

- 1   **Q.    Brockman, page 16, indicates that energy should not be sold at prices lower than the**  
2   **“cost to produce it” which is stated to be the “short-run marginal cost”. Please**  
3   **confirm that regulated rates based on embedded costs often result in prices below**  
4   **the short-run marginal costs of the highest cost energy dispatched at any given time.**  
5  
6   A.    Regulated rates based only on embedded costs can result in prices below the short-run  
7   marginal costs of the highest cost energy dispatched at any given time. Such pricing is  
8   inefficient since it encourages energy usage at below the cost to produce it.