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Lee Huffman  
Hearing Examiner  
New Mexico Public Regulation Commission  
PERA Building  
1120 Paseo de Peralta  
P.O. Box 1269  
Santa Fe, NM 87504-1269

c.c: Andrew Chavez  
Taos County Commissioner

Luis Reyes  
CEO, Kit Carson Electric Co-op (KCEC)

Re: Case No. 10-00379-UT

Mr. Huffman:

Unfortunately, I will be away from New Mexico most of April and May, and will not be able to participate in your Hearing in person. However, as a member of the original group filing a protest against the KCEC rate proposal, I would like to offer my comments with this letter.

My protest centered on two concerns:

- 1) The proposed rates distribute the revenue increase unfairly, increasing the bills for households using very little electricity by 70% or more, and actually decreasing the bills for household using 750 kWhrs per month or more.
- 2) The proposed rates provide little or no incentive for households to conserve electricity. In fact, as the above paragraph suggests, they may actually prove to be a disincentive for conservation.

Excessive fixed charge

Both of the issues just described result from a proposed doubling of the fixed charge for each account from \$10.00 to \$20.50. According to CEO Reyes, this is intended to provide a more equitable distribution of the capital recovery charges. This is erroneous for two reasons:

- 1) At the proposed rate the fixed charge would constitute a full one-third of the revenue from residential accounts. While the 2009 Annual Report does not break out expenses by account type, the capital charges for KCEC overall (depreciation and interest) account for just about one-sixth of total operating cost. In other words, the proposed rates over-collect capital recovery by a factor of two; the current \$10.00 charge is closer to reality.
- 2) It is virtually impossible to bill each customer "equitably" if that is meant to suggest that each customer is to be charged the cost of supporting that customer individually. I live in an 18-unit condominium less than a mile from the KCEC headquarters. Reading my meter each month requires just a short drive from the KCEC offices, where 18 meters are read in a single stop. Should my bill then be less than a single residence located somewhere in Costilla or Tres Piedras? Perhaps it should, but obviously it isn't. Again, charging each customer individually is not realistic.

#### Establishing the goals for the rating structure

The overriding error in the KCEC proposal is the assumption that the primary purpose of the rate structure is to charge each customer "equitably." The more important goal, as utilities around the country and around the world have recognized, is to maximize the contribution to the community welfare overall! This can best be accomplished by encouraging conservation, reducing the total cost of the system while reducing the need to burn fossil fuels that contribute to global warming.

The rate structure does this by charging customers who use larger amounts of electricity more per kWhr, and charging more conservative customers less, a system called "inclining block rates." I had proposed such a system to CEO Reyes; that is described in Attachment A.

Principal characteristics of this proposal are:

- 1) The median block of customers (an equal number of customers using less or more electricity) would be charged the average rate per kWhr (total revenue divided by total kWhr used).
- 2) Customers using less or more than the median block would be charged less or more than the average, with the per kWhr charge weighted as an exponential function of the ratio of each blocks usage to the median block.
- 3) The fixed capital recovery charge would be eliminated. Instead, a minimum charge, I have suggested \$10 per month, would be assessed all customers whose direct electricity charge was less than that minimum. In my proposal, customers using less than 100 kWhrs per month, about 3,100 accounts, would pay just the minimum.
- 4) The charge per kWhr would range from about 7 cents for a very light user to about 17 cents for the largest users. Perhaps more to the point, small users would see a reduction in their bills by as much as 50%, while the largest users would see an increase in their bills of a similar magnitude. As can be seen in the chart in Exhibit B, this result is consistent with precedent set in other systems now implemented.

## Conclusion

In short, the proposal offered by KCEC, even as revised, provides inequitable distribution of the increased revenue, and grossly inadequate incentive for conservation. It has been estimated that structures such as that I have proposed can lead to a reduction in total energy consumption by as much as 20%. That result is impossible so long as KCEC remains committed to a doubling of the fixed, capital recovery charge.

The model I used to prepare my proposal is available on my website, *www.taosplans.org*. Anyone is welcome to download this model (developed as an Excel spreadsheet) and test other options as well. I would be happy to assist anyone interested in understanding and using this model.

Thank you for considering these comments.

John Plummer  
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