

Residential Rates: Customer Charge

Should we continue to have a customer charge and, if so, should it be increased to cover a greater share of customer-related costs?

Background

City Light introduced a Customer Charge for residential bills on July 1, 1997. The name was changed to "Base Service Charge" in December 1999. The base service charge in the current rates is \$0.0973/day for standard residential accounts and \$0.0487/day for low-income accounts. This equates to \$2.92 and \$1.46 per 30-day month, respectively.

The current base service charge was set to cover about half the year 2000 marginal cost of customer expenses that do not vary with energy use. Such expenses include meter reading, billing, maintenance of customer records, and the cost of the meter ("customer costs"). The balance of these costs are recovered in the energy rates. The low-income charge was set at 50% of the standard charge.

Prior to July 1997, residential customers paid a minimum charge (except that the bill was zero for zero consumption); i.e., if their bill for energy consumption did not cover about half the marginal cost of the items mentioned above, they paid a minimum bill. The rationale for having a minimum charge rather than a customer charge was that second-block energy charges should be set as high as possible, within the restrictions of the revenue requirement, in order to encourage conservation. Since a customer charge collects more revenue than a minimum charge, energy charges would be lower, thus diluting the incentive to conserve. The change to a customer charge was made in 1997 since the marginal value of energy had come down and City Light incurs the expenses covered in the charge no matter whether a customer uses any energy or not.

Residential customer charges at other local utilities are higher than City Light's (e.g., Tacoma's is \$5.50/month). Most utilities have customer charges in all residential and commercial/industrial rate schedules. Setting the charge higher or lower will not change the amount of money City Light receives from residential customers as a class; i.e., the revenue requirement remains the same. A higher charge that recovers all "customer costs" may recover costs more "fairly," but it also increases bills for low-use customers more than for high-use customers and causes energy charges to be slightly lower than they otherwise would be.

Alternatives:

1. Retain the standard residential base service charge at a level that recovers 50% of the customer costs.
2. Increase the residential base service charge to recover all or a greater percentage of customer costs.

3. Eliminate the residential base service charge and roll the customer costs into the energy rates; establish a minimum charge/day to recover all/some customer costs.
4. Extend the customer charge to the General Service rate classes.