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PUBLIC COMMENTS OF
OF
AARP UTAH

Docket No. 09-035-15

In the Matter of the Application of Rocky Mountain Power for Approval of its Proposed Energy Cost Adjustment Mechanism

January 12, 2010

AARP submits the following comments regarding Rocky Mountain Power's (RMP) proposed Energy Cost Adjustment Mechanism (ECAM). AARP is the nation's largest membership organization representing the interests of Americans aged 50 and older and is concerned about the health, safety and financial security of older Americans. There are approximately 220,000 AARP members in Utah, many of whom are customers of RMP.

Electricity service is crucial to health and personal welfare, especially for older consumers: the ability to have air conditioning during the summer and heat during the winter at affordable rates is absolutely necessary. The ECAM proposed by RMP will impact rates and AARP is concerned that if an ECAM is adopted RMP would not have the correct incentives to be efficient and keep its costs as low as reasonable.

RMP is proposing an ECAM that would significantly change the way in which the company collects—and consumers pay for—net power costs. The purpose of the first phase of this docket is to determine whether an ECAM as proposed by RMP is in the public interest. AARP agrees with the testimony submitted by the Office of Consumer Services and the Salt Lake City Community Action Program that ECAM should not be adopted.

A cost adjustment mechanism such as ECAM reduces a utility's incentives to be efficient. "Regulatory lag" in cost of service regulation has long been recognized as a process that provides the incentives that competition provides in other industries. The more costs are removed from recovery in a rate case, the less incentive for the utility to be efficient. Mechanisms such as ECAM can also skew the choices the regulated company must make by rearranging its economic incentives. Utility planning must consider choices about short-term and long-term decisions about fuel and power purchases, whether to construct a new plant, the role of demand side management, etc. The ECAM may create a preference for some choices over others and it may induce the utility to make choices that are to the detriment of customers. Finally, an ECAM would shift the balance of risk between utilities and their customers that is embodied in cost of service regulation.

As described in a recent publication by the National Regulatory Research Institute ("NRRI") mechanisms such as ECAM put ratepayers at risk of higher rates:

> "Just and reasonable" rates require that customers do not pay for costs the utility could have avoided with efficient or prudent management. Regulation attempts to protect customers from excessive utility costs by scrutinizing a utility's costs in a rate case, conducting a retrospective review of costs, apply performance-based incentives, and institution regulatory lag. Cost trackers diminish one or more of these regulatory

> activities. In some instance, they diminish all of them. The consequence is the increased likelihood that customers will pay for excessive utility costs.[1]

For the reasons stated above, AARP recommends the Commission not adopt an ECAM.

[1] Costello, Ken. *How Should Regulators View Cost Trackers?* National Regulatory Research Institute. September, 2009. Publication 09-13