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Electric utility wants to change way it bills customers: Critics challenge Rocky Mountain Power's assertion that plan would be good for consumers.

Fri. December 11, 2009; Posted: 01:34 AM

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The [power company](#) says its proposed plan will help lower costs and allow Utahns to better track their electricity usage and respond to changing prices.

But critics such as consumers advocates, environmentalists and even big industrial users of electricity argue that the plan will force customers -- not Rocky Mountain Power -- to bear the risk of fluctuating energy prices.

"Since we no longer will have to file so many general rate cases, this will help us reduce our costs and keep prices low for our customers," said Dave Eskelsen, a Rocky Mountain Power spokesman.

The company's proposal centers around what is known as an "energy cost adjustment mechanism,"

or ECAM, for short.

It is an [account](#) the utility wants to set up to keep track of the difference between what Utahns pay for their power every month and what it costs the company for the fuel it needs to run its plants and any electricity it must to buy on the open market to meet demand.

Then, it wants to once a year be able to adjust its customer's monthly bills to recover those costs. Sometimes customers bills would go up after fuel and the cost of buying power on the open market rose, but they would be adjusted downward if those costs had fallen in the previous 12 months.

Rocky Mountain Power's proposed ECAM would operate similar to the account Questar Gas uses

to adjust the amount it charges customers for the natural gas it supplies -- typically twice a year.

As things now stand, Rocky Mountain Power must wait to recover those fuel and power-purchase expenses until it files a rate case with the state's Public Service Commission. But that often means the company has tens of millions off dollars tied up while it waits for state regulators to rule whether it is entitled to be reimbursed in its rates.

Critics, though, argue there is much more at stake than merely allowing the power company to more quickly recover its costs.

An ECAM could change the way the company does business and may make it more expensive for its customers in the long run, said Michele Beck, director of the Utah Office of Consumer Services, which oversees the state's Committee of Consumer Services.

"They (Rocky Mountain Power) really haven't demonstrated a need for such a mechanism," Beck said. "And we have concerns that it may change the incentives now in place that encourage the company to keep its costs down."

Under the current system, if Rocky Mountain Power is able to reduce its costs either through more efficient operations or through effective fuel-hedging practices, it gets to keep and use the money it saves until the next rate case.

An ECAM would take away that incentive, Beck said. Counters the utility's Eskelsen, "Our answer to that is right now the company spends money directly to serve customers and has to wait 18 to 24 months to recover it through a general rate case."

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He said that time lag represents a tremendous disincentive for Rocky Mountain power to make those investments. It also impacts the company's cost of [financing](#) those investments and expenditures.

But Beck argues that in making it easier for the company to recover the cost of the energy it purchases on the open market, an ECAM could be a disincentive for the utility to construct its own generating facilities.

Because the capital cost of those projects could be tied up for a long time until another rate case is filed and decided, it may be easier for the company to just buy the power it needs on the open market and get a quick recovery of those costs.

"We've been concerned for quite awhile that the company already is relying too heavily on open-market purchases of electricity," Beck said.

Others also have concerns.

Gary Dodge is a Salt Lake attorney who represents the Utah Association of Energy Users, a group of large industrial utility customers. He contends that Rocky Mountain Power already uses hedging to protect itself from fluctuating fuel and energy prices.

Hedging is a technique employed by [traders](#) to minimize the risk of losses by locking in a long-term price for products, which in Rocky Mountain's case would be coal and natural gas. This is achieved by taking equal and opposite positions in cash and in the [futures market](#).

"They can and do use hedging to protect themselves," Dodge said. "So they are not any significant risk if they don't have an ECAM in place."

Dodge pointed out that prior to 1990 a predecessor company to Rocky Mountain Power -- Utah Power & Light -- had an adjustment mechanism similar to ECAM in place and asked state regulators for permission to end the practice because it wasn't in the public interest.

At that time, UP&L President Verl R. Topham testified that because the account placed the risk of fluctuating power costs on the customer, the utility instead was willing to bear that responsibility.

"The company is willing to accept this risk because we believe the risk is manageable," Topham testified.

Dodge said the company's request was granted, and "in retrospect it was a good move. The early 1990s was the start of a long-term downward trend in power prices. And that is another reason why we oppose the ECAM. When prices were declining, the customers didn't get the full benefit. It just isn't fair to have one now when (long-term) energy prices are rising."

Beck at the Office of Consumer Protection expressed much the same sentiment.

"The company has not explained why its philosophy has changed such that it now believes the risk should be borne by customers who have no input on management's business decisions," she said.

Rocky Mountain Power's Eskelsen counters that the power company's decision to end its account in 1990 was "19 years and two owners ago" and was taken amid a "vastly different industry and economic environment."

The company in 1990 was part of Oregon-based PacifiCorp. Today it is owned by billionaire Warren Buffett's MidAmerican Energy Holdings Co.

"In the 1990s many in the utility industry, and also those in the regulatory [community](#), assumed that the industry was about to undergo substantial change and move to a deregulated, market competition system," Eskelsen said. "That didn't happen."

Nancy Kelly, a senior policy adviser for Western Resource Advocates, also is among those concerned about the "incentives and disincentives" an ECAM might have on utility decisions when it comes to securing generating capacity.

She argues that an ECAM would provide an incentive for the company to secure "fossil-fuel resources," while creating disincentives to acquire and develop renewable resources, such as wind and solar power.

She reasons that an ECAM would make it easier for the company to recover its fuel costs. Renewable resources, however, have little or no fuel costs but they require a lot of money to develop. Those [capital investments](#) would then have to be recaptured by the utility through a general rate case, where recovery would be less certain.

But Karl A. McDermott, a professor of business and government at the University of Illinois at Springfield, told state regulators in written testimony submitted on behalf of the utility that Rocky Mountain Power, from a [profit](#) perspective, will be no better off running a coal plant as opposed to a wind farm.

"While some may feel the utility should build more wind or solar (or coal for that matter), denying the utility cost of recovery for prudently incurred costs is not the proper public policy to promote any generation resource over another," he said.

In the six states where Rocky Mountain Power and sister company Pacific Power operate, four have ECAM in place. Also McDermott pointed out that in all the states that regulate [investor](#)-owned utilities, 35 have some type of fuel-adjustment-charge mechanism in place, with Utah the lone jurisdiction in the country that does not have an ECAM.


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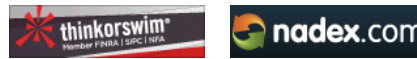
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