

1 Q. **Exhibit 10**

2 Page 10 of 13 – Provide regulatory precedents from other jurisdictions that
3 approved the annualization approach for a significant capital addition along with a
4 beginning - and ending - balance approach.

5

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7 A. This response was provided by CA Energy Consulting.

8

9 Please take note of footnote 9 of the discussion paper Rate Base Methods For
10 *Determining Utility Rates: Consideration Of Alternatives And Recommendations*,
11 which reads:

12 “Annualization refers to an adjustment procedure under which mid-
13 year additions and changes to plant-in-service balances are calibrated
14 to full-year-of-service levels. As an example, if the test year is an
15 annual period, a capital addition taking place at the beginning of
16 October is moved to beginning-of-year – essentially, multiplying the
17 change by a factor of four. Annualization is a form of adjustment to
18 an observed historical rate base referred to as *known and measurable*
19 *changes.*”

20

21 Consistent with footnote 9, if “*annualization*” referenced in PUB-NLH-090 can be
22 interpreted to mean, equally, *known and measurable changes*, regulatory practices
23 in the following list of jurisdictions are found to utilize or otherwise allow for such
24 adjustments, to both average and year end test periods. These U.S. regulatory
25 jurisdictions are as follows:

1 **1. Alabama Public Service Commission:**

2 Alabama statutes provide for use of a historical test year, adjusted for
3 known-and-measurable changes, and for formulary rate adjustment
4 mechanisms.

5

6 **2. Arkansas Public Service Commission:**

7 Filings may be based upon a test period consisting of six months of
8 actual and six months of projected data. The Commission is required to
9 consider "known-and measurable" changes to expense and rate base
10 items occurring within 12 months following the end of the test period.

11

12 **3. Delaware Public Service Commission**

13 The PSC generally relies on an average original-cost rate base for a test
14 period that is partially forecast at the time of filing. Known-and-
15 measurable adjustments to test period data are permitted.

16

17 **4. Indiana Utility Regulatory Commission**

18 Rate cases have generally been decided on the basis of an historical test
19 period and a test-year-end rate base, with adjustments for known-and
20 measurable changes expected to occur within one year after the end of
21 the test period.

22

23 **5. Iowa Utilities Board**

24 Historically, the IUB has utilized a 13-month average original-cost rate
25 base for a historical test period. By law, the IUB must consider known-
26 and-measurable changes in costs and revenues that occur within nine

1 months of the end of the test year in any rate proceeding, even if those
2 changes are not verifiable at the time of filing.

3

4 **6. Kentucky Public Service Commission**

5 The PSC generally utilizes a year-end rate base for a historical test
6 period, adjusted for known-and-measurable changes. However, statutes
7 permit the utilities to employ forecasted test periods.

8

9 **7. Massachusetts Dept. of Public Utilities**

10 In traditional rate cases, a historical test year and a year-end original-
11 cost rate base are utilized, with adjustments for "known-and-
12 measurable" changes. Post test-year rate base additions have been
13 permitted only for "significant" investment that has a "substantial"
14 effect on rate base.

15

16 **8. Missouri Public Service Commission**

17 The PSC generally relies on a year-end original-cost rate base, but, by
18 law, must consider fair value. Rate requests are typically filed based on
19 historical or partly forecasted test period data, which are updated during
20 the course of the proceeding to reflect actual results. The adopted test
21 periods are historical at the time of PSC decisions; however, limited
22 "known-and-measurable" changes may be recognized.

23

24 **9. Montana Public Service Commission**

25 The PSC generally relies on an average original-cost rate base for a
26 historical test period, adjusted for known-and measurable changes
27 within 12 months beyond the end of the test period.

1 **10. New Hampshire Public Utilities Commission**

2 In a base rate case, the PUC typically utilizes a 13-month average or a
3 five-quarter average rate base. The Commission uses a historical test
4 year, adjusted for known-and-measurable changes.

5

6 **11. New Jersey Board of Public Utilities**

7 The BPU relies upon a year-end original cost rate base for a test period
8 that is fully historical by the time a rate decision is issued. Most cases are
9 filed utilizing partly projected data, with known-and-measurable changes
10 permitted.

11

12 **12. New Mexico Public Regulation Commission**

13 The PRC relies upon a year-end original-cost rate base for a historical
14 test period, adjusted for known-and-measurable changes. However,
15 Senate Bill 477, which allows the PRC to use forecasted test periods, was
16 enacted in 2009. A pending rate case for Public Service New Mexico is
17 based upon a forecasted test year.

18

19 **13. Oklahoma Corporation Commission**

20 The OCC has generally relied on year-end rate bases for historical test
21 periods, adjusted for certain known-and-measurable changes occurring
22 within six months of the end of the test year.

23

24 **14. Public Utilities Commission of Nevada**

25 The PUC relies upon year-end rate base valuations for test periods that
26 generally conclude less than one year prior to the date of decision. State
27 statutes permit electric and gas utilities to utilize a "hybrid" test year

1 methodology consisting of historical test years with updates for known-
2 and-measurable adjustments up to 210 days beyond the filing date.

3

4 **15. Virginia State Corporation Commission**

5 The SCC has generally relied upon a year-end original cost rate base for a
6 historical test period, with materials and supplies valued on a 13-month
7 average basis. The Commission has also allowed adjustments to rate
8 base and cost of service components to reflect "known-and-measurable"
9 pro forma changes and annualized adjustments for future costs as the
10 Commission finds reasonably can be predicted to occur during the rate
11 year.

12

13 **16. Washington Utilities and Transport Commission**

14 The WUTC generally relies upon average original-cost rate base
15 valuations for historical test years that are adjusted for known-and-
16 measurable changes not offset by other factors. The WUTC has, at times,
17 adopted attrition adjustments.

18

19 **17. Wyoming Public Service Commission**

20 The Commission generally relies upon a year-end original-cost rate base
21 for a historical test period, updated to reflect known-and-measurable
22 changes.

23

24 As revealed above, the specific mechanism for incorporating annualization varies
25 across regulatory authorities. In some cases, annualization appears to be applicable
26 to only rate base cost elements, while in other cases annualization is applicable to
27 rate base and operating expenditure cost elements. Moreover, annualization can be

1 applicable to various measures of capital, including beginning and ending balances,
2 to 13-month average balances, and to year-end balances.¹ Moreover, annualization
3 is utilized within historical, forecast, and hybrid (historical/hybrid) test periods.
4 Annualization procedures are also used in Canada, though the context of regulatory
5 governance can be different, and also by the Federal Energy Regulatory
6 Commission.

7

8 We should add that the above list is constructed from secondary sources, and our
9 general experience and records. Items of the above list may not be absolutely
10 current to contemporary practices. Generally speaking, however, the trend across
11 the entirety of North American and the UK also, is to develop and apply regulatory
12 mechanisms that better account for current costs in current rates. Over recent
13 years, regulatory authorities have been implementing several methods including K
14 factors, cost trackers, multi-year rate plans, and phase-in plans, each geared to the
15 specific needs of the service provider and jurisdiction.

¹ Note that the mechanics for the annualization adjustment (known and measurable changes) is specific to the frequency with which capital is measured: The mechanics applicable to a 13-month average approach is different from an average of beginning and ending balances.