2. USER CHARGES

Customer charges for electric service generally involve two components—a demand charge and an energy charge. The demand charge relates to the kilowatts of capacity that the utility agrees to make available to the customer upon demand, or within the limits of some specified demand schedule. The energy charge is related to the kilowatt-hours of energy that the customer uses. Residential bills generally do not include a demand charge, per se, but many utilities have a minimum charge for maintaining a service connection.

Electric utilities provide what is essentially a monopolistic service. The pattern of assigned service areas and controlled rates has evolved as a matter of mutual interest of utilities and legislative bodies in assuring optimum service to all customers at minimum practicable prices. The statutes of 46 States provide for public service commissions with varying degrees of statewide jurisdiction over investor-owned electric utilities. These commissions typically regulate rates for retail sales, standards of service, issuance of securities, and accounting. Local regulation—directly and by franchise—is a factor in Minnesota, South Dakota, and Texas, where statewide regulations do not exist. In Nebraska, all electric utilities are publicly owned.

The interstate wholesale rates and services of investor-owned utilities are subject to the jurisdiction of the Federal Power Commission. The Commission's jurisdiction also extends to accounting, some compulsory interconnections, utility mergers, control of interlocking directorates, and, in some instances, issuance of securities by or of public utilities engaged in interstate commerce of electric energy.

Rates for all types of electric service by investor-owned utilities are based on the premise that revenues will: (1) permit recovery of capital investment during the useful life of the facilities, (2) cover annual operation, maintenance, and other costs, and (3) permit a reasonable return on the investor's capital. While electric rates are geared to the cost of doing business, rate regulation has not limited the incentive of utilities to increase their profits by providing increased service at the lowest possible cost. Experience has demonstrated that the electric power industry has been able to keep down cost to consumers even when the prices of almost all other basic services were increasing.

According to the BLS Consumer Price Index (based on 1957–59 prices equals 100) the index of electricity prices was 102 in the first quarter of 1966 compared with 102.1 a year earlier; during the same period the Consumer Price Index for all commodities and services increased from 108.9 to 111.5. Since 1945 the price index for electricity has risen about 6 percent while prices of all commodities have increased about 85 percent.

C. Trend in Capital Outlays

Table 5 summarizes capital expenditures of the industry for the period 1948 to 1966. The data, which were taken from *Electrical World* surveys, vary in coverage from roughly 84 to 92 percent of the entire industry.