

LIMIT RATE OF RETURN ON EQUITY

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House Bill 5194 as introduced
Sponsor: Rep. Gary Glenn
Committee: Energy Policy
Complete to 3-5-18

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

House Bill 5194 would amend Public Act 3 of 1939, known as the Michigan Public Service Commission Act, to limit the return on equity that a private, investor-owned utility (also called an “incumbent” utility) may collect.

Under the Michigan Public Service Commission Act, a gas or electric utility is prohibited from increasing its rates and charges or altering, changing, or amending any rate or rate schedules which would result in the increase of the cost of its services without first receiving approval from the Public Service Commission (PSC). Municipally owned electric utilities are not subject to PSC regulation, with the exception of the filing of a renewable energy plan as required by the Clean, Renewable, and Efficient Energy Act. The PSC does not regulate the retail rates of electric cooperatives whose rates are member-regulated.

The bill would prohibit the PSC from authorizing a *return on equity* (ROE) for a gas or electric utility that exceeds the national average of investor-owned gas or electric utilities’ authorized ROE during the most recent 12 consecutive months available.

Return on equity refers to the amount of net income returned as a percentage of shareholders equity. ROE measures a corporation’s profitability by revealing how much profit a company generates with the money shareholders have invested.¹

If the PSC determined that a gas or electric utility’s average ROE over the last 12 consecutive months exceeded the average of its authorized ROE by 20 basis points or more, the PSC would issue a show cause order as to why the utility’s rates should not be immediately reduced to eliminate the over-collection. The rates also would be collected under bond and would be subject to refund to customers from the date of the PSC’s show cause order. After the utility’s rates are reestablished to eliminate any future over-collection following the show cause hearing, the PSC would refund to customers who were overcharged, plus interest, any actual amounts the utility overcharged from the date of the show cause order. The interest rate on the refunds would be the utility’s authorized ROE.

MCL 460.6a

¹ <https://www.investopedia.com/terms/r/returnonequity.asp>.

FISCAL IMPACT:

House Bill 5194 would have an indeterminate fiscal impact on the Department of Licensing and Regulatory Affairs and no fiscal impact on other units of state or local government. It is unclear whether additional show cause orders or hearings under this bill would be supported by existing departmental resources. Any increase in costs from these responsibilities would likely be minor, and supported by additional restricted funding

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.