

KAMLET  SHEPHERD  
ATTORNEYS AT LAW

March 10, 2009

Raymond L. Gifford  
(303) 572-5657

Madam Chairman and Members of the Committee:

I write to urge your support for Senate Bill 39, which authorizes inclining block rates for rural electric associations in Colorado. While not mandating such rates, this bill gives REAs the freedom to consider this potentially innovative rate design.

Why is inverse block rate design innovative and beneficial? Because it has the potential to better match the actual cost to serve a customer with the actual cost they cause to an electric system. By matching cost causation with cost paid, conservation and efficiency are encouraged. These twin goals of conservation and efficiency in turn unite environmental values with those of the price system and free market.

The key to energy conservation and efficiency is giving more accurate price signals to consumers of the marginal cost of their energy usage. While inclining block rates fall short of the efficiency of time-of-use or real time prices, they can – if properly designed – better match consumers' usage to actual cost. At the very least, it is a step up from the traditional 'average cost' rate design most utilities necessarily use.

Of course, inclining block rate design can be done well or poorly. Nevertheless, inclining block rates should be part of the REA toolkit as it decides how to recover its costs. Accordingly, giving REAs the option of exploring inclining block rates is good public policy.

By way of full disclosure, I served as Chairman of the Colorado Public Utilities Commission from 1999-2003, and have practiced in the utility regulation arena since 1996. I am not representing any party with this letter, but rather was asked by representatives of Holy Cross Energy what I thought of this idea. I support it, so I offer this letter in explanation. My apology for not being able to join you in person, but I teach a class Tuesday afternoons about – of all things – the law and economics utility regulation.

Sincerely,



---

Raymond L. Gifford  
on behalf of  
**KAMLET SHEPHERD & REICHERT, LLP**