

1    Q.    Describe how utilities deal with earnings volatility resulting from being billed  
2           on wholesale demand and energy rate structures.

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5    A.    Earnings volatility can result not only from being billed on a wholesale  
6           demand and energy rate structure, but also, and perhaps more significantly,  
7           from other factors, including year-to-year weather variations. Rate  
8           stabilization clauses, end-use rates that are reflective of the utility's cost  
9           structure and averaging of variations over several years will all tend to  
10          mitigate earnings gains and losses. Additionally, participants in the  
11          regulatory process generally possess the skills to develop rates that are  
12          reasonably reflective of conditions on a forward-looking basis.