

Rate Design

Recovering Utility Costs

From Customers

Goals of Rate Design

- **Cost-Based**
 - **Costs are allocated to customer classes (Residential, Commercial, Industrial) based on their usage characteristics:**
 - Maximum demand on the system.
 - Total usage.
 - **In order to:**
 - Avoid undue price discrimination among customers.
 - Create price signals that encourage efficient use of system capacity, leading to lower costs in the long-run.

Goals of Rate Design

- Cost-Based
- **Stable and Predictable**
 - Produce stable revenues for the utility.
 - Provide stable price signals to customers, allowing them to reliably predict their bills.
 - Changed gradually (i.e., avoid “rate shock”).

Goals of Rate Design

- Cost-Based
- Stable and Predictable
- **Easily Applied**
 - Based on usage characteristics readily measurable for most customers.
 - Easily Measurable: Monthly usage.
 - Not as Easily Measurable: Usage during each hour of each day (“Real-Time” pricing).

Goals of Rate Design

- Cost-Based
- Stable and Predictable
- Easily Applied
- **Understandable to Customers**
 - **Readily Understandable**: Rates based on monthly usage.
 - **More Complex**: Rates based on monthly usage **AND** maximum daily or hourly demand.

Goals of Rate Design

- Cost-Based
- Stable and Predictable
- Easily Applied
- Understandable to Customers
- **Acceptable to Customers**
 - **Generally Accepted**: Rates based on monthly usage.
 - **Not Yet Accepted**: Residential rates based on time of usage (“Time-of-Day” pricing).

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- Stable and Predictable
- Easily Applied
- Understandable to Customers
- Acceptable to Customers

Rate Design: Statutory Authority

- **IOWA CODE 476.4 Tariffs Filed** -- Every public utility shall file with the board tariffs showing the rates and charges for its public utility services These filings shall be made under such rules as the board may prescribe within such time and in such form as the board may designate.
- **IOWA CODE 476.7 Application by Utility for Review** -- If there shall be filed with the board by any public utility an application requesting the board to determine the reasonableness of the utility's rates, charges, schedules, service, or regulations, the board shall promptly initiate a formal proceeding. Such a formal proceeding may be initiated at any time by the board on its own motion.

IUB Electric Rate Design Rules

- Initiated by Federal Law (PURPA)
 - **20.10(2) Cost of Service (RMU-80-1)**
 - **Sets forth basic guidelines for determining cost-based rates.**

IUB Electric Rate Design Rules

- Initiated by Federal Law (PURPA)
 - 20.10(2) Cost of Service (RMU-80-1)
 - **20.10(3) Declining Block Rates (RMU-80-13)**
 - **Prohibits utilities from using a declining block rate structure for the energy portion of rates, unless cost-based.**

IUB Electric Rate Design Rules

- Initiated by Federal Law (PURPA)
 - 20.10(2) Cost of Service (RMU-80-1)
 - 20.10(3) Declining Block Rates (RMU-80-13)
 - **20.10(4) Time-of-Day Rates (RMU-80-7)**
 - Utilities are required to bill all customers on a time-of-day basis if cost effective (not cost effective).
 - Otherwise, utilities are required to offer time-of-day rates to all customers.

IUB Electric Rate Design Rules

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 - 20.10(3) Declining Block Rates (RMU-80-13)
 - 20.10(4) Time-of-Day Rates (RMU-80-7)
 - **20.10(5) Seasonal Rates (RMU-80-7)**
 - Utilities are allowed differentiate rates on a seasonal basis, if cost-based.

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 - 20.10(3) Declining Block Rates (RMU-80-13)
 - 20.10(4) Time-of-Day Rates (RMU-80-7)
 - 20.10(5) Seasonal Rates (RMU-80-7)
 - **20.10(6) Interruptible Rates (RMU-80-14)**
 - **Utilities must offer cost-based interruptible rates to large commercial and industrial customers.**

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 - 20.10(4) Time-of-Day Rates (RMU-80-7)
 - 20.10(5) Seasonal Rates (RMU-80-7)
 - 20.10(6) Interruptible Rates (RMU-80-14)

Questions?