Q. Evidence of Kathleen McShane – Appendix "B": Ms. McShane refers to "Deferral Mechanisms" in relation to her U.S. sample of companies. What is an "Infrastructure Cost Recovery Mechanism"? (as referenced for example at p. B-5 as being applicable to AGL's utilities in GA, NJ)

A. An "infrastructure cost recovery mechanism" permits a utility to adjust its rates and recover the costs of utility infrastructure investments incurred before the assets would be formally put in rate base, i.e. without a formal rate case. The rationale behind the mechanisms is that the investments are necessary to maintain system reliability and safety but are not captured by typical ratemaking mechanisms which permit recovery only when included in rate base. Thus, these mechanisms permit more timely cost recovery of "prudently incurred" investments and enhance the financial stability of the utility.

Various rate mechanisms permit recovery of costs in the time period in which they are incurred. These take the form of trackers, rate surcharges or rate stabilization tariffs. Deferral accounts are also utilized which delay the recovery of investments until a future period.

A tracker permits the utility's rates to fluctuate in response to changes in costs or conditions as they occur. A surcharge to rates, the most common cost recovery method, is a temporary adjustment to the bill which raises rates for a limited time by a fixed amount. Rate stabilization tariffs operate similar to trackers but utilize annual adjustments for infrastructure replacement costs. The deferral account method establishes a special account for the approved costs and permits recovery of the deferred amounts over time.