3 million rate increase for 2015, and an incremental \$211.7 million rate increase for 2016. However, the PIAS recommends that in lieu of a rate reduction, the \$131 million 2014 revenue requirement excess be utilized to accelerate recovery of deferred costs in 2014.

Adopted settlement authorized an aggregate \$466.6 million, three-step electric rate increase: a \$110 million increase became effective Jan. 1, 2014; an additional \$186.8 million increase on Jan. 1 2015; and, an incremental \$169.8 million hike on Jan. 1, 2016. The second-step rate increase was subsequently modified to a \$135.8 million hike, effective 1/1/15, in a 2/24/15 compliance filing order.

In the previous case, the Commission adopted a settlement.

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Gulf Power

parties who have intervened are signatories to the Agreement, and any party who might seek to intervene in the future takes the case as such party finds it. Therefore, the Joint Movants believe that a Commission decision approving this Agreement can be issued as a final order and urge the Commission to do so. See, In re: Review of Florida Power Corp.'s earnings, Order No. PSC-02-0655-AS-EI issued May 14, 2002 in Docket No. 000824-EI; In re: Application for increase in water rates by Wedgefield Utilities, Inc. Order No. PSC-02-0391-AS-WU issued March 22, 2002 in Docket No. 991437-WU. The Joint Movants hereby waive the right to seek reconsideration pursuant to Rule 25-22.060, Florida Administrative Code, of any final order that approves the Agreement in its entirety and without change and the right to judicial review of any such order afforded by Section 120.68, Florida Statutes.

8. Set forth below, for reference purposes only and not to modify or supplant the language in the Agreement, is a summary of the provisions contained in the Agreement:

(a) This Agreement will become effective upon Commission approval and shall be implemented on the date of the meter reading for the first billing cycle of January 2014 ("the Implementation Date") and continue at least through the date of the last billing cycle in June 2017, except as provided by the Agreement. The base rates, charges and credits established as a result of this Agreement will continue beyond June 2017 unless and until otherwise changed by Commission Order. The period from the Implementation Date through the last billing cycle in June 2017 may be referred to herein as the "Term".

(b) Gulf Power's authorized return on equity ("ROE") shall continue to be 10.25% which is the same as the midpoint ROE set by the Commission in Order

No. PSC-12-0179-FOF-EI issued on April 3, 2012 in Docket No. 110138-EI with a proviso that if at any time during the Term, the average 30-year United States Treasury Bond yield rate for any period of six (6) consecutive months is at least 75 basis points greater than a yield rate of 3.7947 as accepted and agreed to by the Parties as the benchmark yield rate, Gulf Power's authorized ROE of 10.25% and associated authorized ROE range of 9.25% to 11.25% shall be increased by 25 basis points to a midpoint of 10.50% and a range of 9.50% to 11.50%, respectively.

(c) Rate increases will be implemented as follows:

January 1, 2014: \$35.0 million increase

January 1, 2015: \$20.0 million increase (thereby producing rates in

2015 that are \$55.0 million over Gulf's authorized base rates as they exist on November 15, 2013)

(d) Gulf will continue its annual property damage accrual at the current level of \$3.5 million as first approved in Order No. PSC-96-0023-FOF-EI issued in Docket No. 951433-EI and as most recently continued in Order No. PSC-12-0179-FOF-EI in Docket No. 110138-EI.

(e) With respect to rate design:

- i. New base rates have been designed using the costing methodology as proposed by Gulf in its filing in this docket on July 12, 2013.
- ii. The Company shall introduce three new economic development riders on a pilot basis (Rate Schedules LBIR, MBIR and SBIR).

Rate Case Profile

D-2012-218-E

| | |
|----------------|---|
| State: | South Carolina |
| Company: | South Carolina Electric & Gas Co. |
| Action/Status: | Written order issued (New rates effective 1/1/13) |
| Docket: | D-2012-218-E |

| Case History | | |
|--------------|---|----------|
| Date | Action | Millions |
| 5/25/2012 | Notice of Intent to request unspecified electric base rate increase filed | \$ |
| 6/29/2012 | Electric base rate increase requested | \$151.5E |
| 10/26/2012 | Base rate increase recommended by South Carolina Office of Regulatory Staff | \$97.1E |
| 11/19/2012 | Memorandum of Understanding reached, base rate increase specified | \$97.1E |
| 12/19/2012 | PSC votes to adopt Memorandum of Understanding, base rate increase authorized | \$97.1E |
| 12/20/2012 | Written order issued (New rates effective 1/1/13) | \$97.1E |

| | Present Case | | Previous Case |
|------------------------------------|-----------------------------------|--|---------------------------------------|
| | Requested by Company 6/29/2012 | Authorized by Commission 12/19/2012 | Authorized by Commission 7/15/2010 |
| Rate Change Amount (\$) | 151,502,000 | 97,075,000 | 101,200,000 |
| Rate Change/ Revenue (%) | 6.61 | 4.23 | 4.88 |
| Rate Case Test Year End Date | 12/31/2011 | 12/31/2011 | 9/30/2009 |
| Rate Base (\$) | 4,869,135,000 | 4,842,524,000 | 4,759,342,000 |
| Rate Base Valuation Method | Year-End | Year-End | Year-End |
| Return on Equity (%) | 10.95 | 10.25 | 10.70 |
| Common Equity to Total Capital (%) | 52.18 | 52.18 | 52.96 |
| Rate of Return (%) | 8.56 | 8.2 | 8.56 |

[View previous rate case profile \(D-2009-489-E\)](#)

Commission Ranking

Average / 1

Footnotes

The Memorandum of Understanding (settlement) that was adopted by the PSC on 12/19/12, provides for base rates to increase by \$97.1 million. However, after accounting for fuel cost (\$57.8 million) and demand side management expense (\$7.8 million) decreases, the net increase in customer rates is \$31.7 million.

In the previous case, the PSC adopted a settlement that provided for a three-step \$101.2 million increase to be implemented as follows: \$51.8 million (2.5%) effective on July 15, 2010; \$25 million (1.2%) effective in July 2011; and, \$24.4 million (1.2%) effective in July 2012.