

# Demand Charges: New Default Rate in Georgia



HOW THEY PUT THE MOST VULNERABLE AT RISK

## What is Happening, and Why

Over the past five years many electric utilities have begun a significant push to adopt demand charges for residential customers in reaction to actual or potential reductions in sales and revenue. Few regulatory agencies have approved them, although some have as a voluntary offering. The Georgia Public Service Commission (PSC) authorized Georgia Power to offer a voluntary residential demand rate starting in 2014. However, in a significant new step, the Georgia Public Service Commission authorized Georgia Power to enroll residential customers moving into newly constructed premises onto a demand charge rate plan beginning in 2021 unless the customer proactively requests a different one. This is known as an opt-out rate plan.



## How Electricity is Priced Now

In Georgia residential electric customers pay for electricity under a rate structure that includes a customer service charge — a fixed amount per month or per day — and a volumetric charge, based on the total number of kilowatt-hours (kWh) of electricity the customer uses during the billing month (or bill period). Customers pay one price per

**Beginning in 2021, customers moving into newly constructed premises will be enrolled onto a demand charge rate plan unless they proactively request a different plan.**

kWh in the first tier (e.g. 0–650 kWh) and a different price in the next tier (e.g. 650–1,000 kWh). Even though this might seem complicated, tiered pricing is considered a straightforward way to bill customers. Most people understand the concept of “the more you use, the more you pay.” The idea of tiered pricing that costs more when you cross into a higher tier is also familiar. This is how electricity has been priced for decades for residential customers across the U.S.



**Tiered pricing is considered a straightforward way to bill customers — paying one price per kWh in the first tier and a different price in the next tier.**

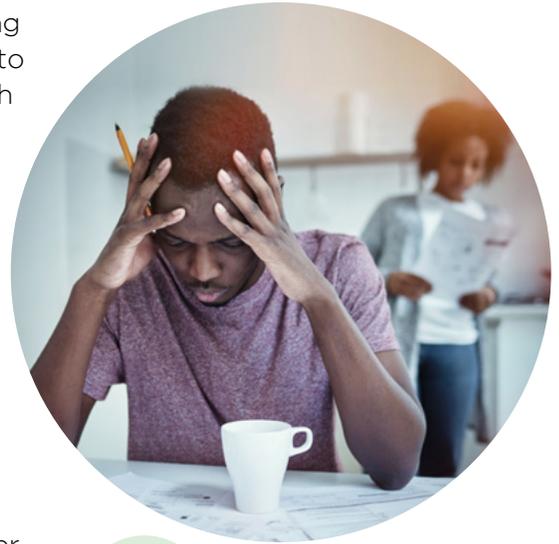
Georgia Power’s historic residential rate plan has tiered pricing where the cost of electricity goes up in the summer as you use more but goes down in the winter as you use more. The price of electricity in the lowest tier (up to 650 kWh) is the same in summer as it is in winter. But the price per kWh in the next tier, 650-1,000 kWh, is about twice as much in the summer as it is in winter. This is designed to reflect the fact that the utility has to power up facilities with higher fuel costs to meet customer demand during peak usage periods that typically occur on hot summer days. Because the average Georgia residential customer uses about 1,000 kWhs per month, most Georgians pay much higher rates in the summer.

For Georgia Power customers that rate is 11-13 cents a kWh including all fees, about the national average. However, what really matters to households is affordability. By that measure, Georgians pay the 4th highest electric bills in the country.

## Cross-subsidies Hurt Low-income Consumers

Though the typical Georgia Power residential customer is on the standard rate plan described above, most are unaware that rates are higher in summer than in winter. What consumers do know is that their electric bills are generally much higher in summer months. Large homes, especially ones with swimming pools and grand foyers, consume large amounts of expensive peak energy. Because peak energy costs are divided among all customers, consumers who use less, including those with lower incomes who may not have air conditioning and likely live in smaller homes, pay rates that cover the costs of expensive peak energy. This is called a cross-subsidy.

Many regulatory commissions, though not the Georgia PSC, address this cross-subsidy by requiring the regulated utility to reduce peak usage through common and effective consumer programs like demand response, peak time rebates, or time of use rate plans. Georgia Power has such rate plans but has not promoted them effectively to increase customer awareness. Thus, few customers are enrolled.



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**With “Smart Usage” avoiding operating major appliances simultaneously could mean savings for customers.**

## What is a Demand Charge?

A demand charge rate plan charges a daily customer service fee, a variable per kilowatt hour fee (that varies based on the time of day electricity is used), and a demand charge fee. Georgia Power calls this demand charge rate plan “Smart Usage” and describes it to customers [on their website](#) in this way:

### **THERE ARE TWO WAYS TO MANAGE YOUR BILL ON THE SMART USAGE RATE:**

- 1** Avoid simultaneous use of major appliances. If you can avoid running appliances at the same time, then you could reduce your maximum usage of power in a 60-minute period. This translates to less demand on Georgia Power, and savings for you.
- 2** Shift some of your summer energy usage away from the on-peak time periods (2–7 p.m., Monday–Friday, June–September, excluding holidays).

Although this demand charge rate plan is not mandatory, it will be the rate plan customers will be automatically enrolled in when they call for new service. A customer can ask for the traditional rate plan but likely won’t know to do that. It is thought that this subset of customers will accept a demand charge if they have no previous experience receiving electricity from Georgia Power.

## Concerns with the Demand Charge

### THIS SHIFT RAISES FOUR BIG CONCERNS:

- 1** The demand charge rate plan tends to increase bills for low-use customers. Credible research from multiple organizations listed at the end of this fact sheet shows that demand-charge rates unfairly allocate system costs and increase bills for low-use customers, including the vast majority of low-income customers, who are paying a fixed fee every month beyond what it costs their utility to serve them. This type of rate plan may harm customers with the least ability to manage their power bills under this complex rate structure.
- 2** The demand charge is a fee comprised of dollars per kilowatt (kW) of electricity consumed multiplied by the customer's highest kW usage in a one-hour period during the billing month. This is complicated for people to understand and manage, which is why other commissions have not approved this type of rate plan for residential consumers. One of the key principles of electricity pricing is consumer understanding and acceptance. Research shows consumers do not understand and do not want a demand fee.
- 3** Georgia Power's demand charge is assessed regardless of the time of day the individual customer's peak usage occurs and is unlikely to coincide with the electric grid's peaking period. As such, these demand fees unfairly allocate system costs.
- 4** Demand charge rate plans reduce incentives for consumers to invest in energy efficiency or renewable energy. Using less electricity overall will not significantly lower customers' bills when the bill includes a large fixed monthly fee that the customer cannot avoid except as outlined above: not using multiple appliances at the same time. The fee is applied regardless, however.

## How it is Calculated

The demand charge is calculated using the single hour during the month when the customer is using the most electricity. For example, a customer using a hair dryer, an air conditioner, and an oven at the same time, even if the overlap is just a few minutes, will set their peak demand for the month. In some cases, a customer cannot control when they use electricity, such as when a refrigerator's defrost cycle comes on, or when the A/C turns on while cooking with their electric range.

Georgia Power estimates the average monthly kW usage for its customers is 7 kilowatts. The demand charge fee is \$7.90 per kW so an average customer will be assessed about a \$55 demand fee per month. The usage is capped at 13 kW for a maximum \$102 demand fee per bill period. Any customer using several appliances at once could incur a \$102 fee regardless of the size of dwelling or the overall use of electricity that month.

In addition, the demand charge rate plan includes a required time of use rate plan. This means a customer would pay a higher (peak) energy price per kWh between 2 pm and 7 pm Monday through Friday when demand for electricity is high in the summer months of June through September. Many people, including those working from home or retired seniors, would find it difficult to avoid using air conditioning or other appliances during the hottest part of the day.



**People working from home could find it difficult to avoid using air conditioning during the hottest part of the day — billed at higher (peak) price per kWh.**

## In Summary

In most states, demand charges for residential customers are not permitted or are voluntary only. Demand charges require customers to pay a higher portion of their bill in fixed costs, which results in the utility earning a larger portion in fixed revenues. Newly constructed housing, including affordable housing units in Georgia, will be defaulted on the demand charge rate plan beginning in 2021 if served by Georgia Power. Customers may not know they are being placed on this complex, unusual rate plan that may require difficult household changes to avoid high power bills. It is likely that the demand charge tariff will result in higher electric bills, increasing energy burden and putting struggling families at increased risk of disconnection.



## Research on Demand Charges

The Regulatory Assistance Project

[Demand Charges: What Are They Good For?](#)

The Regulatory Assistance Project

[Use Great Caution in Design of Residential Demand Charges](#)

Smart Energy Consumer Collaborative

[Rate Design: What Do Consumers Want and Need](#)

Acadia Center

[Charge Without a Cause](#)

Synapse Energy

[Caught in a Fix](#)

Founded in 2002, Georgia Watch is the State's leading nonprofit consumer advocacy organization working to protect and inform consumers so all Georgians prosper and communities thrive. Georgia Watch advocates for policies that open doors to the financial mainstream, increase individual and family financial security, improve access to affordable healthcare and lower the energy burden on struggling families.

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