

Fitch Evaluates Utility ROE Trends

Authorized ROEs Remain above 10%
Special Report

Fitch Updates Its Evaluation: In this Special Report, Fitch Ratings updates its evaluation of trends in utility authorized returns on equity (ROEs). The analysis summarizes rate case determinations over an 18-month period, ending June 30, 2011.

Modestly Lower Trend Continues: Based on a review of 103 electric and gas rate case outcomes that occurred over the 18-month period, Fitch observed that the average ROE authorized is approximately 10.2%. In a prior report, dated March 22, 2010, Fitch determined that the average authorized ROE for 41 rate case decisions over a 15-month period was 10.5%.

ROEs Remain Above 10%: Fitch concludes that the long-term downward trend of authorized ROEs is stabilizing at or near current levels, with no indications that the trend will reverse. This conclusion is supported by industry data collected over the last five years which produced a range for the average authorized ROE of approximately 10.2%–10.5%. By contrast, the average authorized ROE in 1991 was around 12.0%, more than 200 bps higher than the current average.

Data Limitations: Appendix A on page 6 lists the 103 rate case outcomes, and includes authorized ROEs. In 80 of the rate cases there was sufficient data on prior authorized ROEs to establish a trend. Fitch notes that this update and the prior analysis include a different sample of companies with rate cases decided in the relevant review periods. Within the sample group there are some outliers which affect the average more than the median. Fitch's primary approach is to report on medians in this report.

Reduced ROEs Outpace Increases: Fitch noted that authorized ROEs are lower than previously authorized ROEs in 40 of the 80 rate cases, averaging approximately 100 bps lower than previously authorized ROEs. Authorized ROEs remained unchanged in 26% (21) of the rate case outcomes, and were higher than previously authorized ROEs in only 24% (19) of the cases. In those cases the average was only about 40 bps higher.

Higher Outcomes for IUCs: Median authorized ROEs were higher for integrated electric utility operating companies (IUCs) at 10.3% and lower for the electric and gas utility distribution companies without supply responsibility (UDCs) at 10.0%.

Outcomes Vary by Region: Fitch noted that ROEs varied, depending on their regions. Authorized ROEs were lowest in the northeast region, with the median authorized ROE at 10.0%. In the Midwest region, the median authorized ROEs were highest, at 10.3%. Authorized ROEs in the southern and western regions were in line with the median authorized ROE for the dataset, near 10.2%.

New England ROEs Lowest: Fitch observed that states in New England, specifically Connecticut and Massachusetts, had the lowest median authorized ROEs. This may be due in part to the higher concentration of UDCs, since most states in the Northeast Region have separated utility distribution activities from the supply and generation obligation. The median authorized ROE for UDCs was 10.0%. The median authorized ROE for IUCs was 10.3%.

Related Research

[Rating North American Utilities, Power, Gas, and Water Companies, May 16, 2011](#)

[Fitch's Review of Utility ROE Trends, March 22, 2010](#)

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Study Results

Appendix B on page 10 lists the median authorized ROE by region, division, and state, relative to the median authorized ROE of 10.2% for the 103 rate cases reviewed by Fitch.

The table below provides a summary of Fitch's results.

Electric and Gas Company Rate Case Outcomes — Summary of Results

Time Period	Number of Rate Case Outcomes ^a	Trends in Authorized ROEs						
		Rate Case Outcomes — Lower ROE	Average bps Lower	Rate Case Outcomes — Higher ROE	Average bps Higher	Rate Case Outcomes — Same ROE		
12 Months Ended December 2010	55	Median Authorized ROE (%) = 10.25	Median Previous Authorized ROE (%) = 10.20	23	118	14	38	18
		Average Authorized ROE (%) = 10.24	Average Previous Authorized ROE (%) = 10.63					
		Median Authorized ROE (%) = 10.05	Median Previous Authorized ROE (%) = 10.40					
Six Months Ended June 2011	25	Median Authorized ROE (%) = 10.05	Median Previous Authorized ROE (%) = 10.40	17	73	5	55	3
		Average Authorized ROE (%) = 10.08	Average Previous Authorized ROE (%) = 10.47					

	Data Sorted by Type of Utility				Total
	IUC		UDC		
	Electric	Gas	Electric	Gas	
Number of Rate Case Outcomes	43	10	21	29	103
Median Authorized ROE (%)	10.30	10.23	10.00	10.05	10.18

^aRate case outcomes where data was sufficient to establish a trend. IUC – Integrated electric utility operating company. UDC – Electric and gas utility distribution company.

Source: Company SEC filings, Fitch Ratings.

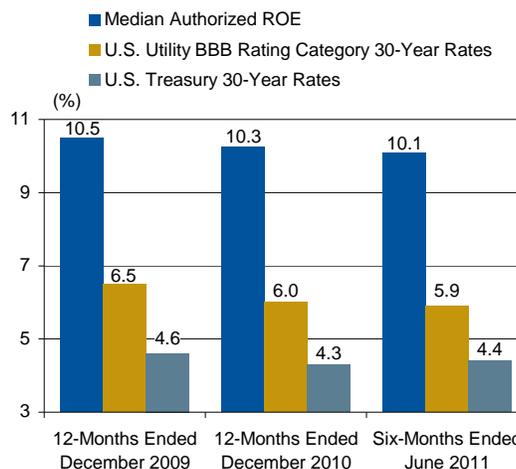
Economic Indicators Influence Authorized ROEs

Driving the trend by state regulatory commissions to constrain authorized ROEs are concerns related to high unemployment, housing foreclosures, rising raw material costs, and weak GDP growth. Consumer advocates and regulatory staffs contend that lower authorized ROEs are appropriate given the lower interest rate environment.

The charts below illustrate the relationship between the median authorized ROE and long-term interest rates, supporting the assumption that the current low interest environment is related to lower authorized ROEs.

State regulatory commissioners also justify lower ROE determinations on the grounds of special tariff mechanisms designed to mitigate economic risks.

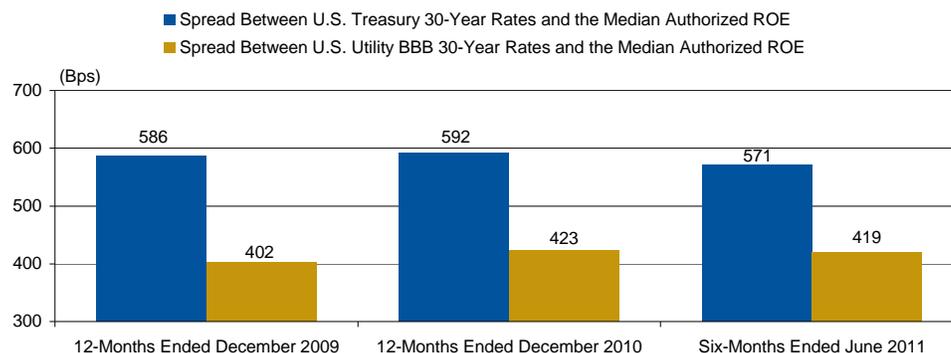
Median Authorized ROE versus Long-Term Interest Rates



Source: Fitch Ratings, Bloomberg.

Such rate design components include a forward test year, revenue decoupling, full and timely cost recovery of future capital investments, fuel clause and purchased gas adjustments, and rate-adjustment trackers. Fitch views the inclusion of rate design components to mitigate regulatory lags as supportive of a stronger credit profile.

Median Authorized ROE versus Long-Term Interest Rates



Source: Fitch Ratings, Bloomberg.

By contrast, fixed-income investors question the adequacy of lower authorized ROEs to cushion bondholders from credit deterioration, and utility-management teams view the lower authorized ROEs as insufficient. Lower authorized ROEs constrain profitability and limit financing flexibility, making the utilities more reliant on external financing sources and vulnerable to higher interest costs. Weak internal cash generation, higher interest costs, and weaker interest coverage measures can lead to lower credit ratings and poor market performance for utility debt.

Actual ROEs Fall Short of Authorized ROEs

Fitch collected three-year historical ROEs for a random sample set of regulated utilities and compared the actual figures to the respective authorized ROEs to evaluate the tension between actual and authorized ROEs. Appendix C on page 11 provides a summary of this data.

Fitch observed that 60% of the utilities in the sample set were under-earning on their respective authorized ROEs by 100 bps or more in 2010. A driver of lower actual ROEs relative to authorized ROE levels is regulatory lag. Fitch views the inclusion of rate design components to mitigate regulatory lag, such as forward-looking test periods, revenue decoupling mechanisms, cash returns on construction work in progress, and expense trackers or formula rate plans to set tariffs, as key to theoretically enabling utilities to earn their authorized ROEs. In the period of the review, low- or no-demand growth combined with high levels of capital expenditures may have caused utility ROEs to fall short of authorized returns.

The historical ROE data collected is calculated using U.S. generally accepted accounting principles (GAAP), which differs from the regulatory accounting model, and in some cases could be a source of the appearance of under-earning.

Relationship between Authorized ROE and Credit Ratings

Fitch observed a 10 bps differential between the median authorized ROE for utilities rated 'A' and utilities rated 'BBB', with the higher authorized ROE level associated with lower issuer default rating (IDR). However, given the small sample size and limited period of review, Fitch

does not deem this differential to be meaningful. It is possible that some factors that influence lower credit ratings, such as weaker equity capital ratios or qualitative risk factors, may also factor into state regulators' ROE decisions, resulting in higher authorized ROEs.

The table below highlights the median authorized ROE by rating category.

Electric and Gas Company Rate Case Outcomes by Rating

Time Period	Number of Rate Case Outcomes ^a	Median Authorized ROE (%)				
		A	A-	BBB+	BBB	BBB-
18 Months Ended June 30, 2011	64	10.13	10.09	10.25	10.24	10.30

^aRate case outcomes where Fitch has assigned an IDR to the utility.
Source: Company SEC filings, Fitch Ratings.

The level of a utility's authorized ROE is not a primary factor in Fitch's rating approach, supporting the conclusion that authorized ROEs do not determine credit ratings. The utility's ability to earn a certain return on a consistent basis, and the cash flows that result, are quite important to the rating process. Fitch's analysis of utility credit metrics focuses on cash from operations, rather than accrual earnings. Cash flow credit metrics may differ materially from accrual accounting measures due to the presence of regulatory deferral mechanisms, including revenue decoupling and forward test years.

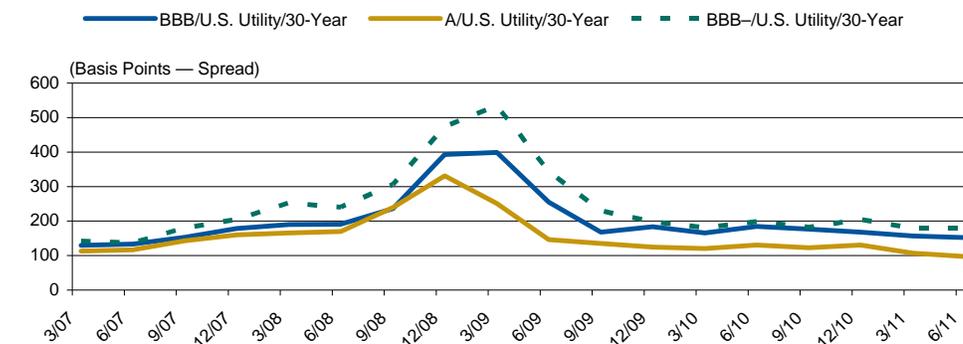
Credit Risk Influences Financing Terms

A frequent topic in rate cases is whether there is a material benefit for a utility to maintain an 'A' category rating over a 'BBB' category rating.

During periods of systemic market stress, issuers with higher bond ratings tend to have greater access to the bond market than those with lower ratings. In particular, access may be more limited for utility issuers rated lower in the 'BBB' category.

While it is difficult to demonstrate the lack of market access, it can be demonstrated in part through the differentials in credit risk premium spreads. The chart below illustrates quarterly trends in risk premium spreads over 30-year Treasury rates for each of 'A' and 'BBB' rated U.S. utility bonds from March 2007 through June 2011.

Utility Spread Over 30-Year Treasury by Rating Category



Source: Bloomberg.

Fitch observed that the spread differential between the 'A' and 'BBB' rated U.S. utility bonds peaked at nearly 150 bps with the upturn in market volatility and economic stress in

March 2009, supporting the conclusion that a stronger credit profile yields more favorable financing terms. The spread differential was significantly tighter in the lead up to the market volatility.

During the period of January 2010 through June 2011, the spread differential between the 'A' and 'BBB' rated U.S. utility bonds remained consistent at or near 50 bps. The spread differential of 50 bps was wider than the average spread differential of 16 bps experienced prior to the introduction of market volatility in the period of March 2007 to September 2008.

Utilities Continue to Request Higher ROEs

Appendix D on page 13 lists 40 rate cases filed over the 18-month period from Jan. 1, 2010 to June 30, 2011, with final determinations pending. Of the 36 pending filings where there was sufficient data on prior authorized ROE to establish a trend, 29 are requests for ROEs higher than previously authorized ROEs.

The table below provides a summary of Fitch's results.

Pending Rate Cases

Date of Fitch Analysis	Number of Rate Cases Pending ^a	Median Previous ROE (%)	Median Requested ROE (%)	Trends in Requested ROEs	
				Number of Requests for Higher ROE	Average bps Higher
March 2010	29	10.65	11.25	22	60.4
June 2011	36	10.25	11.00	29	64.3

^aPrevious rate case outcomes where data was sufficient to establish a trend.

Source: Company SEC filings, Fitch Ratings.

Fitch concludes that despite the inclusion by regulators of mechanisms designed to support longer term credit quality, utilities continue to request higher ROEs. The trends identified in this report confirm the tension between utility management teams and regulatory commissions regarding where the ROE needs to be set.

Appendix A: Authorized ROEs (January 2010–June 30, 2011)

Electric and Gas Company Rate Case Determinations (2010/2011)

Holding Company	Subsidiary	IDR Rating	Outlook	Jurisdiction	Electric/Gas	Prior Rate Case Determination: Authorized ROE (%)	Recent Rate Case Determination: Authorized ROE (%)
AGL Resources, Inc.							
	Atlanta Gas Light Co.	NR		Georgia	Gas	10.90	10.75
	Chattanooga Gas Co.	NR		Tennessee	Gas	10.20	10.05
Ameren Corporation							
	Ameren Illinois Co. (Formerly Central Illinois Light)	BBB-	Stable	Illinois	Electric	Not Public	9.90
	Ameren Illinois Co. (Formerly Central Illinois Light)	BBB-	Stable	Illinois	Gas	Not Public	9.40
	Ameren Illinois Co. (Formerly Central Illinois Public Service Company)	BBB-	Stable	Illinois	Electric	Not Public	10.06
	Ameren Illinois Co. (Formerly Central Illinois Public Service Company)	BBB-	Stable	Illinois	Gas	Not Public	9.19
	Ameren Illinois Co. (Formerly Illinois Power)	BBB-	Stable	Illinois	Electric	Not Public	10.26
	Ameren Illinois Co. (Formerly Illinois Power)	BBB-	Stable	Illinois	Gas	Not Public	9.40
	Union Electric Co.	BBB+	Stable	Missouri	Electric	10.76	10.10
American Electric Power Company							
	Appalachian Power Co.	BBB-	Stable	Virginia	Electric	10.00	10.53
	Appalachian Power Co.	BBB-	Stable	West Virginia	Electric	10.50	10.00
	Indiana Michigan Power Co.	BBB-	Stable	Michigan	Electric	13.00	10.35
	Kentucky Power Co.	BBB-	Stable	Kentucky	Electric	Not Public	10.50
	Public Service Company of Oklahoma	BBB	Stable	Oklahoma	Electric	10.50	10.15
	Southwestern Electric Power Co.	BBB-	Stable	Texas	Electric	15.70	10.33
Atmos Energy Corporation							
	Atmos Pipeline —Texas	BBB+	Stable	Texas	Gas (Pipeline)	10.00	11.80
	Atmos — Louisiana — Trans LA	BBB+	Stable	Louisiana	Gas	10.80	10.00
	Atmos — Louisiana — LGS	BBB+	Stable	Louisiana	Gas	10.40	10.40
	Atmos — Mid-Texas — Settled Cities	BBB+	Stable	Texas	Gas	9.60	9.70
	Atmos — West Texas (Amarillo, Lubbock, West Texas)	BBB+	Stable	Texas	Gas	9.60	9.60
	Atmos — Mid-Texas — Dallas & Environs	BBB+	Stable	Texas	Gas	10.00	10.40
	Atmos — Kentucky/Mid-States	BBB+	Stable	Georgia	Gas	10.70	10.70
	Atmos — Colorado-Kansas	BBB+	Stable	Colorado	Gas	Not Public	10.25
Avista Corp.							
	Avista Corp.	NR		Washington	Electric	10.20	10.20
	Avista Corp.	NR		Washington	Gas	10.20	10.20
	Avista Corp.	NR		Oregon	Gas	10.10	10.10
Black Hills Corporation							
	Black Hills Colorado Electric Co.	NR		Colorado	Electric	10.25	10.50
	Black Hills Nebraska Gas Co.	NR		Nebraska	Gas	10.40	10.10
CenterPoint Energy, Inc.							
	CenterPoint Energy Resources Corp.	BBB	Stable	Minnesota	Gas	9.71	10.24
	CenterPoint Energy Resources Corp.	BBB	Stable	Texas	Gas	10.50	10.05
	CenterPoint Energy Resources Corp.	BBB	Stable	Texas	Gas	10.06	10.50
	CenterPoint Energy Houston Electric, LLC	BBB	Stable	Texas	Electric	11.25	10.00
Central Hudson Gas & Electric Corporation							
	Central Hudson Gas & Electric Corp.	A-	Stable	New York	Electric	10.00	10.00
	Central Hudson Gas & Electric Corp.	A-	Stable	New York	Gas	10.00	10.00
CMS Energy Corporation							
	Consumers Energy Co.	BBB-	Stable	Michigan	Gas	10.55	10.50
	Consumers Energy Co.	BBB-	Stable	Michigan	Electric	10.70	10.70
	Consumers Energy Co.	BBB-	Stable	Michigan	Gas	Not Public	10.55

^aPer March 2010 settlement the utility can earn a 60 bps incentive for good performance, bring the authorized ROE to 11.9. ^bWyoming has issued a hearing order approving a filed stipulation and a final written order is expected prior to rate changes in September 2011. IDR – Issuer default rating. NR – Not rated. Not Public – Data not publicly available (may be silent due to rate settlement). *Continued on next page.*
Source: Company SEC filings, Fitch Ratings.

Electric and Gas Company Rate Case Determinations (2010/2011) (Continued)

Holding Company	Subsidiary	IDR Rating	Outlook	Jurisdiction	Electric/Gas	Prior Rate Case Determination: Authorized ROE (%)	Recent Rate Case Determination: Authorized ROE (%)
Consolidated Edison, Inc.							
	Consolidated Edison Co. of New York, Inc.	BBB+	Stable	New York	Gas	9.70	9.60
	Consolidated Edison Co. of New York, Inc.	BBB+	Stable	New York	Electric	10.00	10.15
	Orange & Rockland Utilities, Inc.	BBB+	Stable	New York	Electric	9.40	9.20
	Rockland Electric Co.	BBB+	Stable	New Jersey	Electric	9.75	10.30
Constellation Energy Group, Inc.							
	Baltimore Gas and Electric Co.	BBB	Stable	Maryland	Electric	11.75	9.86
	Baltimore Gas and Electric Co.	BBB	Stable	Maryland	Gas	11.00	9.56
Dominion Resources							
	Virginia Electric and Power Co.	BBB+	Stable	North Carolina	Electric	Not Public	10.70
	Virginia Electric and Power Co.	BBB+	Stable	Virginia	Electric	Not Public	11.3 ^a
DTE Energy Company							
	Detroit Edison	BBB	Positive	Michigan	Electric	11.00	11.00
	Michigan Consolidated Gas	BBB-	Stable	Michigan	Gas	11.00	11.00
Duke Energy Corporation							
	Duke Energy Carolinas, LLC	NR		South Carolina	Electric	13.00	10.70
Entergy Corporation							
	Entergy Texas, Inc.	NR		Texas	Electric	Not Public	10.13
	Entergy Arkansas Inc.	NR		Arkansas	Electric	9.90	10.20
Exelon Corporation							
	Commonwealth Edison Co.	BBB-	Stable	Illinois	Electric	10.30	10.50
First Energy Corporation							
	Monongahela Power Co.	BBB	Stable	West Virginia	Electric	10.50	10.50
	Potomac Edison Co.	BBB	Stable	West Virginia	Electric	10.50	10.50
Great Plains Energy Inc.							
	Kansas City Power & Light Co.	NR		Kansas	Electric	Not Public	10.00
	Kansas City Power & Light Co.	NR		Missouri	Electric	Not Public	10.00
Iberdrola USA							
	New York State Electric & Gas Corporation	BBB	Stable	New York	Electric & Gas	9.55/10.5	10.00
	Rochester Gas & Electric Corporation	BBB-	Stable	New York	Electric & Gas	Not Public	10.00
IDACORP, Inc.							
	Idaho Power Co.	NR		Oregon	Electric	12.75	10.18
Integrus Energy Group Inc.							
	North Shore Gas Co.	NR		Illinois	Gas	9.99	10.33
	Peoples Gas Light & Coke Co.	NR		Illinois	Gas	10.19	10.23
	Upper Peninsula Power Co.	NR		Michigan	Electric	10.90	10.30
	Wisconsin Public Service Corporation	NR		Wisconsin	Electric	10.60	10.30
	Wisconsin Public Service Corporation	NR		Wisconsin	Gas	14.25	10.30
MDU Resources Group, Inc.							
	MDU Resources Group, Inc.	A-	Stable	North Dakota	Electric	11.50	10.75
MGE Energy, Inc.							
	Madison Gas & Electric Co.	NR		Wisconsin	Electric	10.40	10.30
	Madison Gas & Electric Co.	NR		Wisconsin	Gas	10.40	10.30
MidAmerican Energy Holdings							
	Pacificorp	BBB	Stable	Oregon	Electric	10.125	10.125
	Pacificorp	BBB	Stable	Wyoming	Electric	Not Public	10.00 ^b
	Pacificorp	BBB	Stable	California	Electric	10.600	10.60

^aPer March 2010 settlement the utility can earn a 60 bps incentive for good performance, bring the authorized ROE to 11.9. ^bWyoming has issued a hearing order approving a filed stipulation and a final written order is expected prior to rate changes in September 2011. IDR – Issuer default rating. NR – Not rated. Not Public – Data not publicly available (may be silent due to rate settlement). *Continued on next page.*
Source: Company SEC filings, Fitch Ratings.

Electric and Gas Company Rate Case Determinations (2010/2011) (Continued)

Holding Company	Subsidiary	IDR Rating	Outlook	Jurisdiction	Electric/Gas	Prior Rate Case Determination: Authorized ROE (%)	Recent Rate Case Determination: Authorized ROE (%)
National Grid USA							
	Niagara Mohawk Power Corp.	NR		New York	Electric	10.60	9.30
NextEra Energy, Inc.							
	Florida Power & Light Co.	A	Stable	Florida	Electric	12.80	10.00
NiSource Inc.							
	Northern Indiana Public Service Company	BBB-	Stable	Indiana	Electric	Not Public	9.90
	Columbia Gas of Virginia	NR		Virginia	Gas	Not Public	10.10
Northeast Utilities							
	Connecticut Light & Power Co.	BBB	Positive	Connecticut	Electric	9.40	9.40
	Public Service Company of New Hampshire	BBB	Stable	New Hampshire	Electric	9.67	9.67
	Western Massachusetts Electric Co.	BBB	Stable	Massachusetts	Electric	9.25	9.60
	Yankee Gas Co.	NR		Connecticut	Gas	10.10	8.83
NorthWestern Corporation							
	Northwestern Energy Division	BBB	Stable	Montana	Electric	10.25	10.25
	Northwestern Energy Division	BBB	Stable	Montana	Gas	10.25	10.25
NV Energy, Inc.							
	Sierra Pacific Power Company dba NV Energy	BB+	Stable	Nevada	Electric	10.60	10.10
	Sierra Pacific Power Company dba NV Energy	BB+	Stable	Nevada	Gas	Not Public	10.00
OGE Energy Corporation							
	Oklahoma Gas & Electric Co.	A	Stable	Arkansas	Electric	10.25	9.95
Otter Tail Corporation							
	Otter Tail Power Co.	BBB	Stable	Minnesota	Electric	10.43	10.74
PEPCO Holdings, Inc.							
	Atlantic City Electric Co.	BBB	Stable	New Jersey	Electric	9.75	10.30
	Delmarva Power & Light Co.	BBB+	Stable	Delaware	Gas	10.25	10.00
	Delmarva Power & Light Co.	BBB+	Stable	Delaware	Electric	10.00	10.00
	Potomac Electric Power Co.	BBB+	Stable	District of Columbia	Electric	10.00	9.63
	Potomac Electric Power Co.	BBB+	Stable	Maryland	Electric	10.00	9.83
PNM Resources							
	Texas-New Mexico Power Co.	NR		Texas	Electric	Not Public	10.13
PPL Corporation							
	Kentucky Utilities Co.	A-	Stable	Virginia	Electric	13.00	10.50
Progress Energy							
	Progress Energy Florida Power Corp.	BBB+	Stable	Florida	Electric	12.00	10.50
Public Service Enterprise Group Incorporated							
	Public Service Electric & Gas Co.	BBB+	Stable	New Jersey	Electric	9.75	10.30
	Public Service Electric & Gas Co.	BBB+	Stable	New Jersey	Gas	10.00	10.30
SCANA Corporation							
	South Carolina Electric & Gas Co.	BBB+	Stable	South Carolina	Electric	10.70	10.70
Southern Company							
	Georgia Power Co.	A	Stable	Georgia	Electric	11.25	11.15
Southern Union Company							
	New England Gas Co.	NR		Massachusetts	Gas	10.05	9.45
	Missouri Gas Energy	NR		Missouri	Gas	10.05	10.00

^aPer March 2010 settlement the utility can earn a 60 bps incentive for good performance, bring the authorized ROE to 11.9. ^bWyoming has issued a hearing order approving a filed stipulation and a final written order is expected prior to rate changes in September 2011. NR – Not rated. Not Public – Data not publicly available (may be silent due to rate settlement). *Continued on next page.*
 Source: Company SEC filings, Fitch Ratings.

Electric and Gas Company Rate Case Determinations (2010/2011) (Continued)

Holding Company	Subsidiary	IDR Rating	Outlook	Jurisdiction	Electric/Gas	Prior Rate Case Determination: Authorized ROE (%)	Recent Rate Case Determination: Authorized ROE (%)
Unisource Energy Corporation							
	UNS Electric, Inc.	NR		Arizona	Electric	10.00	9.75
	UNS Gas, Inc.	NR		Arizona	Gas	10.00	9.50
Westar Energy, Inc.							
	Kansas Gas & Electric Co.	BBB	Stable	Kansas	Electric	Not Public	10.40
	Westar Energy	BBB	Stable	Kansas	Electric	Not Public	10.40
Wisconsin Energy Corporation							
	Wisconsin Electric Power Co.	A	Stable	Wisconsin	Electric	10.55	10.25
XCEL Energy, Inc.							
	Northern States Power Co. - Minnesota	A-	Stable	Minnesota	Gas	9.71	10.09

^aPer March 2010 settlement the utility can earn a 60 bps incentive for good performance, bring the authorized ROE to 11.9. ^bWyoming has issued a hearing order approving a filed stipulation and a final written order is expected prior to rate changes in September 2011. IDR – Issuer default rating. NR – Not rated. Not Public – Data not publicly available (may be silent due to rate settlement).

Source: Company SEC filings, Fitch Ratings.

Appendix B: Median Authorized ROEs by Region, Division, and State

Electric and Gas Company Rate Case Outcomes by Jurisdiction

Time Period	Results sorted by Region/Division/State ^{a,b}	Median Authorized ROE (%) by State	Median Authorized ROE (%) by Region	Median Authorized ROE (%) — Overall
18 Months Ended June 2011				10.20
	Northeast Region: New England			
	New Hampshire	9.67	10.00	
	Massachusetts	9.53		
	Connecticut	9.12		
	Northeast Region: Mid-Atlantic			
	New York	10.00		
	New Jersey	10.30		
	Midwest Region: East North Central			
	Wisconsin	10.30	10.30	
	Michigan	10.55		
	Illinois	10.06		
	Indiana	9.90		
	Midwest Region: West North Central			
	Missouri	10.00	10.30	
	North Dakota	10.75		
	Nebraska	10.10		
	Kansas	10.40		
	Minnesota	10.24		
	Southern Region: South Atlantic			
	Delaware	10.00	10.18	
	Maryland	9.83		
	District of Columbia	9.63		
	Virginia	10.52		
	West Virginia	10.50		
	North Carolina	10.70		
	South Carolina	10.70		
	Georgia	10.75		
	Florida	10.25		
	Southern Region: East South Central			
	Kentucky	10.50		
	Tennessee	10.05		
	Southern Region: West South Central			
	Oklahoma	10.15	10.18	
	Texas	10.13		
	Arkansas	10.08		
	Louisiana	10.20		
	Western Region: Mountain			
	Montana	10.25		10.18
	Wyoming	10.00		
	Colorado	10.38		
	Nevada	10.05		
	Arizona	9.63		
	Western Region: Pacific			
	Washington	10.20	10.18	
	Oregon	10.13		
	California	10.60		

^aFitch evaluated 103 rate case outcomes over the 18-month period Jan. 1, 2010, through June 30, 2011. ^bU.S. Census Regions and Divisions. Source: Company SEC filings, Fitch Ratings.

Appendix C: Actual versus Authorized ROEs

Sample Set of Electric and Gas Company Actual and Historical (Fitch-Calculated) ROEs

Holding Company	Subsidiary	IDR Rating	Outlook	Jurisdiction	Authorized ROE (%)	Fitch-Calculated ROEs (%) ^a		
						2010	2009	2008
American Electric Company								
	Columbus Southern Power Co.	BBB+	Stable	Ohio	Not Public	16.16	20.88	19.68
	Ohio Power Co.	BBB	Positive	Ohio	Not Public	9.71	10.82	9.76
	Public Service Company of Oklahoma	BBB	Stable	Oklahoma	10.15	8.83	9.62	11.23
	Appalachian Power Co.	BBB-	Stable	Virginia	10.53	4.86	6.02	5.47
				West Virginia	10.00			
	Indiana Michigan Power Co.	BBB-	Stable	Indiana	10.50	7.48	15.51	9.36
				Michigan	10.35			
	Kentucky Power Co.	BBB-	Stable	Kentucky	10.50	7.97	5.78	6.37
	Southwestern Electric Power Co.	BBB-	Stable	Louisiana	10.57 ^b	8.90	8.22	8.37
				Arkansas	10.25			
				Texas	10.33			
	AEP Texas Central Co.	BBB+	Stable	Texas	9.96	11.18	14.79	17.68
	AEP Texas North Co.	BBB+	Stable	Texas	9.96	7.75	5.69	10.38
CMS Energy Corporation								
	Consumers Energy (Electric) Co.	BBB-	Stable	Michigan	10.70	10.87	7.74	9.85
	Consumers Energy (Gas) Co.			Michigan	10.50			
Consolidated Edison, Inc.								
	Consolidated Edison Company of New York, Inc. (Electric)	BBB+	Stable	New York	10.15	9.27	8.52	9.17
	Consolidated Edison Company of New York, Inc. (Gas)			New York	9.60			
	Orange & Rockland Utilities, Inc. (Electric)	BBB+	Stable	New Jersey	10.30	9.49	8.95	10.10
	Orange & Rockland Utilities, Inc. (Electric)			New York	9.20			
	Orange & Rockland Utilities, Inc. (Gas)			New York	10.40			
Dominion Resources, Inc.								
	Virginia Electric and Power Co.	BBB+	Stable	Virginia	11.30 ^c	10.65	5.04	14.34
	North Carolina Power Co.	BBB+	Stable	North Carolina	10.70			
Exelon Corporation								
	PECO Energy Co.	BBB+	Stable	Pennsylvania	Not Public	11.75	14.70	15.27
	Commonwealth Edison Co.	BBB-	Stable	Illinois	10.50	4.89	5.49	3.03
First Energy Corporation								
	Jersey Central Power & Light Co.	BBB	Stable	New Jersey	9.75	7.36	6.38	6.51
	Metropolitan Edison Co.	BBB-	Stable	Pennsylvania	10.10	5.41	5.43	8.57
	Ohio Edison Co.	BBB-	Stable	Ohio	10.50	16.23	10.54	14.77
	Pennsylvania Electric Co.	BBB-	Stable	Pennsylvania	10.10	6.44	6.91	8.71
	Cleveland Electric Illuminating Co.	BB+	Stable	Ohio	10.50	5.44	(0.88)	18.42
	Toledo Edison Co.	BB+	Stable	Ohio	10.50	7.47	4.95	15.54
	West Penn Power Co.	BBB	Stable	Pennsylvania	11.50	11.99	11.10	8.51
	Potomac Edison Co.	BBB	Stable	West Virginia	10.50			
				Maryland	11.90	18.09	13.09	(4.66)
	Monongahela Power Co.	BBB	Stable	West Virginia	10.50	8.46	3.12	5.80
	Pennsylvania Power Co.	BBB-	Stable	Pennsylvania	12.90			
Iberdrola USA								
	Central Maine Power Co.	BBB+	Stable	Maine	Not Public	7.52	5.26	7.12
	New York State Electric & Gas Corp.	BBB	Stable	New York	10.00	9.49	5.44	0.49
	Rochester Gas & Electric Corp.	BBB-	Stable	New York	10.00	8.41	4.43	0.69
MidAmerican Energy Holdings Company								
	PacifiCorp	BBB	Stable	Utah	10.60	8.16	8.64	8.34
				Oregon	10.125			
				Wyoming	10.00			
				Washington	9.80			
				Idaho	9.90			
	MidAmerican Energy Co.	A-	Stable	Iowa	Not Public ^d	12.18	12.70	14.08

^aROE (%) calculated as net income divided by total common shareholder's equity. ^bRepresents the midpoint of the ROE range. ^cPer March 2010 settlement the utility can earn a 60 bps incentive for good performance, bring the authorized ROE to 11.9%. ^dEarnings sharing mechanism in place for an ROE greater than 11.75%, and if the ROE falls below 10%, the utility can seek a general increase in its electric rates. ^eROE data for the 2010 Kentucky rate case is based on a June 2010 stipulation for a ROE range of 10.25%–10.75%.

^fAllowed range of 10.25% to 12.25%. ^gAllowed range of 10.75% to 12.75%. IDR – Issuer default rating. Not Public – Data not publicly available (may be silent due to rate settlement). *Continued on next page.*

Source: Company SEC filings and presentations, Fitch Ratings.

Sample Set of Electric and Gas Company Actual and Historical (Fitch-Calculated) ROEs (Continued)

Holding Company	Subsidiary	IDR Rating	Outlook	Jurisdiction	Fitch-Calculated ROEs (%) ^a			
					Authorized ROE (%)	2010	2009	2008
NextEra Energy, Inc.	Florida Power & Light Company	A	Stable	Florida	10.00	10.37	10.06	10.27
Northeast Utilities	Public Service Company of New Hampshire	BBB	Stable	New Hampshire	9.67	10.89	9.70	9.90
	Connecticut Light & Power Co.	BBB	Positive	Connecticut	9.40	10.23	9.60	9.62
	Western Massachusetts Electric Company	BBB	Stable	Massachusetts	9.60	7.60	10.72	7.48
PEPCO Holdings, Inc.	Delmarva Power & Light Co.	BBB+	Stable	Maryland	10.00	5.46	6.67	9.54
	Delmarva Power & Light (Electric) Co.			Delaware	10.00			
	Delmarva Power & Light (Gas) Co.			Delaware	10.00			
	Potomac Electric Power Co.	BBB+	Stable	District of Columbia	9.63	7.54	7.94	9.81
				Maryland	9.83			
	Atlantic City Electric Co.	BBB	Stable	New Jersey	10.30	7.88	6.96	12.64
PPL Corporation	Kentucky Utilities Co.	A-	Stable	Virginia	10.50	7.54		
				Kentucky	10.25--10.75 ^e			
	Louisville Gas & Electric Co.	A-	Stable	Kentucky	10.25--10.75 ^e	8.61		
	PPL Electric Utilities Corp.	BBB	Stable		Not Public	6.99	8.44	12.02
Progress Energy	Carolina Power & Light Co.	A-	Stable	North Carolina	12.75	12.20	11.45	13.14
				South Carolina	12.75			
	Florida Power Corp.	BBB+	Stable	Florida	10.50	9.62	11.66	11.97
Southern Company	Alabama Power Co.	A	Stable	Alabama	13.0-14.5	13.30	13.28	13.30
	Georgia Power Co.	A	Stable	Georgia	11.15 ^f	11.42	11.01	13.56
	Mississippi Power Co.	A	Stable	Mississippi	Not Public	11.46	13.13	13.76
	Gulf Power Co.	A-	Stable	Florida	12.00 ^g	11.74	12.16	12.62
Wisconsin Energy Corporation	Wisconsin Electric Power Co.	A	Stable	Wisconsin	10.25	10.70	10.66	10.70
XCEL Energy, Inc.	Northern States Power Company — MN (Electric)	A-	Stable	Minnesota	10.88	8.13	9.32	9.69
	Northern States Power Company — MN (Gas)			Minnesota	10.09			
				North Dakota	10.75			
	Northern States Power Company — WI (Electric)	A-	Stable	Wisconsin	10.40	8.63	9.88	9.97
	Northern States Power Company — WI (Gas)				10.75			
	Public Service Company of Colorado	BBB+	Stable	Colorado	10.25	10.15	8.82	9.76
	Southwestern Public Service Company	BBB	Negative	New Mexico	Not Public	8.16	7.23	3.73

^aROE (%) calculated as net income divided by total common shareholder's equity. ^bRepresents the midpoint of the ROE range. ^cPer March 2010 settlement the utility can earn a 60bps incentive for good performance, bring the authorized ROE to 11.9%. ^dEarnings sharing mechanism in place for an ROE greater than 11.75%, and if the ROE falls below 10%, the utility can seek a general increase in its electric rates. ^eROE data for the 2010 Kentucky rate case is based on a June 2010 stipulation for a ROE range of 10.25%–10.75%. ^fAllowed range of 10.25% to 12.25%. ^gAllowed range of 10.75% to 12.75%. IDR – Issuer default rating. Not Public – Data not publicly available (may be silent due to rate settlement).

Source: Company SEC filings and presentations, Fitch Ratings.

Appendix D: Pending Rate Cases (June 30, 2011)

Electric and Gas Company Pending Rate Cases (2010–2011)

Holding Company	Subsidiary	IDR Rating	Outlook	Jurisdiction	Electric/Gas	Prior Rate Case Determination: Authorized ROE (%)	Pending Rate Case: Requested ROE (%)
AGL Resources, Inc.	Virginia Natural Gas, Inc.	NR		Virginia	Gas	10.00	10.95
Ameren Corporation	Ameren Illinois Company	BBB–	Stable	Illinois	Electric	10.06	11.25
	Ameren Illinois Company	BBB–	Stable	Illinois	Gas	9.19	11.00
	Union Electric Co. ^a	BBB+	Stable	Missouri	Electric	10.10	10.70
American Electric Power Company	Appalachian Power Co.	BBB–	Stable	Virginia	Electric	10.53	11.65
	Columbus Southern Power Co.	BBB+	Stable	Ohio	Electric	Not Public	11.15
	Ohio Power Co.	BBB	Positive	Ohio	Electric	Not Public	11.15
Avista Corporation	Avista Corp.	NR		Washington	Electric	10.20	10.90
	Avista Corp.	NR		Washington	Gas	10.20	10.90
Black Hills Corporation	Black Hills Colorado Electric Utility Co.	NR		Colorado	Electric	10.50	11.00
CMS Energy Corporation	Consumers Energy Co.	BBB–	Stable	Michigan	Electric	10.70	10.70
DTE Energy Company	Detroit Edison Co.	BBB	Positive	Michigan	Electric	11.00	11.13
Energy Future Holdings Corporation	Oncor Electric Delivery Company	BBB–	Stable	Texas	Electric	10.25	11.25
IDACORP, Inc.	Idaho Power Co.	NR		Idaho	Electric	10.50	10.50
Integrus Energy Group Inc.	North Shore Gas Co.	NR		Illinois	Gas	10.33	11.25
	Peoples Gas Light & Coke Co.	NR		Illinois	Gas	10.23	11.25
	Minnesota Energy Resources Corp.	NR		Minnesota	Gas	10.21	11.25
MDU Resources Group, Inc.	MDU Resources Group, Inc.	A–	Stable	Montana	Electric	10.25	11.00
MidAmerican Energy Holdings	Pacificorp	BBB	Stable	Utah	Electric	10.60	10.50
	Pacificorp	BBB	Stable	Washington	Electric	9.80	9.80
	Pacificorp	BBB	Stable	Idaho	Electric	9.90	10.50
NiSource Inc.	Northern Indiana Public Service Company ^b	BBB–	Stable	Indiana	Electric	9.90	11.75
	Columbia Gas of Pennsylvania, Inc.	NR		Pennsylvania	Gas	Not Public	11.60
NV Energy, Inc.	Nevada Power Company d/b/a NV Energy	BB+	Stable	Nevada	Electric	10.50	11.25
PEPCO Holdings, Inc.	Delmarva Power & Light Co.	BBB+	Stable	Maryland	Electric	10.00	10.75
Pinnacle West Capital Corporation	Arizona Public Service Co.	BBB–	Stable	Arizona	Electric	11.00	11.00
PNM Resources	Public Service Company of New Mexico	NR		New Mexico	Electric	10.50	11.75
PPL Corporation	Kentucky Utilities Co.	A–	Stable	Virginia	Electric	10.50	11.00

^aCase decided July 13, 2011. ROE 10.2%. ^bSettlement pending. IDR – Issuer default rating. NR – Not rated. Non Public – Data not publicly available (may be silent due to rate settlement). *Continued on next page.*
Source: Company SEC filings, Fitch Ratings.

Electric and Gas Company Pending Rate Cases (2010–2011) (Continued)

Holding Company	Subsidiary	IDR Rating	Outlook	Jurisdiction	Electric/Gas	Prior Rate Case	Pending Rate Case:
						Determination: Authorized ROE (%)	Requested ROE (%)
Sempra Energy							
	San Diego Gas & Electric Co.	A	Negative	California	Electric	10.70	11.10
	San Diego Gas & Electric Co.	A	Negative	California	Gas	10.70	11.10
Southwest Gas Corporation							
	Southwest Gas Corporation	BBB+	Stable	Arizona	Gas	10.00	11.00
Unisource Energy Corporation							
	UNS Gas, Inc.	NR		Arizona	Gas	9.50	10.50
WGL Holdings, Inc.							
	Washington Gas Light Co.	BBB	Stable	Maryland	Gas	10.00	10.45
	Washington Gas Light Co.	BBB	Stable	Virginia	Gas	10.00	10.50
XCEL Energy, Inc.							
	Northern States Power Co. — Minnesota	A-	Stable	Minnesota	Electric	10.88	10.85
	Northern States Power Co. — Minnesota	A-	Stable	North Dakota	Electric	10.75	11.25
	Northern States Power Co. — Wisconsin	A-	Stable	Wisconsin	Electric	10.40	10.75
	Northern States Power Co. — Wisconsin	A-	Stable	Wisconsin	Gas	10.75	10.75
	Public Service Company of Colorado	BBB+	Stable	Colorado	Gas	10.25	10.80
	Southwestern Public Service Company	BBB	Negative	New Mexico	Electric	Not Public	11.25

^aCase decided July 13, 2011. ROE 10.2%. ^bSettlement pending. IDR – Issuer default rating. NR – Not rated. Non Public – Data not publicly available (may be silent due to rate settlement).

Source: Company SEC filings, Fitch Ratings.

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