Volume 2: Cost of Capital: Expert Opinion of James Coyne- Capital Structure and Risk Profile

Q. For the US companies listed in JMC-13 a large number have historic test years. Can C&T provide their judgment as to whether historic test years are riskier than forward test years? Further, what is the typical frequency of review for firms on historic test years?

A. Exhibit JMC-13 shows that approximately 41% of the operating companies held by the U.S. Electric proxy group operate in jurisdictions that allow the use of a forecast test year, while 59% of the companies use a historic test year adjusted for known and measurable changes for a period of six to nine months after the end of the test period. Concentric agrees that the use of a forecast test year tends to reduce regulatory lag for utilities as compared to companies using a historic test year. However, the companies in the U.S. electric proxy group have other mechanisms in place to mitigate regulatory lag, including fuel cost adjustment clauses, revenue decoupling mechanisms, capital cost recovery mechanisms, and the ability to earn a cash return on construction work in progress. Utilities in the U.S., both those using forecast and historic test years, typically file rate cases every two to four years.