

# Cost of Service Studies Part II

## A look at Rate Design

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Oklahoma Corporation Commission



Petroleum & Natural Gas  
Regulatory Board, India



Presentation 15 Cost of Service II  
- Rate Design

# Cost of Service Studies Part II

- What is Pricing?
- What are the important rate design issues?
- What different rate design options are possible?



# Cost of Service Studies Part II

- What is Pricing?
  - Pricing is Rate Design
    - Rate Design must recover enough funds from ratepayers to address the revenue requirement



# What are the important rate design issues?



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# Goals of a Rate Design

- Successful rate designs must balance the overall design goals of several interests
  - Utilities
  - Customers
  - Regulators
  - Other stakeholders

# Balance of Essential Factors

- Economic Factors
- Regulatory Factors
- Historical Factors
- Social and Political Factors
- Simplicity and understandability



# Balance of Essential Factors

- Economic Factors
  - Cost of service
  - Value of service
  - Competitor prices
  - Price differences and discrimination
  - Efficiency to promote cost-effective load management
  - Availability of supply/capacity
  - Return and revenue stability



# Balance of Factors is Key

- Regulatory Factors
  - Precedent
  - Intervenor interests
- Historical Factors
  - Rate perspective
  - Rate continuity/stability



# Balance of Factors is Key

- Social and Political Factors
  - Customer reaction and acceptance
  - Public relations aspects
  - Economic conditions of service territory
  - Social obligations to particular customer groups Example: Low Income
  - Political attention and involvement

# What different rate design options are possible?

# Rate Forms

- Fixed Flat rate unmetered “Customer Charge”
  - Charge per month regardless of usage
    - Example \$25.00 per month
- Metered charge for consumption
  - Charged fixed rate per unit consumed
    - Example \$0.35 per unit
- Combination
  - Monthly customer charge and usage charge

# Rate Forms

- Declining block
  - 0 to 30 Therms at \$0.35 per Therm
  - 31 to 100 Therms at \$.2997 per Therm
  - 101 to 200 Therms at \$0.2797 per Therm
  - Over 200 Therms at \$0.2519 per Therm



# Rate Forms

- Declining block with minimum customer charge
  - 0 to 30 Therms at \$0.35 per Therm
  - 31 to 100 Therms at \$.2997 per Therm
  - 101 to 200 Therms at \$0.2797 per Therm
  - Over 200 Therms at \$0.2519 per Therm
  - Customer Charge \$25.00

# Rate Forms

- Inverted block rate
  - This rate is identical to the *Declining block and Declining block with minimum customer charge*, except the rate for the last block or blocks are higher than that for the preceding block.



# Main Priorities for Rate Design

- Recovery of Utility Revenue  
Requirements based on the utility's sales volume, e.g natural gas
- Costs are fairly apportioned among customers
- Revenue Stability