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Natural Gas Inverted Block Rate - Referral #002513 (B)

On February 25, 2002 the City Commission referred the consideration of an inverted block rate for the natural gas system to the Regional Utilities Committee. On June 26, 2002 the Regional Utilities Committee heard a presentation from staff.

Inverted block rates are used to send an economic signal that promotes conservation and efficient use of resources. Typically the inversion point in the rate structure is established after what is considered an essential level of usage. Any usage above the inversion point would cost more per unit.

Natural gas is an extremely efficient, clean burning fossil fuel which is domestically abundant. GRU recognizes this and promotes the use of natural gas by offering rebates to offset the cost of converting electric appliances to natural gas.

The usage of natural gas varies by household. Certain households may utilize natural gas only for water heating while some homes may utilize it for a combination of domestic purposes. The variation among households makes it difficult to determine what level of usage is essential. Additionally, consumers have very little discretion and limited ability to control necessary functions such as space heating, water heating, and cooking.

GRU's natural gas rates currently include a customer service charge, a non-fuel energy charge, and a purchased gas adjustment (PGA). In a survey of the 11 gas utilities in Florida, 10 have a uniform rate structure similar to GRU's, while one had a declining block rate where usage beyond a threshold results in lower unit prices. The declining block rate actually sends less of a conservation signal than a flat rate.

The PGA, mentioned above, is the mechanism which recovers fuel costs incurred by the natural gas system. It is a direct pass through to GRU customers. The PGA can comprise a large portion of the bill and tends to be highest during high demand periods (winter). Because the purchased gas adjustment is adjusted monthly in response to market prices, GRU's natural gas rates currently send a strong price signal to promote conservation. It is also believed that applying an inverted block rate would exacerbate the problems associated with high winter bills for

GRU customers.

Based upon the efficiency and environmental benefits of natural gas, the limited ability that residential customers have to reduce usage, the variation of usage among residential customers, the survey of other utilities, and the impact of the PGA, the RUC recommends that an inverted block rate not be pursued for the natural gas system. The City Commission not pursue an inverted block rate for the natural gas system; and remove this item from the Regional Utilities Committee referral list.

Prepared by: Michael L. Kurtz

Submitted by: Mayor Tom Bussing, Chair, RUC

Commissioner Tony Domenech, Member