Agenda

- Rationale
- Nonlinear Pricing
- Multi-part Tariffs
- Peak-Load Pricing

Rationale

- Efficient Prices
- Welfare Highest
- Sum of PS & CS

Rationale

- Efficient Prices
- Winners Compensate Losers
- Break-even Constraint Lowers Welfare
Rationale

- Efficient Prices
- Winners Compensate Losers
- Break-even Constraint Lowers Welfare
- Pricing examples

Two-part Pricing

- Entrance Fee + Usage Charge
- Declining Block Tariff
Two-part Pricing

- Entrance Fee + Usage Charge
- Declining Block Tariff
- Volume Discount Tariff

Volume Discount

- Entrance Fee + Usage Charge
- Declining Block Tariff
- Volume Discount Tariff
- Self-selecting Two-part Tariff

Self Selecting Two-part Pricing
Two-part Pricing

- Entrance Fee + Usage Charge
- Declining Block Tariff
- Volume Discount Tariff
- Self-selecting Two-part Tariff
- Peak-load Pricing

Peak-Load Pricing

Economic Profits = 0

Demand

Price

P

MCp + MCop

Uniform Price

MCop

Economic Profit

Price

P

MCp + MCop

Uniform Price

MCop

Demand

Q_p

Q_op

Quantity

Economic Loss

Economic Profits = 0

Total Economic Profits = 0

Price

P

MCp + MCop

Uniform Price

MCop

Demand

Q_p

Q_op

Quantity

CS Loss

CS Gain

Total Economic Profits = 0

Price

P

MCp + MCop

Uniform Price

MCop

Demand

Q_p

Q_op

Quantity
Peak-Load Pricing

- Cost on the Cost Causers
- Peak Users Cover Peak Investments
- Valid even if Peak Demand not repressed

Multi-part Tariffs

- Nonlinear
- Entrance Fee and Usage Charge
- Improve Efficiency
- Big/Little Example

Multi-part Tariffs

- Mr. Little is excluded from the Market
- Mr. Big Covers the "Fixed" Cost
- Can Improve Welfare?
- Yes! -- with a Two Part Tariff
Multi-part Tariffs

- Charge Mr. Big the "Fixed" Costs & the Marginal Costs
- Mr. Little the Marginal Costs
- No Profit Change, but Welfare increase for both

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**Rationale**

- Self-selecting Two-part Prices
- Pareto Dominating
- Equivalent to Declining Block Prices

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**Multi-part Tariffs**

**Two-part Tariffs**

**Agenda**

- Rationale
- Nonlinear Pricing
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