

## **El Paso Electric's Uber Rip Off**

Fresh off the denial of almost all last year's proposed New Mexico rate increase, and the dramatic trimming of last year's proposed Texas rate increase, El Paso Electric is preparing more rate increases for this year. This time the company says additional revenue is needed to cover the cost of operating two new gas fired "peak power" generating facilities that recently went into service.

The fallacy behind the upcoming increase proposal can be illustrated by a brief tale of two Uber drivers. We'll call them Uber Smart and Uber Dumb. Both Uber Smart and Uber Dumb find they need a second car for two days a year while their primary car is in the shop for maintenance.

Uber Smart decides the best way to fill the need is to rent a car for two days at a total cost of \$150 annually.

Uber Dumb solves the problem by buying a second car for \$30,000. After depreciation of \$5,000, financing expense of \$2,000, and insurance and registration fees of \$1,000, his cost is \$8,000 annually.

El Paso Electric recently faced a situation almost identical to our Uber drivers. It needed additional power for about 50 peak usage hours per year, the equivalent of two days. The company had options. It could adopt proven pricing and efficiency programs to reduce power consumption during peak demand hours at a cost of \$1-2 million per year. Or, it could enter guaranteed contracts to purchase the power from plants owned by other companies for a few million dollars more. Or, it could build two new power plants for about \$160 million. The depreciation, financing, tax and insurance costs of owning the plants is about \$16 million per year.

El Paso Electric built the two new power plants.

Uber Dumb, right? The company made a decision that will impose millions of dollars of unnecessary costs on rate payers every year. Costs that most would agree we should not have to bear.

But from El Paso Electric's ownership perspective, the decision seemed Uber Smart. They figured the regulators would follow standard procedure and award them about \$14 million dollars in increased profits over each of the next 30 years to compensate them for the new assets. In addition, they figured to make another \$20 million or so by paying themselves for acting as general contractor on the plant construction.

El Paso Electric obtained permits to build the new power plants by telling regulators that they would be operating a third of the time. They failed to tell regulators that almost none of the plant operating time is needed to meet required peak generating capacity. Most of the operating hours are to save minor amounts of money by diverting power generation from less efficient but perfectly functional older facilities. The savings are not remotely adequate to make up for the high cost of plant ownership. It's like Uber Dumb justifying his \$8,000 in ownership costs with the claim he saves \$300 in fuel by driving the new car half the time.

Fortunately, regulators have not guaranteed El Paso Electric compensation for this plant building boondoggle. They can still say no during the rate case. Hopefully, they will see through the company's dishonest representations and recognize what many of us who follow the company have already discovered.

El Paso Electric's profit scheme may be Uber clever, but it's also Uber sleazy.

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