

1 **Volume 1, Section 4 – Customer Rates and Regulations**
2

3 **Q.** (page 119, lines 12-14) “Designing rates to promote energy efficiency involves
4 balancing the desire for rates to provide the right signals to customers with the need
5 to have rates that customers can understand, and to which they can respond”.
6 Please reconcile this statement with the following statement in *Principles of Public*
7 *Utility Rates*, Public Utility Reports, J.C. Bonbright, A.L. Danielsen and D.R.
8 Kamerschen (page 475-476):
9

10 *Whether it is difficult for the large customers to react to peak rates by changing load*
11 *patterns is also not relevant. The benefit/cost ratio is the criteria for utilization of peak*
12 *tariffs for any class of customers. Economic efficiency simply dictates that consumers*
13 *should be faced with prices reflecting the true costs they impose on society regardless*
14 *of how they choose to react to these tariffs.*
15

16 **A.** The statement in the Customer Rates and Regulations Evidence referenced in the
17 question (the “National Action Plan Statement”) was excerpted from the United States
18 *National Action Plan for Energy Efficiency* published in July 2006.
19

20 Both the National Action Plan Statement and the statement excerpted from Bonbright’s
21 *Principles of Public Utility Rates* (the “Bonbright Statement”) proceed from the premise
22 that it is desirable that rates be designed to promote economic efficiency. However, the
23 National Action Plan Statement suggests that it is important that customers understand,
24 and can respond to, a rate design.
25

26 While the Bonbright Statement emphasizes the importance of pricing a commodity at
27 marginal costs to provide an appropriate signal to customers on the cost of their
28 consumption decisions, Bonbright’s book, *Principles of Public Utility Rates*, also
29 recognizes that other rate design criteria must be considered, resulting in compromises
30 among rate design criteria.
31

32 One of the rate design criteria referred to in Bonbright’s book is practicality in rate design
33 (including understandability, public acceptability and feasibility of application).¹ This
34 criterion is entirely consistent with the National Action Plan Statement.

¹ Bonbright, Danielson & Kamerschen, *Principles of Public Utility Rates*, Public Utility Reports, 1988, p.384.