

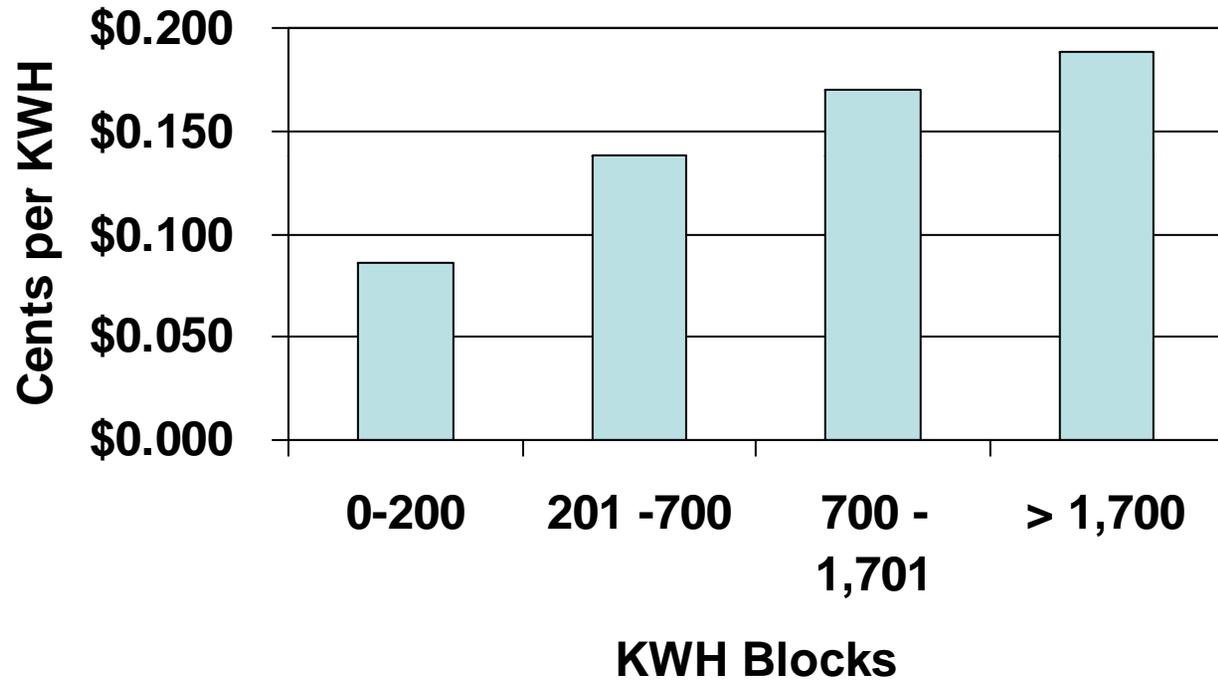
Inverted Block Rates

Science and Technology Committee
July 20, 2010

Inverted Block Rates - Definition

A cost structure for energy in which each additional block or unit of energy above a given level is charged at a higher rate than preceding blocks.

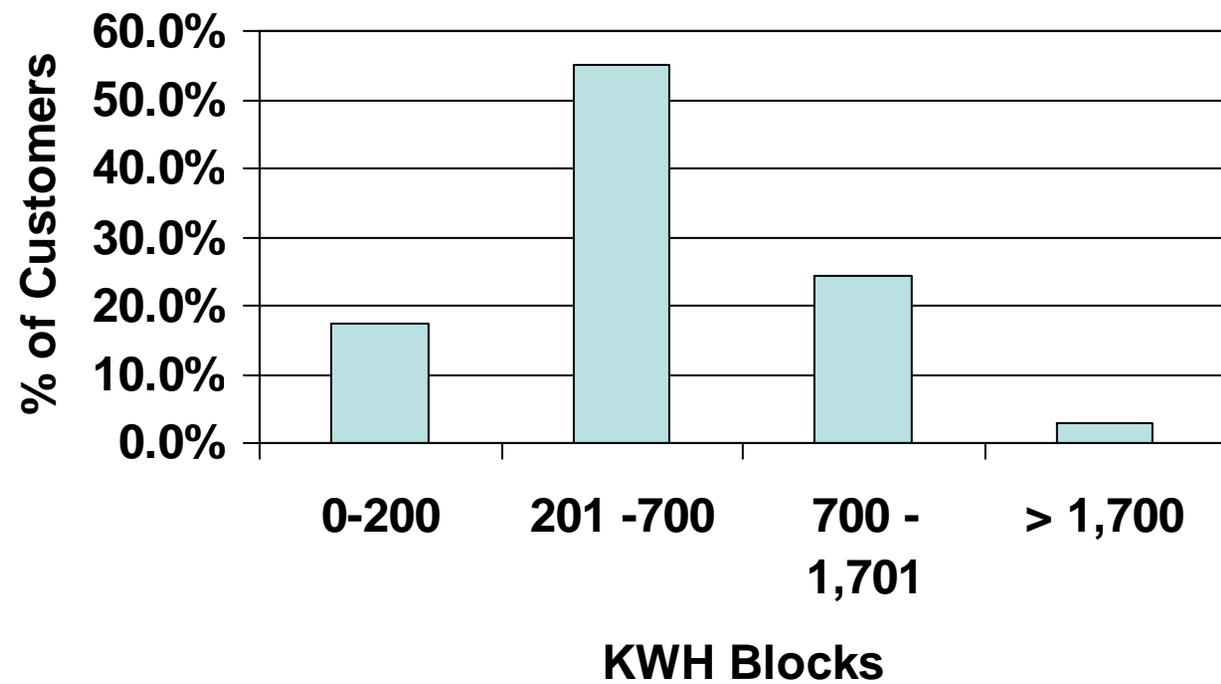
PNM's Proposed Inverted Block Residential Rate Structure – North Only



The power to make life better. Together.



Distribution of Residential Usage - Summer North Only



The power to make life better. Together.



Why an Inverted Block Rate Structure?

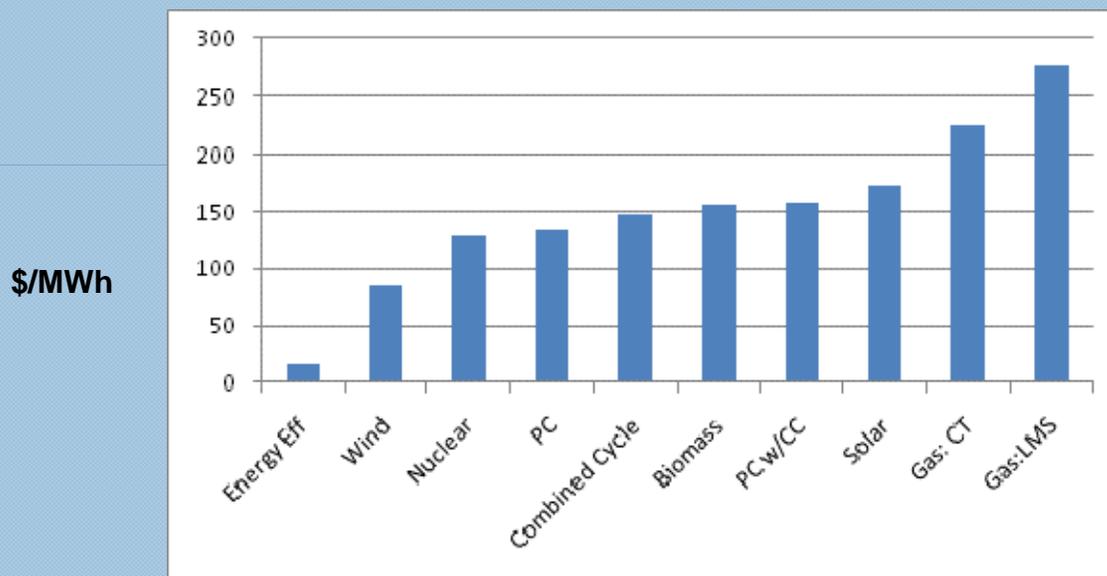
Promotes conservation but not economic efficiency

Reduces rates in the lower usage blocks

Recognizes that the future cost of generation is more expensive than today's cost of generation



Economic Efficient Rates Avoid Costly Peak Resources



The power to make life better. **Together.**



Inverted Block Rates and Decoupling: A Good Match

Decoupling, instead of straight/fixed variable, allows for greater cost recovery in the higher blocks thus a greater reward for responding to the price signal

Decoupling surcharges can be applied only to the higher blocks while decoupling refunds are applied only to the lower blocks

Without decoupling, the last block cannot be priced at marginal cost which would mitigate the conservation price signal