The Iowa Policy Project news release

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Consumer-Friendly Energy Conservation

Electric Rate Reform Spurs Energy Savings, Helps Poor

IOWA CITY, Iowa (June 17, 2009) — Electricity rates can be better structured to encourage conservation while at the same time help low-income Iowans more easily afford their home energy bills.

A new report from the nonpartisan Iowa Policy Project (IPP) makes that link, examining the potential of an "inverted block rate" structure that encourages electricity conservation, in contrast to current structures that reward greater electricity use.

"As legislators consider responses to the reality of global climate change, making the policy link between conservation and low-income affordability will be especially important," said IPP Research Associate Christine Ralston, author of the report. "At the same time they encourage conservation, utilities can make electricity more affordable by using any number of tools."

Ralston said the inverted block rate system "is the best single approach to meet these twin goals."

"These are not irreconcilable goals," she said. "At a time when we need to pay attention to smart use of energy, we can put the incentives toward conservation, but we have to ask utilities to change the way they do business and ask Iowans to respond accordingly."

The difference, she said, is in setting electricity rate structures.

"Currently, when utilities price electricity in 'blocks' of usage, consumers typically pay less per kilowatt-hour (kWh), the more they use over a certain quantity," Ralston said. "The system is upside down if we want to encourage the benefits of conservation."

"What we're examining here is an idea that not only encourages conservation, but also recognizes that changes must protect low-income consumers," she said.

Such a system would flip the current block-rate structure with an "inverted block rate" that encourages conservation, as other utilities have done before. This structure can be coupled with provisions to protect low-income consumers from higher costs. For low-income households, such a system could include:

- a percentage discount or a parallel rate structure with lower rates for low-income households;
- a waiver of fixed charges, such as monthly service charges for households;
- an initial block based on average consumption; and
- expanded weatherization assistance.

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Ralston's report also examines inverted block rates that are based on future costs, recognizing that new electricity-generation plants will cost more than the present depreciated plants now in use. That system would base block prices on the long-run marginal cost of producing the last unit of electricity. This builds into rates the cost of adding additional units of electric generating capacity, but targets those costs upon higher users.

"This is another way to help low-income consumers," Ralston said. "Excess revenues generated under this system from high-volume users could be used to offset some costs for low-income households in the form of lower rates."

The eight-page report is available on the IPP website http://www.iowapolicyproject.org. It is the latest analysis by IPP of potential opportunities for energy savings and ways to mitigate impacts of energy and climate-change policy for those most vulnerable to cost increases.

The Iowa Policy Project is a nonpartisan, nonprofit research and policy analysis organization based in Mount Vernon, with its principal office in Iowa City. IPP reports focus on job and income trends, budget and tax issues, and energy and environmental policy.

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