

Utility Revenue Decoupling

A Critical Policy to Promote Solar
Energy and Energy Efficiency

The Problem

- Today, most utilities in the United States have a financial **DISINCENTIVE** to promote conservation, energy efficiency, and solar energy because their revenues are tied to energy sales
- The less energy they sell, the less money they make
- As a result, a perverse financial incentive has been created:

More energy sold => more revenues => more power plants, more transmission, more pollution, more risk

The Solution

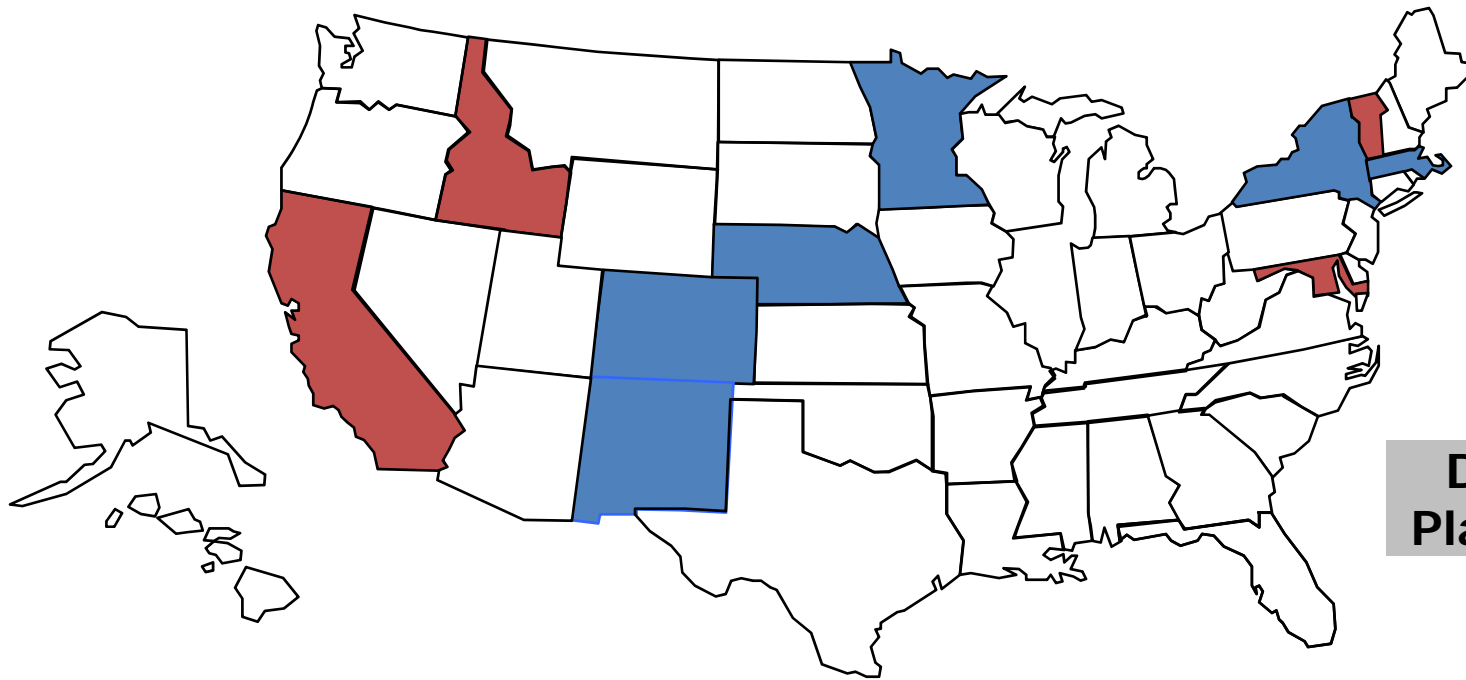
- Utility revenue decoupling is a ratemaking policy that breaks the link between sales and profits and eliminates the financial disincentives that prevent utilities from supporting more solar and energy efficiency
- How it works: Instead of linking utility profits to the amount of power sold, profits are linked to the number of customers served with assurance that the utilities will be made whole through periodic true-ups.
- Benefits: Aligns the utility profits with the environmental & ratepayer goals (no financial rewards for utilities to invest in expensive new polluting power plants)
- Revenue decoupling needs to be part of a larger strategy for utilities to encourage maximum utility support of energy efficiency and solar energy penetration
- To be most effective, decoupling must be linked with mandated energy efficiency and solar targets as well as a system that rewards utilities for achieving those targets

How Revenue Decoupling Works





- Decoupling builds utility support by stabilizing revenues for those with widespread energy efficiency and solar energy adoption.
- How?
 - Revenues are tracked
 - Any revenues in excess of the amount needed to recover costs plus reasonable rate of return are returned to ratepayers.
 - If revenues are insufficient to provide the authorized reasonable rate of return, that shortfall is carried over into the next period and reflected in rates.
- Revenue decoupling ensures that the utility is made whole, nothing more, nothing less.

Who's Doing Electric Decoupling?



**Decoupling in
Place in 4 States**

-  Electric decoupling in place in California, Idaho, Vermont, Maryland
-  Electric decoupling under consideration in New York, Colorado, Nebraska, Minnesota, New Mexico and Massachusetts

The California Experience

- California, which initiated revenue decoupling in 1981, has had the policy in place longer than any other state
- Today California uses 55% less energy per capita than the nationwide average
- California utilities to invest more money in energy efficiency and solar energy programs than any other state in the nation:

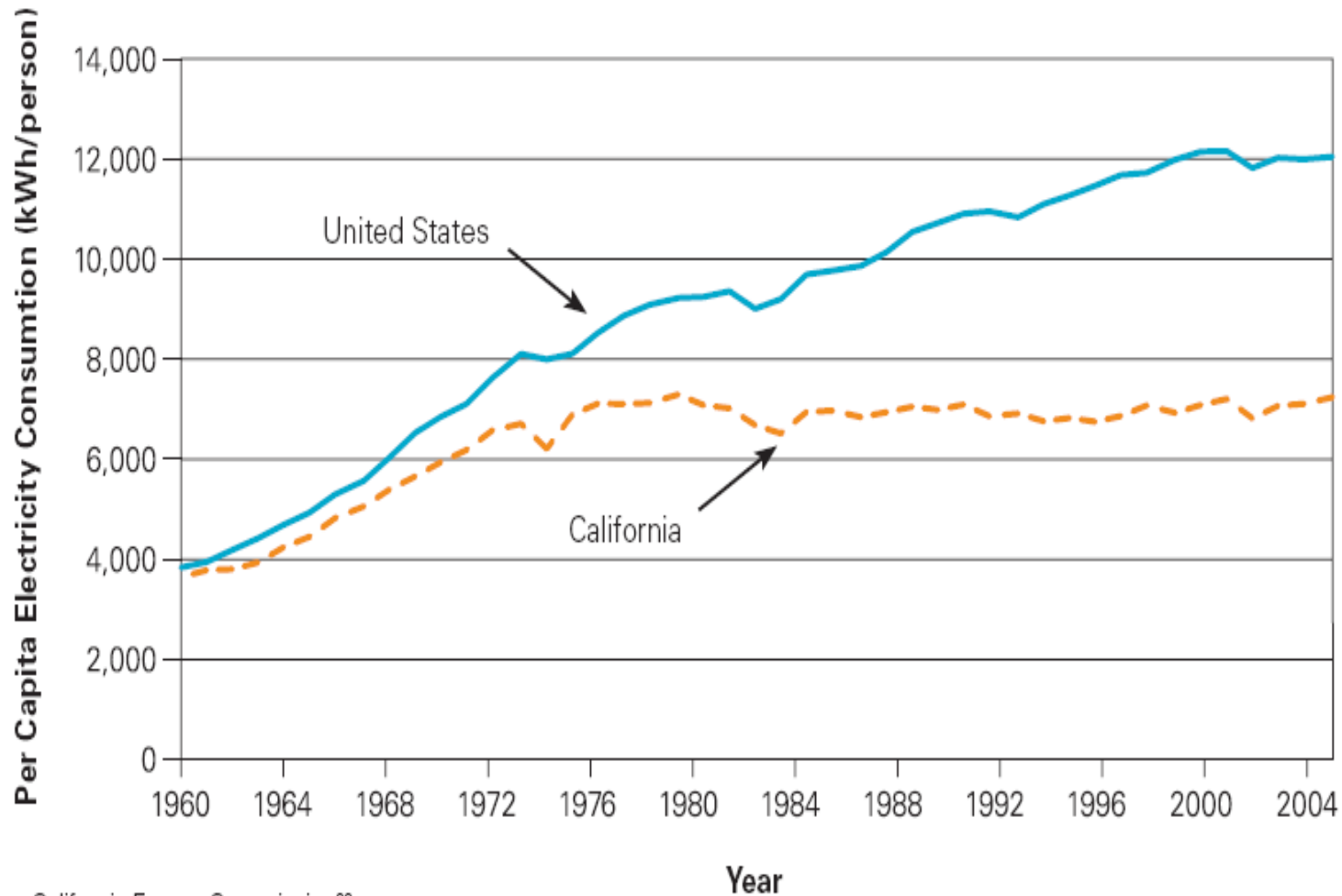
CA INVESTOR OWNED UTILITY PROGRAMS:

Energy efficiency: \$2.1B for 2006-2008

Distributed Generation Solar: \$2.5B for 2006-2016

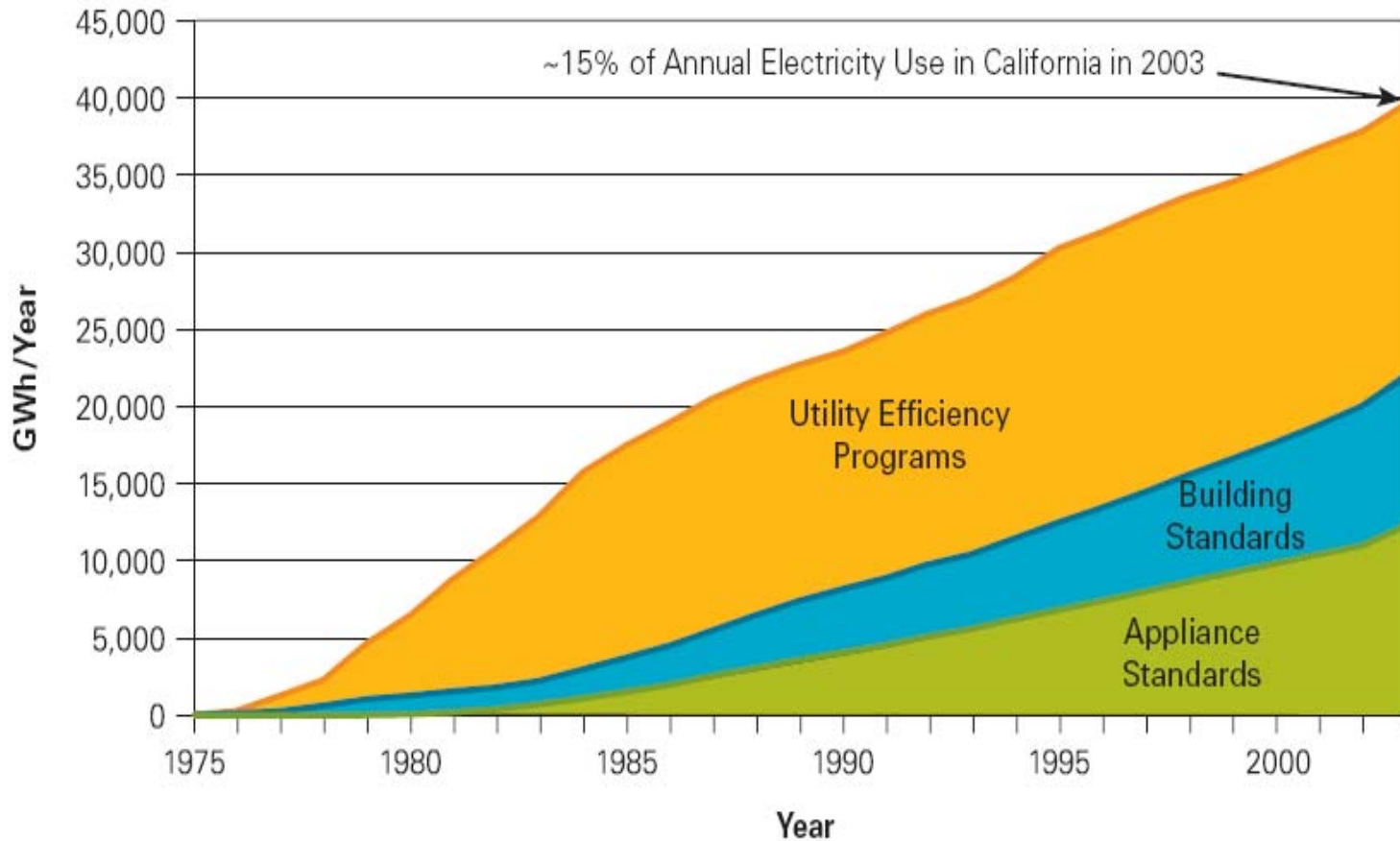
- In 2006, California accounted for 63% of the national solar market

Per Capita Electricity Consumption California vs US



Source: California Energy Commission³³

CA Utility Efficiency Programs are now the largest Source of Energy Savings in the State

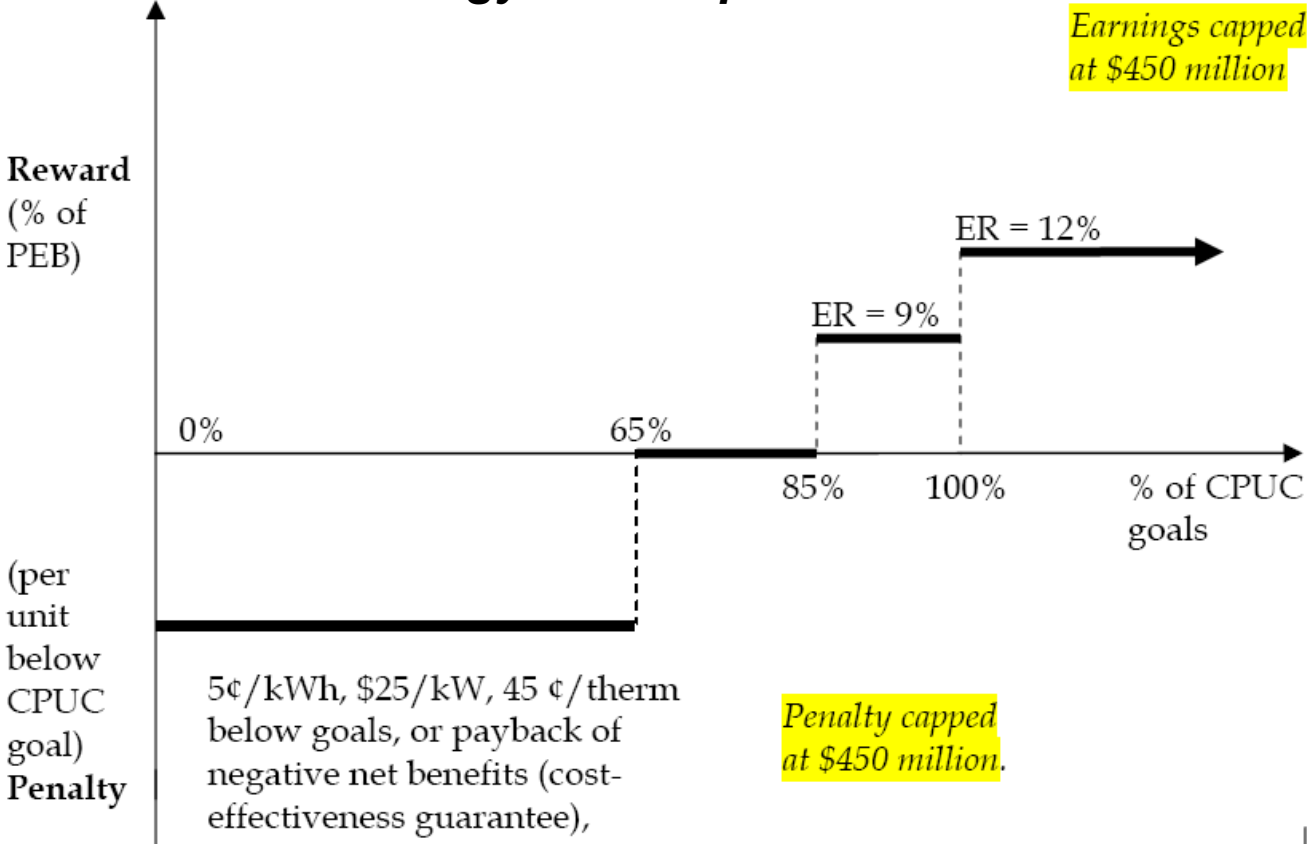


Source: California Energy Commission³²

Rewarding Energy Reductions in California:



Utilities that are below 65% of the state energy efficiency goal pay a penalty, those that are above get a bonus which increases the more energy consumption is reduced



Decoupling Types

Basic Revenue-per-Customer Decoupling

- Holds class average revenues-per-customer (RPC) constant, or may have a periodic increase or decrease in average revenues-per-customer
- Based on prior rate case values
- The difference (positive or negative) flows back to customers in a small adjustment to unit rates
- Monthly (or other periodic) adjustment mechanism similar to traditional fuel and purchase power adjustments

“Advanced” Decoupling

- RPC value periodically adjusted for inflation and/or productivity
- Can be combined with performance goals and incentives
- Adjustments can be bounded (SDG&E/SoCalGas) and/or “shared” with customers (PGE/Northwest Natural Gas, Oregon)
- California has the most comprehensive decoupling and Performance Based Ratemaking mechanisms

Source: Regulatory Assistance Project, “Barriers and Incentives: Enabling Energy Efficiency” Presentation, 10/29/2007

Utility Revenue Decoupling

What's in it for the customer



- Lower total cost
 - Energy efficiency is typically the fastest, cleanest, & cheapest energy resource for customers
- Reduced pollution
 - Removes financial barriers to energy efficiency and solar energy etc.
- Correctly aligns profitability with public policy (something traditional regulation does not do)
- Allows for greatest customer energy choice