MEMORANDUM

TO: The VML/VACo APCo Steering Committee

FROM: Robert D. Perrow and John L. Walker, III, Counsel to the Committee

DATE: November 15, 2018

RE: State Corporation Commission Sets Appalachian Power Company’s Allowed Rate of Return on Equity in Case No. PUR-2018-00048

I am reaching out to inform you of a decision of the Virginia State Corporation Commission (the “SCC”) that is very favorable to the Public Authorities. This decision is another example of the value that the Steering Committee brings to the Public Authorities through its advocacy on their behalf in SCC proceedings.

This particular proceeding related to the profit margin that regulated electric utilities in Virginia are allowed to earn, which is the rate of return on common equity – commonly referred to as the “ROE.” The SCC sets the ROE pursuant to statute following a public hearing.

On August 28, 2018, we appeared on behalf of the Committee at the public hearing and opposed APCo’s position that the ROE should be 10.22%. We argued that the ROE should be 9.2% based on the evidence presented. On November 7, 2018, the SCC set the approved ROE at 9.42%, an amount significantly less than that sought by APCo. The SCC agreed that 9.2% was a fair and reasonable ROE but noted that the General Assembly had mandated that the ROE could not be lower than the three-year average of the returns on common equity for a majority of a peer group of other similar investor-aimed electric utilities in the Southeast.
By statute, the ROE became effective on the date of the Commission's decision. It will apply to the rate adjustment clauses and the base rates to be determined in the 2020 review of base rates.

The SCC's decision is a very good result for the Public Authorities. The lower the ROE, the lower the rates that APCo can charge its customers, including the Public Authorities.

R.D.P. and J.L.W. III