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journal homepage: [www.elsevier.com/locate/tej](http://www.elsevier.com/locate/tej)Fixed charges in electric rate design: A survey<sup>☆</sup>Ahmad Faruqui<sup>\*</sup>, Kirby Leyshon*The Brattle Group, United States*

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## ABSTRACT

Fixed charges collected from residential and small business customers are receiving increasing attention nationwide. The main driver of this greater role for fixed charges is the mismatch between the structure of utility costs and the structure of utility revenues. The vast majority of utility costs to serve residential and small commercial and industrial customers are fixed. However, for historical reasons, the vast majority of utility revenues being recovered from these customers are volumetric in nature. This paper reviews methodologies being used by a sample of utilities to establish fixed charges.

## 1. Introduction

In order to better understand fixed charges being offered by utilities in the industry today, we reached out to 37 utilities across the country. We asked them a series of questions addressing the underlying theory, practical methodology, and implementation of fixed charges. They were also asked to provide written evidentiary testimony and links to regulatory commission decisions and guidance. Of these, 26 utilities responded to the survey, which was carried out in the first quarter of 2016 unless otherwise noted (Table 1).<sup>1</sup>

Their information is presented in this paper along with information on two other municipal utilities that was gleaned from the municipal utilities' websites.

The surveyed utilities lie in jurisdictions with regulatory environments that are supportive of energy efficiency and renewable energy resources.<sup>2</sup> The respondent utilities span four major regions and 22 states (Fig. 1). Initially, utilities for the survey were chosen on the basis

of having residential fixed charges greater than \$5.00/month; however, this list was expanded in order to capture more utilities with similar regulatory environments that may have lower residential fixed charges. The initial survey instrument contained 19 questions (reproduced in Appendix A). A supplemental survey containing five additional questions was also submitted to each responding utility. Survey responses were compiled in a database and collated by region, as presented in this paper (Table 3).<sup>3</sup>

Many of the utilities have approved residential fixed charges that exceed \$10.00/month (adjusted by the Consumer Price Index) for investor-owned utilities. In addition, several utilities also identified residential fixed costs in excess of \$10.00/month. Fixed charges are also routinely adjusted upward to reflect changes in fixed costs and changes in the utility business environment.

Several state utility commissions distinctly mention fixed charges in their final decisions as a means of aligning fixed costs with revenues and cost causation. Some go a step further to suggest that over time, fixed charges should be moved closer to total fixed costs, including

<sup>☆</sup> The views expressed in this paper do not represent the opinions of The Brattle Group nor its clients. Comments can be directed to [ahmad.faruqui@brattle.com](mailto:ahmad.faruqui@brattle.com). The authors acknowledge the valuable contributions of many individuals to the preparation of this paper. Neil Lessem helped in framing the survey instrument that was used to conduct the research, and Phil Hanser and Sanem Sergici provided information on fixed charges at Omaha Public Power District. The following individuals answered the survey: William Atzl (Consolidated Edison), Greg Bollom (Madison Gas & Electric), Scott Brockett (Public Service Company of Colorado), Glynis Bunt (Central Hudson Gas & Electric), Marc Cody (Portland General Electric), Edward Davis (Eversource), Glenn Dyke (Georgia Power Corporation), Charles Goodwin (United Illuminating), Wayne Harbaugh (Baltimore Gas & Electric), Alcides Hernandez (Sacramento Municipal Utility District), Mark Marini (Rochester Gas & Electric), Jeff Martin (Westar Energy), Mary M. Murray (DTE Energy), Jimi Netniss (Modesto Irrigation District), Sarah Noll (Commonwealth Edison), Matt Nollenberger (Indiana Michigan Power Company), Joelle Steward (PacifiCorp), Steve Romig (Florida Power & Light), Bryan Scott (Oklahoma Gas & Electric), and Tami Wallenburg (Turlock Irrigation District).

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<sup>1</sup> These utilities include subsidiaries of major utility companies and utilities that serve multiple regions with separate rates for each region. For example, the survey response for Eversource encompasses Connecticut Light & Power, Public Service Company of New Hampshire, and Western Massachusetts Electric Company.

<sup>2</sup> For example, New York's Reforming the Energy Vision (REV) initiative which includes a NY State Energy Plan proposes three statewide clean energy targets to be completed by 2030 including reducing greenhouse emissions by 40% from 1990 levels, generating 50% of electricity from renewable energy sources, and increasing statewide energy efficiency by 600 trillion British thermal units. The Energy to Lead, New York State Energy Plan Volume 1, 2015, pp. 44–45

<sup>3</sup> Information that does not have a direct citation in the summaries below was provided by the utility in the survey response and a corresponding document may not have been included. In many cases, information drawn from the survey is drawn verbatim.

**Table 1**  
Utility Survey Respondents.

Utility Name	Abbreviation	State
<b>NORTHEAST &amp; MIDDLE ATLANTIC</b>		
Baltimore Gas & Electric	BG&E	Maryland
Central Hudson Gas & Electric	Central Hudson	New York
Consolidated Edison Company	ConEd	New York
Rochester Gas and Electric	RG&E	New York
New York State Electric Gas Corporation	NYSEG	New York
Central Maine Power	CMP	Maine
<b>Eversource Energy</b>		
Connecticut Light & Power	CL&P	Connecticut
Public Service Company of New Hampshire	PSNH	New Hampshire
Western Massachusetts Electric Company	WMECO	Massachusetts
United Illuminating Company	UI	Connecticut
<b>MIDWEST &amp; SOUTH</b>		
Commonwealth Edison	ComEd	Illinois
DTE Energy	DTE	Michigan
Indiana Michigan Power Company	I&M	Indiana, Michigan
Madison Gas & Electric	MGE	Wisconsin
Oklahoma Gas & Electric	OG&E	Oklahoma
Omaha Public Power District	OPPD	Nebraska
Westar Energy	Westar	Kansas
Florida Power & Light	FPL	Florida
Georgia Power	Georgia Power	Georgia
<b>WEST OTHER THAN CALIFORNIA</b>		
<b>PacifiCorp</b>		
Rocky Mountain Power	RMP	Utah, Wyoming, Idaho
Pacific Power & Light	PP&L	Washington, Oregon, California
Portland General Electric	PGE	Oregon
Public Service Company of Colorado	PSCo	Colorado
<b>CALIFORNIA</b>		
Glendale Water & Power	GWP	California
Modesto Irrigation District	MID	California
Riverside Public Utilities	RPU	California
Sacramento Municipal Utility District	SMUD	California
Turlock Irrigation District	TID	California

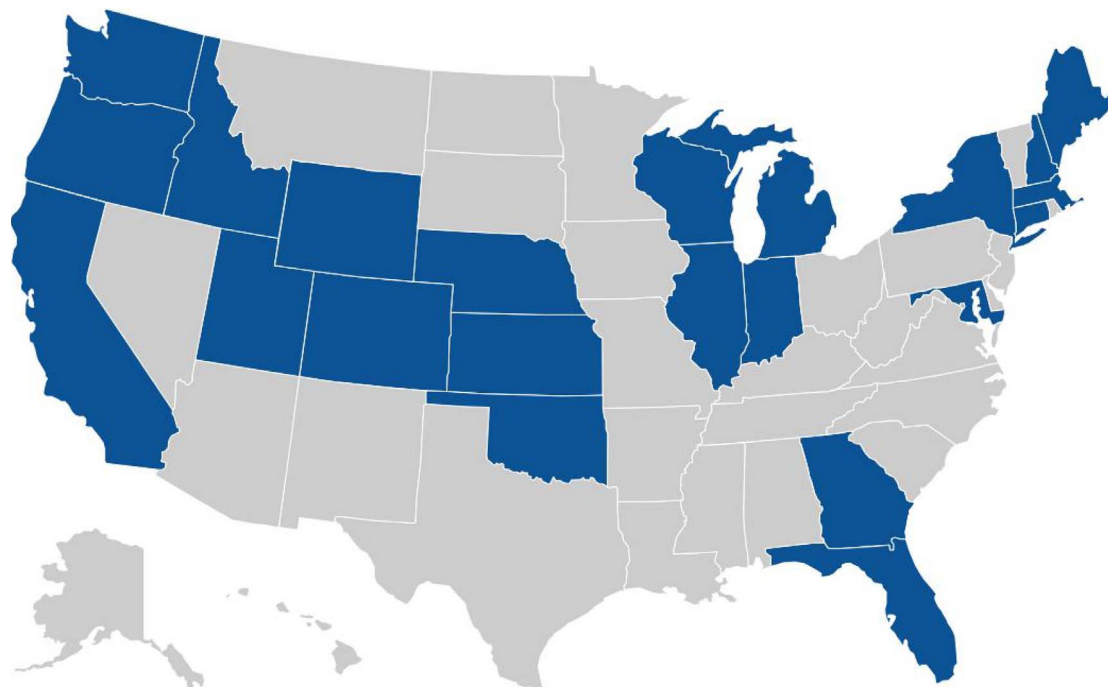


Fig. 1. Map of Utility Survey Respondent States.

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