risk of loss to ratepayers to the extent losses on dispositions are deducted from the depreciation reserve of the asset removed from service. Conversely, “Under a strictly construed current-value theory of ratemaking, the fact that a company failed to recover its outlay in outmoded plant should not give even a shadow of a claim to a recovery of this outlay from future ratepayers.”[5] Clearly, not all forms of cost-of-service regulation impose the risk of loss on customers.

HISTORICAL ANALYSIS OF RISK OF LOSS AND BURDEN

Reason for Historical Analysis

Q. WHY IS A HISTORICAL ANALYSIS OF THE RISK OF LOSS AND BURDEN RELEVANT TO THIS PROCEEDING?

A. Under the test established in *Democratic Central Committee,* gain realized on assets employed in the utility's operations is to be allocated under a two-step test in which the regulator first asks, “which party bore the risk of loss on the assets?~~.~~” The party that bore the risk of loss is the party entitled to the capital gains on the assets. Only if it is difficult to determine who bore the risk of loss will the second principle come into play, namely, that those who bear the financial burden of particular utility activity should also reap the benefits resulting therefrom.

In order to help the Commission determine who—customers or investors—bore the risk of loss on the assets being sold and, in cases where it is difficult to make that determination, who bore the financial burden of the activities being sold, it is necessary to review the

[5] Principles of Public Utility Rates, Second Edition, Bonbright, Danielsen and Kamerschen, Public Utility Reports, Inc. 1988, p. 283.