

Utility Revenue Decoupling

What is decoupling?

Under current regulation, most utilities' revenue generation is tied directly to retail sales, and therefore any reduction in energy consumption directly reduces the companies' profitability. This creates a perverse direct financial disincentive for utilities to support energy efficiency and clean and renewable distributed generation, such as solar energy.

The purpose of a decoupling mechanism is to remove this disincentive, by eliminating the link between electricity sales and profits. Under decoupling, instead of linking utility profits to the amount of power sold, profits are linked to the number of customers served. A simple system of periodic true-ups in base rates would either restore to the utility or give back to customers the dollars that were under- or over-collected as a result of fluctuations in electric consumption and retail sales. This will correct for disparities between the utility's actual fixed cost recoveries and the revenue requirements approved by utility regulators.

However, a decoupling mechanism alone only removes the disincentive to support energy efficiency and solar energy. To be most effective in promoting energy efficiency and solar energy policies, decoupling should be linked with specific targets and create rewards for utilities for achieving environmental targets beyond their mandates.

A well designed decoupling mechanism does not shift risks from utilities to consumers, but instead shifts the variables that determine utilities' financial health. Instead of increasing profits by increasing sales, utilities should be able to increase profits by improving performance, reliability and service.

Why decoupling is good for solar

With a properly-designed decoupling mechanism, utilities are more inclined to promote energy efficiency and solar energy. States such as California, who adopted decoupling in 1981, have had great success with energy efficiency and solar energy. As a result:

- While population steadily grew over the last three decades in California, per capita usage remained flat. California also uses 55% less energy per capita than the nationwide average.
- California has invested more money in energy efficiency and solar energy programs than any other state.
- In 2006, California accounted for 63% of the national solar market

Decoupling encourages IOUs to support, not block, state solar programs. It helps eliminate the rationale for utility lost revenue surcharges, which positively affect solar project economics.

Solar Alliance position

The Solar Alliance supports states adopting a decoupling mechanism that:

- Eliminates the link between utility profits and utility sales
- Rewards utilities for improved performance and reliability
- Encourages maximum energy efficiency and solar energy penetration
- Is developed in conjunction with a system that sets specific energy efficiency and clean distributed generation targets, and rewards utilities for achieving those targets.