EXHIBIT NO. _____ (SDW-1T)
DOCKET NO. UG-040640 & UE-040641
2004 PSE GENERAL RATE CASE
WITNESS: STEVEN D. WEISS

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.,** **Respondent.**	**Docket No. UG-040640** **Docket No. UE-040641**

PREFILED DIRECT TESTIMONY OF STEVEN D. WEISS ON BEHALF OF NW ENERGY COALITION

SEPTEMBER 23, 2004

NW ENERGY COALITION

PREFILED DIRECT TESTIMONY OF STEVEN D. WEISS

I. INTRODUCTION

Q. Please state your name, business address and position with the NW Energy Coalition.

A. My name is Steve Weiss. My business address is 4422 Oregon Trail Court, Salem, Oregon, 97305. I am a Senior Policy Associate with the NW Energy Coalition (Coalition).

Q. Please describe your education, professional experience and responsibilities at the Coalition.

A. I received a Masters in Science Education from Bucknell University in 1976 and a Bachelor of Arts in Physics and Math from the University of California at Berkeley in 1968. Previous professional experience includes employment as Assistant Professor (Educ.) at Clarion State College in Pennsylvania from 1975-79 and Director of Salem Electric (Co-op) from 1982-94. During that time, I developed inverted residential rates, approved by the Board, to encourage energy conservation. I also taught math and elementary statistics at Chemeketa Community College, Salem, Oregon during that period. I owned and operated a retail business from 1980-96.

I have been employed by the Coalition since 1994. I am a Senior Policy Associate and represent the Coalition in regulatory proceedings at the Bonneville Power Administration and in the State of Oregon. I am also an advocate for clean and affordable energy in many other forums including the NW Power Planning Council and the Oregon Legislature. I have participated in numerous Oregon and regional

policy forums and ratecases. I also co-authored Oregon's electricity restructuring law (SB1149). Recently, I was a member of the steering committee that developed the platform on which the Grid West proposal is based.

Q. Have you previously testified in regulatory proceedings?

A. I have been a witness in numerous Bonneville Power Administration ratecases and Oregon dockets, including Northwest Natural's filings regarding its Weather Adjusted Rate Mechanism (UG 152) and decoupling (UG 143), and Portland General Electric's decoupling filing (UE 126).

Q. Please summarize the contents of your testimony.

A. Puget Sound Energy (PSE) is proposing a number of changes in order to address its exposure to distribution system cost volatility and under-recovery. While these proposals may meet the Company's need, they have the consequence of significantly reducing its customers' incentive to implement energy conservation measures and may only lead to further rate increases. For example, PSE is seeking to shift common variable costs into a fixed service charge for residential electric and residential gas customers, a core constituency for the Coalition. This move goes against standard rate design practice for customer charges and reduces customers' ability and willingness to implement energy saving and bill reduction measures. PSE's proposals to modify its residential electric rate blocks and implement annual rate adjustments for gas and electric customers also provide disincentives to conserve energy and participate in energy efficiency programs. The Company's rate design proposals do not represent a preferred solution for addressing the issue of distribution system cost under-recovery.

Q. Are you sponsoring any exhibits?

A. Yes, I am sponsoring the following two exhibits in addition to my prefiled direct testimony:

Exhibit No. ___ (SDW-2): Letter from Paul Curl, Washington Utilities and Transportation Commission Secretary, to Julian Ajello, California Public Utility Commission, June 11, 1992.

Exhibit No. ___ (SDW-3): *Excerpt from* Weston, F., et al. *Charging for distribution utility services: Issues in rate design*, ps. 46-47. December 2000.

II. ELECTRIC RESIDENTIAL RATE DESIGN

Q. How is Puget Sound Energy proposing to modify its current rate design for residential customers?

A. PSE is proposing to (1) increase its fixed customer charge, (2) increase the lower block from 600 kWh to 800 kWh while reducing the rate differential between the blocks, and (3) implement an annual rate adjustment. Each of these changes has the effect of lowering the marginal price customers see for their energy use.

(1) Fixed Customer Charge

Q. How is Puget Sound Energy proposing to change its fixed customer charge?

A. Currently, residential electric customers (single phase Schedule 7) pay a monthly customer charge of $5.50. The Company is proposing to increase that charge to $6.50. This is an 18 percent increase in the fixed monthly charge residential electric customers see on their bill.

Q. Why is Puget Sound Energy proposing an increase in the fixed customer charge?

A. On pages 14-15 of his direct testimony (Exhibit No. ___ (JAH-1T)), Mr. Heidell

states that "the basic charge was derived from cost of service in the manner accepted by the Commission in UE-920499, except that one enhancement was made: part of the line transformer costs for residential and secondary general service are recovered in the basic charge." In particular, PSE allocated approximately 233,000 transformers to customer classes by type and size. He goes on to say that "the Company proposes to gradually move the transformer cost into the basic charge starting with moving approximately one-third of the cost in this rate case." (*id*, p. 15, lines 15-16). This proposed move to collect more revenues from fixed charges, rather than volumetric sales, would reduce but not eliminate revenue volatility and the risk of under- or over-recovery. Increasing the fixed portion of a customer's bill reduces revenue fluctuations by providing modest guaranteed minimum revenue regardless of weather, energy efficiency improvements and economic conditions.

Q. Is reducing revenue volatility and the risk of under- or over-recovery good for both the Company and ratepayers?

A. Yes. Increased revenue risk tends to raise the cost of capital, which is ultimately paid by customers. And avoiding over-recovery during cold snaps, for example, has benefits for customers on tight budgets. However, PSE's proposals are a poor way of doing this. First, they do not eliminate this risk, only reduce it somewhat as the fixed charge would have to increase much more substantially to have a significant impact on revenue volatility. But more important, they significantly reduce the customer's marginal price signal for lessening (or increasing) usage, thus making it much less likely that customers will undertake behavioral changes or investments to reduce consumption. Finally, there are much better ways to solve this problem (collectively

called "decoupling," which can be effectively combined with progressive line extension policies) that do not have these drawbacks.

Q. How much of the proposed increase in the fixed charge is due to inclusion of transformers?

A. The vast majority of the increase is due to inclusion of 35% of the cost of transformers. Excluding transformers, the fixed customer charge calculated by PSE would be $5.54. (Exhibit No. ___ (JAH-4), at 30; Exhibit No. ___ (JAH-12), at 30). According to PSE witness Paulson, if the Company allocated all of the transformer costs due to the residential class into the basic monthly charge the result would be $8.29. (Exhibit No. ___ (CEP-8), at 20, line 46).

Q. Is increasing the fixed customer charge the best approach for reducing revenue fluctuations?

A. No. As I stated earlier, this proposal only partly solves the problem, and in addition has the significant side effect of reducing customers' incentives to conserve. PSE could take a more comprehensive approach to address the need for more certainty in revenue collection without significantly increasing the customer charge. Some jurisdictions have used forms of "decoupling" (*i.e.,* the separation of revenues from volumetric sales) to address this issue. Under decoupling, true-ups are used to provide the Company with its approved revenue requirement, even when consumption shifts due to weather, energy efficiency improvements and economic conditions. True-ups are designed to restore to the utility or give back to customers the dollars that are under- or over-recovered as a result of throughput fluctuations. Decoupling protects both the utility and its customers from under- or over-collection of approved

revenues, and thus reduces the utility's risk. Decoupling also reduces a utility's disincentive to operate and promote energy efficiency programs, which occurs under current rate treatment where every additional unsold kilowatt-hour reduces the utility's fixed cost recovery and undercuts shareholder welfare. Decoupling represents a win-win solution for both customers and shareholders, and would address Mr. Heidell's assertion that "in the case of PSE, the Company has experienced, and is forecasted to continue to experience, a long-term trend in declining usage per customer in both gas and electric consumption" with the end-result that "reduction in load creates a compounding under-recovery of delivery costs until the next rate case." (Exhibit No. ___ (JAH-1T), at 3, lines 10-14). PSE's inefficient proposal to deal with its legitimate concerns regarding revenue risk should be rejected, given that there is a better solution (decoupling) that does not have such serious drawbacks.

Another approach that should be examined is a potential revision of the Company's line extension policy. It is likely that the long-term decline in per-customer usage is completely or partially due to the fact that new customers (in new, energy efficient homes) use less energy than existing customers, on average. The Company's line extension policy is meant to recover fixed costs to adjust for this trend. If that policy is resulting in deficient revenues to cover new customers' share of the new fixed costs, existing customers should not have to suffer rate increases to pay for those.

Q. Has PSE proposed a decoupling mechanism or adjustment of its line extension policy in this case?

A. No. PSE considered decoupling to address its downward trend in per customer consumption on the electric side and its under recovery of nonvariable costs for its

gas system, but did not propose decoupling in this case. (Exhibit No. ___ (JAH-1T), at 21, lines 1-6 and at 27, lines 17-20). Neither did it examine or propose any change in its line extension policy.

Q. What should be included in a residential customer's fixed charge?

A. Meters, line drops, meter reading and billing are the only costs that are customer-specific costs that do not vary with energy usage or demand. When developing the cost allocation methodology used in customer class rate spread analysis, some of the costs of poles, wires and transformers may be applied to the customer *class*. However, when establishing rate design, it is inappropriate to allocate common, non-assignable costs to the fixed customer *charge*. For example, if I subdivide my house, but total usage does not change, the additional cost to the utility would include a new meter, meter reading services and a new billing account, but no additional poles or wires, transformers or power plants. On the other hand, if I don't subdivide my house, but my power usage increases, I don't have higher meter or billing costs, but I may need more, or higher, capacity transformers and power plants. Costs related to distribution and other infrastructure may be appropriate costs to serve the residential class, but they do not belong in the fixed customer charge, as they are not associated with specific customers. They are, in the long run, demand and usage related.

Q. What has been the policy of the Washington Utilities and Transportation Commission regarding fixed customer charges?

A. In 1992, the Washington Utilities and Transportation Commission sent a letter to the National Association of Regulatory Utility Commissioners stating, "the only costs which should be considered customer-related are the costs of meters, services, meter

reading and billing. Our staff believes that is the most common approach taken by Commissions around the country" (emphasis in original). (Exhibit No. ___ (SDW-2), at 2). Similarly, in its Ninth Supplemental Order on Rate Design Issues in Docket No. UE-920499 (at 11), the Commission recognized as a reasonable approach the classification of distribution costs using the Basic Customer Method, "which treats substations, poles, towers, fixtures, conduit and transformers as demand-related. Service drops and meters are classified as customer-related." The Commission accepted the proposed customer charge in that case because it "[attempted] to recover only those charges properly associated with each customer." (*id*, at 14).

Q. In his direct testimony (Exhibit No. ___ (JAH-1T), at 18, lines 6-9), PSE witness Heidell suggests "including the cost of the transformer is consistent with this principle because a transformer is installed specifically to serve a particular customer. Once installed, the transformer represents a fixed cost of providing service to the customer." Do you agree?

A. No. The number and size of transformers is directly related to forecasted usage. In fact, if we take Mr. Heidell's argument to its logical conclusion, it could be argued that even the fixed costs of power plants should be in the customer charge, since once built, the cost does not vary with usage. This is inappropriate, of course, because the size of that plant was determined based on a forecast of usage. Generation costs (both fixed and variable) vary with usage and have never been paid for through the customer charge. Transformers should not be treated differently.

Q. Why should distribution facility charges such as transformers generally be excluded from the fixed customer charge?

A. These costs are joint costs that cannot be specifically allocated to the customer paying the bill. The costs are real for the residential class but they are costs more associated with demand, distance and density—not an individual customer. Distribution system costs, such as transformers and substations, are driven by throughput and vary over the long-run depending on energy use. For example, transformer upgrades and sizing are usually driven by power supply costs and the need to reduce losses. These types of costs reflect area-wide conditions and cannot be attributed to an individual customer. Poles, wires and transformer costs may be fixed in the short-term but ultimately they are sized for long-term demand.

Q. PSE is proposing to recover only a portion of the cost of the transformer in the fixed charge, recognizing that customer density and load influence the need for transformers. What is your response?

A. A residential customer ultimately controls the size of its household's load, as limited by the household's basic need for essential services. That customer cannot influence customer density, load of neighboring households, or population growth, all of which are key variables influencing the need for transformers. Plus, as referenced earlier, Mr. Heidell indicates that PSE's proposal in this rate case represents only the first step toward moving the cost of transformers more fully into the fixed charge.

Q. Are you proposing a hard rule that the total costs of meters, line drops, meter reading and billing should represent the fixed charge?

A. No. In my opinion, the sum of these costs represents the absolute maximum amount

of a fixed charge. However, other factors, including the need to create appropriate incentives to guide energy usage, instruct that fixed customer charges should be less than the sum of those listed costs. When considering the question of whether customer charges should be increased and usage charges decreased, Frederick Weston, with the Regulatory Assistance Project, concluded: "for the most part, the answer is no, and even suggests that it may be appropriate in certain cases to reduce customer charges." (Exhibit No. ___ (SDW-3), at 2).

Q. Does moving a greater proportion of cost recovery into a fixed customer charge have adverse impacts?

A. Yes. The marginal cost of the next increment of peak demand and baseload energy is clearly more than the average system cost. Putting common costs into the energy charge gives a price signal to customers that reflects this reality. The Company's proposal reduces that price signal to customers, thereby reducing the incentive to increase energy efficiency and conserve energy. A high fixed portion of the bill gives the customer less control over his or her bill. Customers become less motivated to reduce consumption and improve efficiency, therefore efficiency investments become more expensive as opportunities for increasing efficiency are lost. A high customer charge conflicts with the Company's demand-side management programs that invest in energy efficiency measures in customer homes and businesses. Over the past two years, the Company has changed its corporate focus to emphasize energy efficiency as a resource for meeting customer needs. The Conservation Resources Advisory Group has worked closely with the Company to help design effective program offerings for customers. The Company is marketing and financing its energy

efficiency programs to encourage customers to participate. Yet, the increase in the fixed charge makes the jobs of the energy efficiency staff that much harder, as customers see less reward for participating in the Company's programs.

Q. Has a Commission in a neighboring state recently issued an order affirming these rate design principles?

A. Yes. On May 25, 2004, the Idaho Public Utilities Commission issued Order 29505 regarding Idaho Power Company's rate case (IPC-E-03-13). The Coalition was one of several intervenors in that case. The relevant part of the Order (at 53) reads:

> The Commission finds that a monthly service charge should recover costs that are directly attributed to the customer paying the charge. Typically, those charges are related to meter reading and customer billing. For residential customers, the cost of service study indicates meter reading and billing costs are approximately $4.20 per month. Tr. at 1690. The Commission finds, however, that increasing the residential service charge to this level is not appropriate. We agree with the concerns expressed by the witnesses about the affects of a relatively high monthly service charge. In particular, fixed monthly charges dampen the incentive for customers to conserve energy.

Idaho Power Company had proposed an increase in the monthly service charge from $2.51 to $10, and the Commission ultimately approved an increase to $3.30, finding further that "a service charge of that amount provides a reasonable balance between recovering specific customer service costs in a fixed fee while preserving the ability to provide price signals for conservation purposes." (*id*, at 53).

Q. How do you respond to Mr. Heidell's assertion (Exhibit No. ___ (JAH-1T), at 4, lines 13-16) that "there continue to be intra-class parity issues due to the historical practice of recovering nonvariable costs through volumetric charges. This results in low energy use customers within a rate class often being subsidized by the larger volume users."

A. I do not consider this to be a subsidy. Larger volume users should pay more because they have more opportunity in most cases to reduce their consumption than lower volume users. In addition, analysis of the cost-effectiveness of different conservation measures shows that heating load is much more expensive to serve than non-heating load because of its "peakiness." Larger volume users tend to be electric heating customers and they should receive an appropriate price signal to reduce their energy consumption. This also underlies the philosophy behind inverted block rates. More to the point, however, I do not believe the Company's proposals are a response to a perceived equity issue within this class. Instead, they are in response to the real but different problem of revenue volatility and under-recovery risk. In a sense, PSE is attempting to use the wrong tool -- shifting recovery from volumetric to fixed costs -- to solve its real problem. Inevitably, not using the correct tool results in unintended consequences. The right tools are decoupling, accompanied, if appropriate, by an adjustment in line extension charges, which address the issue without damaging conservation incentives.

Q. Are you familiar with the current standard residential customer charges of some of the other investor-owned utilities operating in the Pacific Northwest?

A. Yes.

Avista (Washington): $5.00

Avista (Idaho): $4.00

Idaho Power: $3.30

Pacific Power (Washington): $4.50

Pacific Power (Oregon): $7.00

Portland General Electric: $10.00[1]

(2) Increase First Rate Block and Reduce Differential

Q. PSE is proposing to modify its first block from 600 kWh to 800 kWh, and decrease the rate differential between the blocks. Do you have any concerns with this approach?

A. Yes. Similar to my concerns with increasing the fixed customer charge, I believe that increasing the size of the first block and reducing the rate differential between the blocks acts as a disincentive for conservation. In its Ninth Supplemental Order on Rate Design Issues in Docket No. UE-920499 (at 15), the Commission expressed its opinion that part of the basis for determining where the first block should end and second should begin is "to reflect the actual cost of new resources in the end block so customers can make economically efficient decisions at the margin." An appropriate price signal is critical to customers' willingness to conserve and participate in utility energy efficiency programs. In his direct testimony (Exhibit No. ___ (JAH-1T), at 19-20), Mr. Heidell reiterates PSE's concern regarding distribution system cost under recovery as a key rationale for pursuing this rate design change. Again, I believe that decoupling is a preferred method to address this concern.

Q. What is the effect on lower usage customers of PSE's proposal to reblock and reduce the rate differential between the blocks?

A. This proposal would result in a 12-16 percent bill increase for use of the first 800 kWhs versus a 6-8 percent bill increase for use greater than 800 kWh. (Exhibit No.

[1] In Oregon Public Utilities Commission Order UE 155, pages 21-22, August, 2001, the Commission agreed to the $10 customer charge in order to prevent a rate decrease for small use customers when all other customers were facing a rate increase. PGE originally proposed a $7.00 customer charge for line drop, meters, meter reading and billing. The customer charge was increased to $10.00 to compensate for a tiered rate structure adopted by the Commission, which reduced the overall rate increase originally sought by PGE.

___ (JAH-6), at 1). In comparison, implementing an equal percent rate increase without reblocking yields a more proportionate change of 9-11 percent across all consumption levels. (*id*, at 2). Again, rewarding higher usage with a lower bill is not consistent with conservation principles.

(3) Annual Rate Adjustments

Q. What do you think of PSE's proposed annual rate adjustment for residential customers?

A. PSE proposes increasing the residential rate by 1.5 percent times the portion of the bundled rate determined to be transmission and distribution based on its cost of service study, with a maximum of three annual rate increases, in order to offset its 1.5 percent forecasted annual reduction in residential usage. (Exhibit No. ___ (JAH-1T), at 22, lines 2-6). In a sense, this is a form of "stealth decoupling." It is like real decoupling in that it attempts to adjust rates to avoid under-recovery from reduced usage. However, unlike real decoupling it: (1) is asymmetrical, not adjusting for over-recovery if loads increase due to weather or other factors; and, (2) arbitrary, because it is based on a forecast of change in usage rather than actual change. Again, I believe this is not a preferred solution to the risk PSE faces from under-recovery of fixed costs. As discussed earlier in my testimony, a robust and real decoupling mechanism (such as that adopted by NW Natural in Oregon) is a better solution than increasing the fixed customer charge, reducing the block differential, and implementing the proposed annual rate adjustments.

Q. What are your recommendations regarding PSE's residential electric rate design?

A. Based on the above testimony, I recommend the following:

(1) Maintain the current fixed customer charge at $5.50 per month, and apply any rate increase to the energy charge;

(2) Maintain the current block levels, divided at 600 kWh/month, as PSE has not provided a strong rationale for modifying these, and apply any rate increase uniformly across the blocks;

(3) Do not implement the proposed annual rate adjustments; and

(4) Return to the Commission with a proposal for a robust, real decoupling mechanism combined, perhaps, with a revision of the line extension policy, to reduce revenue volatility and the risk of under- and over-recovery.

III. GAS RESIDENTIAL RATE DESIGN

Q. What is PSE proposing for residential gas customers? Why?

A. For residential Schedule 23, PSE proposes increasing the basic charge from $5.50 to $6.50 and implementing a facilities charge of $7.50/month (Exhibit No. ___ (JAH-1T, at 28, lines 16-17), which in part will recover costs associated with service lines (*id*, at 26, lines 6-8). The Company proposes moving approximately 48 percent of its "fixed delivery costs" from volumetric rates to fixed customer charges. (*id*, at 29, lines 8-10). The utility's proposal is intended to address declining usage per customer and variation in recovery due to temperature's effects on usage. (*id*, at 27, lines 11-16). This proposal is partially offset by a proposed reduction in the margin rate. (Exhibit No. ___ (JAH-10), at 1).

Q. How significant is the proposed increase in fixed customer charges?

A. The Company's proposal represents a dramatic 155 percent increase in the fixed amount a customer must pay each month, from $5.50 to $14 per month. The overall rate shock associated with the requested rate increase will be further exacerbated by the fact that customers can't do anything to reduce the service charge portion of their bill. If instead these costs are retained in the delivery charge, then customers have the ability to reduce consumption through improved efficiency and reduce their overall bill.

Q. Should service lines be included in a residential customer's fixed charge?

A. No. As discussed earlier in my testimony regarding PSE's proposal to include transformer costs in the fixed electric customer charge, a facilities charge for gas customers will serve to disincent conservation. Like transformers, the costs of service lines are joint costs that cannot be specifically allocated to the customer paying the bill. Facilities costs, such as service lines, are driven by throughput and vary over the long-run depending on energy use.

Q. PSE witness Heidell (Exhibit No. ___ (JAH-1T), at 28, lines 10-14) argues that implementation of a facility charge provides bill stability benefits for customers and reduces seasonal rate shock. Do you agree?

A. While most residential customers value bill stability, Mr. Heidell's assertion fails to take into account the downside of a customer's reduced ability to control his monthly bill through energy efficiency measures. Increasing the residential customer fixed charge by 155 percent penalizes low-volume users while rewarding high volume users. Under the Company's proposal, customers using up to 150 therms per month

will see an overall bill increase of 1-13 percent, while those using 200 therms per month or more will see an overall bill decrease of 1-5 percent. In comparison, not implementing the facilities charge affects all users equitably with a 7-8 percent bill increase, and continues to provide an appropriate price signal for conservation. (Exhibit No. ___ (JAH-10), at 1-2).

Further, implementation of high monthly fixed charges could have the unintended consequence of encouraging dual-fuel customers to turn off their gas during the summer and reconnect in the winter, essentially selecting whichever option is cheapest overall. This type of perverse incentive benefits neither the customer nor the Company. As stated above regarding PSE's electricity rate proposals, moving from volumetric to fixed charges is the wrong way to approach this problem.

Q. Are you familiar with the current standard residential customer charges of the other investor-owned gas utilities operating in the Pacific Northwest?

A. Yes.

Avista (ID): $3.28

Avista (OR): $5

Avista (WA): $5

Cascade Natural (OR): $3

Cascade Natural (WA): $4

Northwest Natural (OR): $6

Northwest Natural (WA): $5

Q. What do you think of PSE's proposed annual rate adjustment for residential customers?

A. PSE proposes an increasing annual rate adjustment for a period of three years to address its forecasted decline in annual consumption per customer. (Exhibit No. ___ (JAH-1T), at 29, lines 14-17; Exhibit No. ___ (JAH-7), at 1). As discussed earlier in my testimony, I believe this is not a preferred solution to the risk PSE faces from under-recovery of fixed costs. A robust decoupling mechanism combined with re-examination of the line extension policy is a better solution than increasing the fixed customer charges and implementing the proposed annual rate adjustments.

Q. What are your recommendations regarding PSE's residential gas rate design?

A. Based on the above testimony, I recommend the following:

(1) Maintain the current fixed customer charge at $5.50 per month, do not implement a facilities charge, and apply any rate increase to the margin charge;

(2) Do not implement the proposed annual rate adjustments; and

(3) Return to the Commission with a proposal for a robust, real decoupling mechanism, combined, if appropriate, with an adjustment in the line extension policy, to reduce revenue volatility and the risk of under- and over-recovery.

IV. CONCLUSION

Q. Please summarize the main points of your testimony.

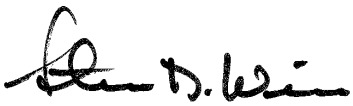
A. We would make a bad situation worse by reducing customers' rewards for conserving electricity and gas, which is precisely what will happen if the utility shifts costs from volumetric to fixed charges, reduces the differential between the first and tail blocks for residential electric customers, and implements the proposed annual rate

adjustments. The ability of customers to reduce or alter energy consumption should be viewed as an important element of a utility's resource portfolio, and volumetric charges combined with appropriate price signals help ensure that customers remain motivated to participate fully in that role. We are not arguing, however, that the Company does not have a real problem. Reducing revenue volatility and the risk of over- and under-recovery would be beneficial for both customers and shareholders. We would welcome the opportunity to work with all parties on a decoupling mechanism and a re-examination of the line extension policy that could better address this issue without hurting customers' incentive to conserve.

Q. Does this conclude your testimony?

A. Yes.

Dated this 22nd day of September 2004,



_____ Steve Weiss