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A policy design perspective on electricity rates

Nicholas Oesterling

Syracuse University, naoester@syr.edu

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A policy design perspective on electricity rates (Nicholas Oesterling)

Brief Author: Davor Mondom

This paper examines electricity rates charged by investor-owned utilities (IOUs) through a policy design lens. Studies of electricity rates have tended to focus narrowly on pricing. This paper leverages the policy design typology — which consists of goals, targets, tools, implementing agents/structures, rules, and rationales — to uncover ways that IOUs structure rates that go beyond price. The paper analyzes 1,114 residential electricity rates from 139 IOUs in 45 states. The policy design elements of most relevance to this case study were goals (outcomes that the policy wants to achieved), targets (individuals or groups the policy intends to impact), and tools (the means by which the policy intends to impact the targets).

KEY FINDINGS

- Investor-owned utilities use a variety of approaches to design their rates that go beyond pricing.
- Policy design concepts can be used to study policy instruments like utility rates in addition to analyzing the content of policy documents.

Moving Beyond Price in Electricity Rate Designs

Scholars of electricity rate design have placed much emphasis on the role of price (e.g., surge pricing during periods of elevated use to encourage customers to curb consumption). The author, however, found that only about half of the rates in the study sample used pricing in their rate design. By contrast, the majority of electricity rate designs featured other elements, identifying specific uses (e.g., heating, lighting, cooking), users (e.g., low-income), and/or locations (e.g., a county).

The Compositional Complexity of Electricity Rate Designs

Focusing in more closely on goals, targets, and tools, the author found that electricity rates featured sub-elements of each of these design components. For instance, a rate might indicate its applicability to more than one use (e.g., heating *and* electric vehicle charging), or it might finely target a subset of a larger demographic group (e.g., not merely low-income individuals, but those low-income individuals who live in a certain type of housing). Some rates had combinations of design elements and sub-elements, going so far as to specify use, users, *and* location, as well as featuring a pricing tool.

This study underscores the myriad design forms that electricity rates can take, revealing complexity that a price-centric lens might overlook. Moreover, the study illustrates that the applicability of policy design concepts extends beyond policy texts (e.g., laws) to also encompass policy *instruments*.

For more information, please see Oesterling, N. (2024). A policy design perspective on electricity rates. *Policy Design and Practice*, 7 (1). <https://doi.org/10.1080/25741292.2024.2308310>



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About the Brief Author: Davor Mondom is the Center Coordinator for the Center for Policy Design and Governance. He earned his B.A., M.A., and Ph.D. in history from Syracuse University.

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