



# **Volumetric vs. Straight Fixed/Variable Rate Design**

---

## **Hypothetical Gas Utility**

### **Customers, Sales, Revenue**

<b>Customers</b>		<b>100,000</b>
<b>Annual Sales</b>		<b>100,000,000</b>
<b>Annual Revenue Requirement</b>		<b>\$ 130,000,000</b>



# Rate Design With Straight Fixed Variable Pricing

---

Customer Charge	\$/month	\$ 30.00
Annual Customer Charge Revenue		\$ 36,000,000
Gas Supply Rate	\$/therm	\$ 1.00
Gas Supply Revenue	\$/year	\$ 100,000,000
Total Revenue / Year		\$ 136,000,000



# Rate Design With Volumetric Pricing

---

<b>Therms Sold</b>	<b>Therms/year</b>	<b>100,000,000</b>
<b>Distribution Rate</b>	<b>\$/therm</b>	<b>\$ 0.36</b>
<b>Distribution Revenue</b>	<b>\$/year</b>	<b>\$ 36,000,000</b>
<b>Gas Supply Rate</b>	<b>\$/therm</b>	<b>\$ 1.00</b>
<b>Total Rate</b>	<b>\$/therm</b>	<b>\$ 1.36</b>
<b>Annual Revenue</b>	<b>\$/year</b>	<b>\$ 136,000,000</b>



# Therm Savings From Volumetric Pricing

---

<b>Unit Price With SFV Pricing</b>	<b>\$</b>	<b>1.00</b>
<b>Unit Price with Volumetric Pricing</b>	<b>\$</b>	<b>1.36</b>
<b>Change in Price / Therm:</b>		<b>36%</b>
<b>Assumed Long-Run Elasticity</b>		<b>-0.5</b>
<b>Elasticity Response:</b>		<b>-18.00%</b>



# Bill Impact of Straight Fixed/Variable Pricing

---

Usage	Volumetric	Straight F/V
10	\$13.00	\$40
50	\$65.00	\$80.00
100	\$130.00	\$130.00
200	\$260.00	\$230.00
300	\$390.00	\$330.00



# Weather-Only Normalization

---

- About 30 gas utilities have existing weather-normalization clauses in effect.
- Adjust rates (most in real-time) to ensure recovery of allowed distribution margin.
- These do provide earnings protection from weather, but fail to achieve the goal of earnings protection due to conservation-driven variations in sales.