

Utility Rate Design

High Utility Fixed Charges Harm Low Income, Elders and Households of Color

Electric and natural gas utilities are undergoing sweeping change. Yet, home energy service remains a basic necessity of life. As utility industry technologies and economics change, rates, consumer protection policies, energy efficiency, and affordable payment programs must be designed to ensure that low-income home energy security is enhanced.

Because energy efficiency and distributed energy technologies, like rooftop solar, threaten utility companies' revenue, many utilities are clamoring to push through high mandatory fees on customers' bills. This is bad public policy. Rate design that focuses on fixed charges on all customers' bills that penalizes low-volume consumers within a rate class and undermines consumers' ability to control the cost of utility service through energy efficiency or conservation.

Principles of Good Rate Design

Utility rates should emphasize "volumetric" charges rather than flat, fixed charges and fees. Utility rates should be "inclining," so that higher usage levels are charged at higher rates. Good rate design should always be coupled with:

- Whole-house low-income energy efficiency programming
- Affordable payments and arrearage management for low-income households
- Effective consumer protections shielding vulnerable customers from loss of vital home energy services

NCLC Research on Residential Energy Consumption

National Consumer Law Center's research and analysis, based on the 2009 U.S. Energy Information Administration's Residential Energy Consumption Survey (the latest data available), shows that, on average, households with lower incomes, and who are African American, Latino, or older, use less electricity and natural gas than higher-income households. "Fixed charge rate design" unfairly and disproportionately harms these customers. Because it undermines energy efficiency incentives, it is also bad for the environment.

Click on a state or region for median average electricity consumption among households by income category, race/ethnicity, and age.

All Regions - 150% Poverty Status

For state and regional data and an interactive map, [click here](#).

Related Resources

- Report: Recovery of Utility Fixed Costs: Utility, Consumer, Environmental and Economist Perspectives by John Howat (NCLC), Ralph Cavanagh (NRDC), Severin Borenstein (UC-Berkeley); editor: Lisa Schwartz, Lawrence Berkeley National Laboratory, June 2016