

# Decoupling: Should Ratepayers Be Worried?

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# What is the stated objective?

- Aligning regulatory incentives with demand-side resources
- Removing regulatory disincentives to investment in energy efficiency
- Eliminating the conflict between profitability and energy efficiency

# Underlying Premises

- Utilities will not invest in energy efficiency without special financial incentives.
- It is possible to accurately identify the sales and revenue declines that result from energy efficiency efforts by consumers.
- Those declines are significant to the utility.

# The Answer (?)

- Decoupling –to sever the link between utility sales and revenues

# The Packaging

“Decoupling breaks the link between the volume of therm sales and the recovery of fixed costs and would provide for an **increased focus on energy efficiency and conservation.**”

Avista Petition to WUTC for natural gas decoupling mechanism, Docket UG-060518)(emphasis added)

# What if you don't get it right?

Poorly designed decoupling can result in:

- Major expense for ratepayers
- A mere revenue stabilization mechanism for the utility
- A significant shift of risk from shareholders to ratepayers
- Over-recovery for the utility
- Failure to achieve gains in energy efficiency
- Piecemeal regulation

# What if you don't get it right?

- **The “disguised rate increase” problem**

A 9.4 percent general rate increase disguised as “decoupling.” Use of 10 year old test year as basis for average use per customer meant customers paid for historic declines and saw nearly 10 percent per year increases even under normal weather with no additional conservation. (Cascade Natural Gas, WUTC Docket No. 051651 )(WITHDRAWN)

- **The “windfall profits” problem**

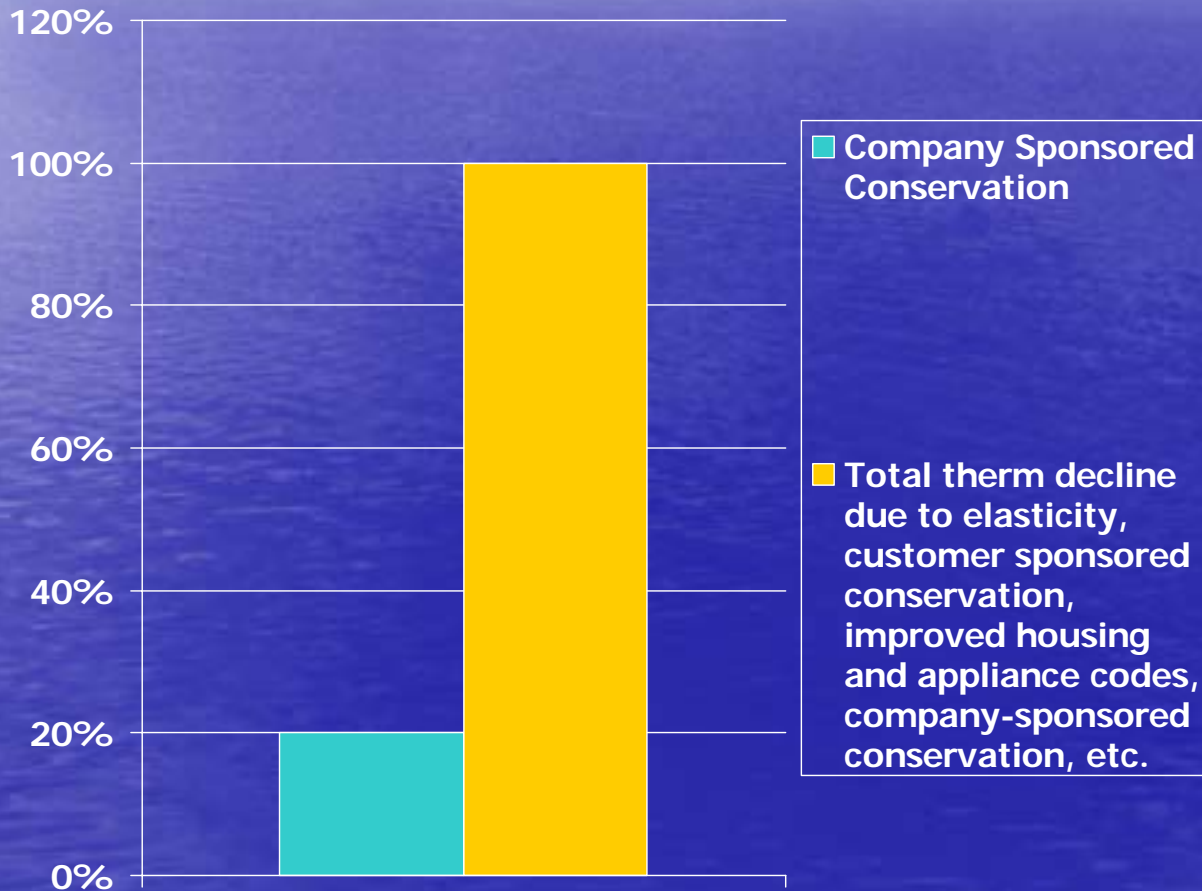
A proposal to lock in fixed cost recovery through a decoupling mechanism when the utility could sell conserved power in the wholesale market for more than retail rates, so that any reduction in retail sales would increase profits, even without a decoupling mechanism. (WUTC v. PacifiCorp, WUTC Docket No. UE-050684)(REJECTED)

# Many factors contribute to decline in use per customer

- Price elasticity
- Non-company sponsored conservation
- Federal appliance efficiency standards
- Turnover of housing stock
- More efficient building codes
- Economic conditions
- Company-sponsored energy efficiency

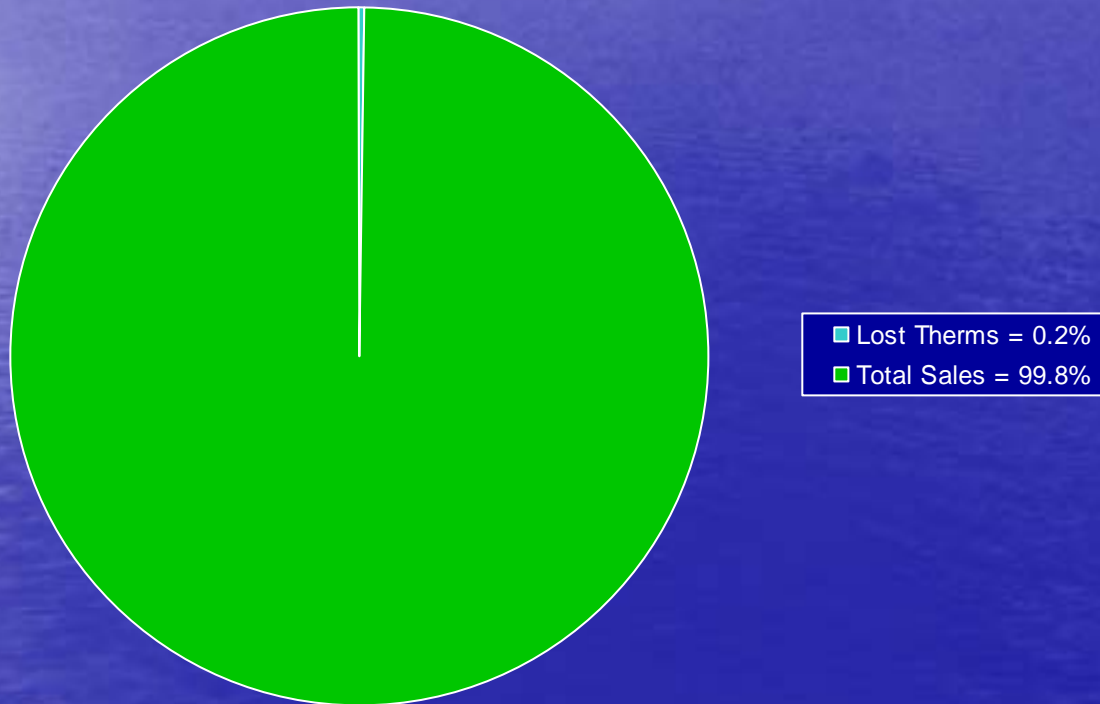
# The Scale of the Problem:

## Causes of residential therm decline



# Scale of the Problem:

Lost sales from utility conservation programs compared to total sales



# The Policy Question

- To what extent do you want to guarantee recovery of revenue lost due to ALL of the factors that cause decline?
- (Not -- are you in favor of energy efficiency?)

# What do customers want?

- Affordability (stop the beatings!)
- Stability - Infrequent rate changes
- Bills they can understand
- Balanced, non-piecemeal regulation
- Conservation and energy efficiency

# What does decoupling offer?

- More complexity (e.g. weather adjustments, new customer issue)
- More frequent rate changes
- Less stability
- More confusion
- Another “tracker” that changes customer rates without a rate case
- Piecemeal regulation of an isolated, negative industry trend in usage per customer

# What is the stated objective again?

- Aligning regulatory incentives with demand-side resources
- Removing regulatory disincentives to investment in energy efficiency
- Eliminating the conflict between profitability and energy efficiency

# Before we throw money at the problem, is there:

- A utility track record of conservation and energy efficiency?
- Experienced and committed utility staff?
- Supporting state and regional infrastructure, institutions (e.g. Northwest Power and Conservation Council, NW Energy Efficiency Alliance, State Energy Office)?
- Third party vendors, evaluators?
- Robust conservation resource analysis as part of integrated resource/least cost planning?

# Alternatives to decoupling

- Lost margin recovery mechanism
- Conservation/energy efficiency incentive mechanism
- Third party provider of energy efficiency services

# “Twelve Issues” any decoupling proposal must address:

- Scope of risk (conservation, weather or both)
- Scope of fixed costs included
- Customer classes included
- True up accounting detail
- Method of cost recovery
- Design of pilot test period and evaluation method

# The “twelve issues” continued...

- Timing and calculation of rate adjustments
- Impact of new customers on revenue recovery
- Impact on low-income customers
- Identification of incremental conservation measures to be undertaken
- Development of energy conservation targets.
  - WUTC v. PacifiCorp, UE-050684, Order No. 04, April 17, 2006 (rejecting decoupling proposal)

# Things tried and discontinued in Washington

- 1980-1990 2 % Bonus Rate of Return Result: incentive to spend more on conservation programs, regardless of cost-effectiveness
- 1990-91 ECAC Conservation incentive award based on short-term energy savings  
Result: incentive for cream-skimming
- 1991-96 Periodic Rate Adjustment Mechanism (PRAM) with full distribution cost decoupling  
Result: Steady upward rate adjustments

# Conclusion

- What is the goal?
- More company-sponsored energy efficiency and conservation?
- If so, is decoupling the most affordable, and effective way to direct ratepayer and company resources?