



Fitch: U.S. Electric Utility Allowed Returns on Equity Stable Over the Last Five Years

Endorsement Policy

22 Mar 2010 12:16 PM (EDT)

Fitch Ratings-New York-22 March 2010: Fitch Ratings has issued a special report today evaluating trends in U.S. electric utility allowed returns on equity (ROEs). Fitch reviewed 41 rate case decisions that occurred in 2009 and early 2010 to determine if the long-term downward trend of ROEs over the past 20 years persisted. Fitch concluded that contrary to investors' perception, there is evidence that allowed ROEs have stabilized over the past five years. ROEs authorized in 2009 and so far in 2010 average 10.47%, within the prior five-year range of 10.26% - 10.52%.

The adequacy of ROEs authorized to regulated utilities by state regulatory commissions is important for fixed-income investors. In cost of service regulation the ROE provides a cushion for bondholders against deviations in operating expenses, electricity sales and other adverse circumstances, and contributes to the differentiation in ratings.

Fitch evaluates the adequacy of each utility's respective ROE on a case by case basis, with the level of allowed ROE just a single component of rate design. An ability to consistently earn the authorized ROE, the authorized equity ratio, and the percentage of revenues that flow through clauses (rather than base rates) are also among the important inputs to Fitch's view of a utility's regulatory environment.

The special report, 'Fitch Review of Utility ROE Trends' summarizes recent and pending rate case decisions and compares the relationship among ROE, credit spreads and credit ratings. It is available on Fitch's web site, www.fitchratings.com.

Contact: Jill Schmidt +1-212-908-0644, New York.

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at www.fitchratings.com.

Related Research: Fitch Review of Utility ROE Trends

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.

Copyright © 2012 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries.