CPI-1 Resolution Regarding Sound Public Utility Ratemaking Principles

Whereas setting public utility rates is a core responsibility delegated to state commissions staffed with the technical expertise to perform the complex, difficult duty of balancing customers' need for safe, reliable service at reasonable rates with utilities' objective of maintaining financial integrity to support the provision of reliable, affordable service over changing conditions in the short-, mid- and long-term;

Whereas ratemaking is a major regulatory function that affects all aspects of utility operations and directly impacts the different objectives that state commissions are charged with achieving in order to promote the public interest;

Whereas rate of return ratemaking and the various iterations of this function are central to public utility regulation and the implicit compact around which it centers;

Whereas the principles reflected in *Munn v. Illinois, Bluefield Water Works & Improvement Co. v. Public Service Commission,* and *Federal Power Commission v. Hope Natural Gas Co.* recognize that utilities subject to public regulation must have a reasonable opportunity to recover prudently incurred costs and an opportunity, but not a guarantee, to earn a return sufficient to maintain financial soundness, support credit quality, and attract capital on reasonable terms to support reliable, affordable service over the long term;

Whereas public utility ratemaking must balance the need to allow utilities an opportunity to earn reasonable regulated returns while customers pay an overall just and reasonable rate, and requires informed, case-specific judgment based on record evidence, expert testimony, financial analysis, utility-specific circumstances, short-, mid- and long-term public interest considerations, and applicable law;

Whereas a utility's revenue requirement is the amount needed to provide safe, reliable service and recover reasonable operating expenses, taxes, depreciation, and a rate of return through rates that are fair, just, and reasonable to customers;

Whereas return on equity is one component of the overall rate of return and cannot appropriately be determined by a single rigid formula applied across utilities, industries, jurisdictions, and economic conditions without regard to customer impact, certain types of risk, capital structures, operating obligations, and the evidentiary record in each case;

Whereas preserving state commission discretion to evaluate all relevant facts in a transparent evidentiary record supports effective and robust state regulation and gives state regulators the ability to help ensure safe, reliable, and affordable utility service over the long-term; *now, therefore be it*

Resolved, that the Board of Directors of the National Association of Regulatory Utility Commissioners, convened at its 2026 Summer Policy Summit in Minneapolis, Minnesota, reaffirms that sound public utility ratemaking should remain grounded in the evidentiary record, governing law, and the informed judgment of state commissions, consistent with the principles reflected in *Munn, Bluefield,* and *Hope*; supports regulatory frameworks that preserve and optimize commission authority to determine return on equity and other ratemaking components based on the facts and circumstances presented in each proceeding; maintains that under rate-of-return regulation, commissions determine appropriate returns on equity, and other rate case elements, based on case-specific analysis, expert evaluation, and record evidence rather than imposing arbitrary limits; and supports the technical expertise of commissions to resolve issues that clearly fall within their statutory jurisdiction.

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Passed by the Committee on Consumers and the Public Interest
Adopted by the NARUC Board of Directors on July 22, 2026