

220 CMR 31.00: OPTIONAL FORMULA FOR DETERMINING ALLOWED RATES OF RETURN ON EQUITY FOR WATER COMPANIES

Section

31.01: Definitions

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31.03: Formula

31.01: Definitions

Under 220 CMR 31.00, the following words and phrases shall have the following meanings, unless the context requires otherwise:

Allowed Return on Equity, the percentage rate of return on common equity authorized by the Department for a utility and used in calculating an overall return on investment for purposes of establishing the utility's revenue requirement.

Common Equity Ratio, the percentage of a utility's total capitalization (*i.e.*, common equity, preferred stock, and long-term debt) that consists of common equity, retained earnings, and capital surplus.

Department, the Department of Public Utilities.

Effective Date, the proposed effective date of changes in a utility's rates, prices and charges as set forth in a rate filing.

Index, in percentage points, the most recent 12-month average of thirty-year United States Treasury bond interest rates, as derived from Federal Reserve Statistical Release, H.15 (519), "Selected Interest Rates," or a successor or equivalent publication, including the interest rate published on, or as close as possible after, a date four months following the effective date.

Rate Filing, a notice of any changes proposed to be made in any schedule filed under M.G.L. c. 165 which represent a general increase in rates, prices and charges for water service.

Utility, any water company as defined in M.G.L. c. 165, § 1.

31.02: Application of Optional Methodology

A utility may, at its option, at the time of making a rate filing with the Department, choose to request the Department to establish its allowed return on equity based on the formula contained in 220 CMR 31.03. If a utility elects this option, it shall be deemed to have presented a *prima facie* case concerning its allowed return on equity and to have established a rebuttable presumption that the application of the formula will result in a fair and reasonable allowed return on equity.

31.03: Formula

The formula used to establish the allowed return on equity shall be as follows:

Allowed return on equity = Index + 3.5%, if the utility has a common equity ratio of 25% or lower;

Allowed return on equity = Index + 3.0%, if the utility has a common equity ratio in excess of 25% but below 75%;

31.03: continued

Allowed return on equity = Index + 2.5%, if the utility has a common equity ratio of 75% or greater;

Except where the Department may otherwise determine in specific cases, the allowed return on equity may not exceed 14.5% or be below 11.5%.

REGULATORY AUTHORITY

220 CMR 31.00: M.G.L. c. 165, §§ 1B, 2.