

## Understanding Utility Bills Part 2: De-mystifying utility rate structures

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Utility companies use different rate structures to calculate charges for electricity, gas, and water. Understanding these structures can help you better predict your bill and find ways to save money. Here are some of the most common utility rate structures:

### **Flat Rates**

A flat rate means you pay the same price per unit of energy or water, no matter how much you use. For example, if electricity costs \$0.12 per kilowatt-hour (kWh), you'll pay that rate for every kWh used, whether your usage is high or low. Flat rates are simple and predictable but don't encourage conservation since the cost doesn't change with higher usage.

### **Tiered Rates**

Tiered rates charge different prices depending on your usage level. For instance:

Tier 1: A lower rate for basic usage (e.g., \$0.10 per kWh for the first 500 kWh).

Tier 2: A higher rate for additional usage beyond a certain limit (e.g., \$0.15 per kWh for usage over 500 kWh).

This structure rewards users who stay within lower usage tiers and penalizes higher consumption, encouraging energy efficiency.

### **Time-of-Use (TOU) Rates**

Time-of-use rates vary depending on the time of day, week, or season. Electricity is often more expensive during "peak hours" when demand is high, such as late afternoon and early evening. Conversely, "off-peak" hours, like late at night or early morning, have lower rates.

Example: \$0.20 per kWh during peak hours and \$0.10 per kWh during off-peak hours.

TOU rates reward users who shift energy-intensive activities, like laundry or charging an electric vehicle, to off-peak times.

### **Demand Charges**

Demand charges are common for businesses and are based on the highest amount of energy used during a short time, often 15 minutes, within a billing period. These charges are added on top of regular usage costs and encourage businesses to avoid high spikes in energy demand.

### **Seasonal Rates**

Some utilities adjust rates based on the season. Electricity may cost more in the summer due to higher air conditioning demand, while natural gas rates may rise in winter due to heating needs. Seasonal rates reflect the cost of meeting demand when usage is highest.

## **Dynamic Pricing**

Dynamic pricing adjusts rates in real-time based on market conditions or grid demand. For example, prices might spike during extreme weather when energy demand is high. While this structure is less common, it allows users to respond to price signals by reducing usage during expensive periods.

## **Block Rates**

Block rates divide usage into blocks, with prices increasing or decreasing as you use more.

**Declining Block Rates:** The rate decreases as usage increases, often used for water to encourage bulk use by businesses.

**Inclining Block Rates:** The rate increases as usage rises, common for residential electricity to promote conservation.

## **Fixed Charges**

In addition to usage-based rates, most bills include fixed charges, like a service fee for maintaining the infrastructure. This fee is the same every month, regardless of usage.

## **Understanding Your Rate Plan**

Your rate structure is typically listed on your bill or your utility company's website. Knowing your rate plan can help you adjust your habits to save money. For example, if you have a time-of-use plan, running appliances during off-peak hours can significantly lower your costs. Similarly, keeping usage within lower tiers can help if you're on a tiered plan. If your needs change, some utilities may allow you to switch to a different rate structure that better fits your lifestyle.