Q. Evidence of Kathleen McShane – Appendix "B": Ms. McShane refers to "Test Year" in her descriptions of her U.S. companies. One notes that her companies' subsidiaries are variously subject to "Partially Forecast", "Forecast", "Historic", and "Historic (adj. for known and measurable changes)". Please explain the difference between each type of test year. Please also indicate which type, if any, is "least risky" to the utility and which is "most risky" to the utility.

A. A historic test year uses normalized actual data as the basis for setting rates. A historic test year adjusted for known and measurable changes uses actual normalized data as the starting point, adjusted for changes that are reasonably certain to occur within a specified period subsequent to the end of the historical test year. A partially forecast test year uses a combination of forecast and historical data to establish new rates. A forecast test year uses forecasts of the various components of the revenue requirement, typically one fiscal year subsequent to the date of filing. All other things equal, a completely forecast test year would be the least risky, followed by a partially forecast, a historic test year adjusted for known and measurable changes and a historic test year. The differences, however, may not be material in terms of a utility's ability to earn its allowed rated of return, particularly if (1) inflation is relatively low; (2) there is customer and usage growth; (3) productivity gains are achievable; and/or (4) there are mechanisms in place such as decoupling or trackers for new investment.