Residential Rates: Block Structure

Should we continue to have three blocks in the residential rate structure? What should the threshold be for the blocks?

Background

City Light had a two-block residential rate structure, with a lower-priced first block, from 1980 through mid-2001, i.e., about 21 years. The rate for the first 10 kWh per day (300 kWh per 30-day month) in the summer season and the first 16 kWh per day (480 kWh per 30-day month) in the winter was set at a relatively low level. The rate for all energy used beyond the first block was set at a higher level to reflect the marginal cost of energy, so that customers would receive the right price signal as an encouragement to conserve energy.

With the rate increase effective July 1, 2001, a three-block structure was implemented. The third block was set at $0.16 per kWh, almost twice the price of the second block, since the marginal cost of energy City Light was facing at that time was much higher than the marginal cost which had been used to set the second block price. Setting a very high rate for very high-consuming customers was meant to provide a stronger incentive for them to reduce their consumption. The third block price was increased along with other rates in both October 2001 and April 2002.

However, by June 2002 it became clear that wholesale energy prices were moving back toward normal (lower) levels, so the third block rate was decreased to $0.10 per kWh and the amount of energy priced at the second block rate was increased.

Rates in effect at this time, which were implemented April 1, 2004, have the following form (using standard Residential City rates as the example):

First block (per kWh)*	$.0420
Second block (per kWh)**	$.0853
End block (per kWh)	$.0995
Base Service Charge (per day)	$.0973

*first 10 kWh/day in Summer (April-Sept) and first 16 kWh/day in Winter (Oct-Mar)
**>10 kWh day but $\leq$ 100 kWh/day in Summer; >16 kWh/day but $\leq$ 167 kWh/day in Winter

Marginal energy rates have remained relatively low since 2002, so it may be appropriate to go back to the two-block residential rate structure.

Alternatives:

1. Retain the current three-block structure and block sizes.

2. Retain the three-block structure but change the block sizes.

3. Return to the two-block structure, retaining the size of the first blocks.

4. Return to the two-block structure but change the size of the first block, e.g., increasing or decreasing it, or making it the same year-round.

5. Eliminate the blocks, i.e., have one year-round energy rate plus the base monthly service charge.