

1 **Q. In reference to page 8 of the Financial Consultant's 2003 Report - 2001 Excess**
2 **Earnings - please explain the rationale for not using all of the 2001 excess earnings**
3 **to reduce the 2003 revenue requirement.**
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5 A. In dealing with the disposition of the 2001 excess earnings the Board may consider a
6 number of options including rebating this amount to customers and applying the amount
7 to reduce future revenue requirement. With regard to the option of reducing future
8 revenue requirement the Board may apply the balance in the 2003 test year or spread over
9 two years (2003-2004) as proposed by the Company. Applying the excess earnings over
10 two years may avoid an adjustment in rates for 2004 that could otherwise be required if
11 the full excess earnings were applied in the 2003 test year.
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13 Based on the 2004 forecast financial information filed by the Company, if the full amount
14 of 2001 excess earnings was applied to reduce the 2003 revenue requirement, then the
15 revenue from rates in 2004 would not be sufficient to cover the forecast revenue
16 requirement for the year. Under this scenario, assuming no other changes in the 2004
17 forecast, rates for 2004 would need to be increased to provide for the potential shortfall in
18 revenue from rates for that year. This may lead to fluctuations in electricity rates for
19 consumers over the short term.