

1 Q. What rate structure would be appropriate for a situation where the average energy
2 cost is 3 cents/kWh, the incremental fuel cost is 5 cents/kWh, the average demand
3 cost is \$10/kW/month and the class load factor is 60%?

4

5 ANSWER:

6 The rate structure would depend on a number of things such as rate design
7 objectives, customer class consumption characteristics, time-of-use cost
8 variations, cost of metering, billing determinants, etc. However, the rate design
9 should recover the revenue requirement as reflected by average, or embedded
10 costs, should be fair (e.g., be cost-based), and should promote efficient
11 consumption decisions by consumers. In this sense, tail block charges should be
12 set close to marginal cost, and rates for different costing periods should reflect
13 differences in the marginal cost of supply in the periods.