Contents

1	Introd	luction	1			
	1.1	Distinguishing Between Cost and Price	1			
	1.2	Cost and Price in Our Daily Vocabulary	2			
	1.3	The Credibility of Cost	3			
	1.4	Total Cost of the Operation as a Whole	4			
	1.5	Joint-Product Costs				
	1.6	Price Relationships: The Baker Revisited—				
		The Quantity Discount	11			
	1.7		13			
		1.7.1 Production Within the Capability				
		of Existing Plant	14			
		1.7.2 Where Plant Expansion Is Required	15			
	1.8	A Closer Look at Two-Part Pricing	17			
	1.9	1 0 \	18			
	1.10		18			
		1.10.1 The Baker	19			
		•	19			
			20			
		1.10.4 Benefits vs. Costs	20			
	1.11	Cost and Price-A Primer	20			
	1.12	Conclusions, If Any	22			
2	The C	lost Approach to Pricing: The Direction of Cost	25			
	2.1		25			
	2.2	Fixed and Variable Costs	27			
		2.2.1 The "Readiness to Serve" Concept	28			
		2.2.2 The "Use of Service (Product)" Concept	29			
		2.2.3 Relative Proportion of Fixed and Variable Costs	29			
	2.3	Decreasing, Constant, and Increasing Costs Conditions 29				
	2.4	Decreasing Costs	30			
		2.4.1 The Static Hypothesis	30			
		2.4.2 The Dynamic Hypothesis	33			
	2.5	The Base System	34			

x Contents

	2.6	Future Ac	dditions
		2.6.1	Decreasing Fixed-Cost Scenario
		2.6.2	Constant Fixed-Cost Scenario
		2.6.3	Increasing Fixed-Cost Scenario
	2.7	The Smal	ll Base-Load Plant
	2.8	The Peak	ing or Firming-Up Plant
	2.9		rchases by Electric Utilities from Non-utility
			Bypass, and Discounts
		2.9.1	Purchase by a Utility
		2.9.2	Construction by the Utility of Its Own Plant 51
		2.9.3	Purchase of IPP Power
		2.9.4	Bypass of the Utility
		2.9.5	An Alternative to Bypass: A Discounted Price 55
		2.9.6	Arrested or Contracted Output
		2.9.7	Summary of Findings
	2.10	Variable (Costs
		2.10.1	The Dominance of Variable Costs 61
		2.10.2	The Uncertainty of Variable Costs 61
		2.10.3	High Capital/Low Operating
			Costs vs. Low Capital/High Operating Costs 62
	2.11	Matters o	f Judgment 63
	2.12		n Generating Plants 66
	2.13	A Note of	n the Level of Costs
ŧ	The C	oet Annro	ach to Pricing: Joint Cost Allocations 69
•	3.1		d Joint/Common Costs
	3.2	Cost Cau	
	3.2	3.2.1	The Classification of Customers
		3.2.2	The Classifications of Services
		3.2.3	The Classification of Costs
	3.3		ost Allocation Theory
	3.4		tionalization of Costs
	3.5		of Allocation
	5.5	3.5.1	The "Coincident Demand Peak-
		5.5.1	Responsibility" Method
		3.5.2	The "Non-coincident Demand
		5.5.2	Peak-Responsibility" Method
		3.5.3	Other Peak-Responsibility Methods
		3.5.4	Various Other Methods
		3.5.5	The "Phantom Customer" Method
		3.5.6	The Nordin Proposal
		3.5.7	Edison's Improvements
	3.6		on
	3.7		edule Divisions of Cost
	3.1	3.7.1	Demand Costs

Contents xi

		3.7.2	Customer Costs	3 1
		3.7.3		32
		3.7.4		32
	3.8	Suballo	cations	32
	3.9			3
		3.9.1	Marginal Costs	34
		3.9.2		34
	3.10	The Sep	arable Costs-Remaining Benefits Method	
		of Cost	Allocation in Federal Multi-purpose Projects 8	35
	3.11	Limits o	on the Ascertainment of Costs	37
	3.12	Definition	ons of Cost	39
4	The C	oet Annr	oach to Pricing: The Tenneco Pattern 9)3
•	4.1)3
	4.2)4
	4.3		gulatory Scheme in Brief	
	4.4		nent of Fixed and Variable Costs	
	7.7	4.4.1	The Seaboard Formula	
		4,4.2	The United Formula	
		4.4.3	The Modified Fixed–Variable (MFV) Formula 10	
		4.4.4	The Straight Fixed–Variable (SFV) Formula 10	
		4.4.5	Comparison of the Formulae	
	4.5		nand Charge	
	4.6			
	4.0	4.6.1	A "Postage-Stamp" Approach	
		4.6.2	The Zoning Alternatives	
		4.6.3	Which Alternative Is the Best?	
		4.6.4	The Legal Standards	
		4.6.5	The Commission's Appraisal Yardsticks 10	
		4.6.6	Commission Precedents	-
		4.6.7	The Commission's Findings and Orders 10	
	4.7		ne	
	4.8		nimum Bill	1
	4.9		Allocations for Rate Design	
		4.9.1	Step 1: The Company-Wide Cost of Service 11	2
		4.9.2	Step 2: Functionalization of the Cost of Service 11	
		4.9.3	Step 3: Classification of Functional Costs	
			as Fixed or Variable	6
		4.9.4	Step 4: Classification of Costs as Demand	
			or Commodity	20
		4.9.5	Step 5: Classification of Transmission	
		,	Sector Costs	2
		4.9.6	Step 6: Distance-Related Costs	
		4.9.7	Step 7: The New York Zone	
		498	Step 8: Per-Unit Rate Elements 12	

xii Contents

		· · ·	28 30
5	The V		31
	5.1		31
	5.2		31
	5.3		32
	5.4	1 1	32 33
	5.5	T T	36
	5.6		36
	5.7		36
	5.8	1	30 37
	5.8 5.9		31 39
	5.9		39
		5.9.1 Electric—Washington Public	40
			40
	5.10	The second of th	42 42
	5.10	The record and the state of the	43
	5.11	Immediate, Short-Run and Long-Run Price	
			46
	5.12	Problem and Summander	47
	5.13		48
	5.14	8 8 8	49
	5.15	and poly and an	49
	5.16	,	51
			52
			52
		5.16.3 Determination of Rate Classifications Under	
		-T.F	55
			56
	5.17		57
	5.18	Tr	62
	5.19		64
			65
			65
	5.20		68
	5.21		69
	5.22	Concluding Observations on Cost vs. Value	70
	5.23	Marketing and Advertising	73
		5.23.1 Civic Participation	73
		5.23.2 Marketing	73
			74
			75
6	The V	-	77
J	6.1		, , 77
	6.2		78
	0.2	11000000	

Contents xiii

	6.3	Planning:	Short-Run Demand Forecasts 178
		6.3.1	Natural Gas
		6.3.2	Electric
		6.3.3	Common Issues 179
	6.4	Planning:	Long-Range Demand Forecasts 180
		6.4.1	The Purpose of the Forecast
		6.4.2	The Strategic Plan
		6.4.3	The Supply Forecast
		6.4.4	Matching Supply and Demand 183
		6.4.5	The Input Assumptions
		6.4.6	Other Market Share Considerations 186
		6.4.7	Availability and Reliability 186
		6.4.8	Finally, the Factor of Governmental Policy 187
	6.5	Final Res	· · · · · · · · · · · · · · · · · · ·
		6.5.1	The Single Forecast vs. a Range 188
		6.5.2	The Components of the Forecast 189
		6.5.3	Testing the Forecast
		6.5.4	Reliance on Forecasts 191
	6.6	Public Po	licy Forecasts
		6.6.1	Errors in Public Policy 192
		6.6.2	Omissions in Public Policy 193
	6.7	Concludi	ng Comments
		6.7.1	Conflicting Forecasts 194
		6.7.2	Guidelines
		6.7.3	A Personal Note
		6.7.4	Alternative Forecasts 195
		6.7.5	Resolving Forecasting Conflicts 196
7	The P	ublic Polic	y/Social Engineering Approach to Pricing 197
′	7.1		a's Lifeline/Baseline Rate
	7.1	7.1.1	The California Lifeline Philosophy
		7.1.2	The Lifeline/Baseline Rate Schedule
		7.1.2	Pricing Procedure
	7.2		pponents of Rates
	7.3		icing
	1.5	7.3.1	Prior to 2000
		7.3.1	Real-Time Pricing (RTP)
		7.3.2	Now
	7.4		r GREEN
	/ . **	7.4.1	
		7.4.1	Comparisons
		7.4.2	From the Printed Media
	7.5		nto Marginal Cost Regulation
	1.3	7.5.1	
			<u> </u>
		7.5.2	The Steppingstone

xiv Contents

		7.5.3	The Proxy, a Combustion Turbine 2	14
		7.5.4	Levelization Out, RECC In 2	14
		7.5.5	EPMC Adopted, EDP Dropped 2	14
		7.5.6		15
		7.5.7		15
		7.5.8	* * *	16
		7.5.9		16
		7.5.10	_	16
		7.5.11		16
		7.5.12		16
	7.6	Wind Ra		17
		7.6.1		17
		7.6.2		19
		7.6.3		19
		7.6.4		19
		7.6.5		20
		7.6.6		21
		7.6.7		22
		7.6.8		23
		7.6.9		24
		7.6.10		24
		7.6.11		24
		7.6.12		27
		7.6.13		27
8	Intro	duction to		29
o	8.1			29 29
	8.2	The Mor	C 1	30
	8.3			30
	8.4			31
	8.5		0 1	32
	0.5	8.5.1	1	33
		8.5.2		34
	8.6			36
	8.7		3	36
	8.8		1	37
9				41
	9.1			41
		9.1.1		41
		9.1.2		43
		9.1.3	·	44
		9.1.4		45
		9.1.5	*	46
		9.1.6		46
	9.2			47
	9.3	"Postage	Stamp" vs. Zone Rates	50

Contents xv

	9.4	All-Purp	ose vs. Special-Purpose Rates: Unbundling	252
	9.5		vs. Year-Round Rates	254
	9.6	Rolled-in vs. Incremental Pricing/Old Customer		
			Customer Rates	254
	9.7		vel Changes Across-the-Board	257
	9.8		e-Print" Provisions	259
	9.9		ne	260
10	Tradit	tional Typ	es of Rate Forms	261
	10.1		tion	261
	10.2		ments Defined Again	262
	10.3	Single-Part Rate Forms		
		10.3.1	Flat Rates	262
		10.3.2	Metered Commodity Rates (Also Called	
			Straight-Line Commodity Rates)	264
		10.3.3	Metered Demand Rates	265
		10.3.4	Single-Part Rate Forms and Rate Theory	266
	10.4		t Rate Forms	272
	10.1	10.4.1	The Hopkinson Rate	272
		10.4.2	The Wright Rate	279
		10.4.3	Comparison of Hopkinson and Wright Rate Forms	281
		10.4.4	Two-Part Rate Forms and Rate Theory	282
	10.5		art Rate Forms	287
	10.5	10.5.1	The Doherty Three-Part Rate	287
		10.5.1	The Lester Special-Investment Three-Part Rate	288
		10.5.2	The Zanoff Three-Part Gas Pipeline Rate	289
	10.6		ations of Rate Forms and Special Applications	290
	10.0	10.6.1	Promotional, Incentive-Type Rates	290
		10.6.1	The Objective Rate	290
		10.6.2	Additions to Standard Rate Forms	291
	10.7		ny	292
	10.7	10.7.1	A 1946–1950 Case History with Overtones	272
		10.7.1	<u> </u>	292
		10.7.2	for Today	294
		10.7.2		294
			A 1971 Gas Distributor and Pipeline Tariff	293
		10.7.4	Some Concluding Observations	
11			de	301
	11.1		tion	301
	11.2		g the Market: Load Curves	302
		11.2.1	Load/Demand Curve	302
		11.2.2	Season Usage Patterns	303
		11.2.3	Duration Curve	305
		11.2.4	Planning	306
	11.3		the Market: Analysis Factors	308
		11.3.1	Diversity and Diversity Factor	309
		11.3.2	Load Factor	315

xvi Contents

	11.4	Capacity	Factor	321			
	11.5	Utilizatio	on Factor	322			
	11.6		Factor	322			
	11.7	Power Fa		323			
	11.8	A Note to	o the Rate maker	324			
12	Matte	rs of Judg	ment	325			
	12.1	Part 1: D	ubious Accounting	326			
	12.2	Earlier A	ccounting Results	326			
	12.3		Accounting Results	327			
		12.3.1	Overstatements	328			
		12.3.2	Understatements	328			
		12.3.3	Special Issues	329			
		12.3.4	Potpourri	330			
		12.3.5	Three Tidbits over 10 Years	331			
		12.3.6	Debt Concealment	332			
		12.3.7	At the Borderline	332			
	12.4	An Appra		333			
	12.5		e: Utility and General Corporate Accounting	333			
		12.5.1	Lack of Uniformity	334			
		12.5.2	The Question of Prudence	336			
		12.5.3	AFUDC	337			
		12.5.4	Deferred Income Taxes	338			
	12.6		he California Energy Crisis	339			
	12.7	1996: Assembly Bill 1890					
	12.8	Optimism Reigns: No Doubts (1996)					
	12.9	The Lull Before the Storm (1997–1999)					
	,	12.9.1	FERC's Approval	342 343			
		12.9.2	Sales of California Generation Capacity	343			
		12.9.3	The California PX	344			
		12.9.4	Acquisitions of Generating Capacity				
		12.5.1	Beyond California	345			
		12.9.5	Other Notes of the Majors	347			
		12.9.6	Rate Reduction Bonds	348			
	12.10		m Hits: The Energy Crisis (2000–2001)	348			
	12.10	12.10.1	PG&E Corporation and Edison International	349			
		12.10.1	Other Activities of PG&E Corporation	5.5			
		12.10.2	and Edison International	352			
		12.10.3	The Special Case of Sempra Energy, Parent	352			
		12.10.3	of San Diego Gas and Electric Company	354			
	12.11	Chronolo	ogy: The Crisis and Its Aftermath (to Early 2002)	356			
	12.11	12.11.1	November 1999	357			
		12.11.1	August 2000	357			
		12.11.2		361			
		12.11.3	January 2001	382			
		14.11.4	I CUIUAI V ZUUZ	202			

Contents xvii

12.12	Commen	ts
	12.12.1	The Fatal Contradiction
	12.12.2	Regulatory and Economic Failures 390
	12.12.3	The Divestiture of Generating Capacity
		by California Utilities
	12.12.4	The Issue of Long-Term Contracts 392
	12.12.5	The Uniform-Price Auction
	12.12.6	The Neglect of Costs
12.13	From Sto	rm to Turmoil
12.14	P.S 200	
	12.14.1	Pacific Gas and Electric Company 394
	12.14.2	Edison International
	12.14.3	Sempra Energy
	12.14.4	Statutory Changes
	12.14.5	CPUC Actions
12.15		ne 2008–2009 Recession
12.16	Toxic Ass	sets in Action: The Beginning
	12.16.1	The Securitization Process in Detail 398
	12.16.2	The CDS
	12.16.3	The CMBS
	12.16.4	A Bond Called Jupiter 400
12.17		led History
12.18		ailouts
12.19		ncial Crisis
12.20		outs
12.21		cive Environment
12.22		403
12.23		from September 10 to October 10, 2008 404
12.24		s of the Giants
12.25	_	n
12.26		istics
12.27		406
12.28	Acronym	s and Definitions
Index		