

# DECOUPLING

## Removing the Disincentive for Utilities to Invest in and Encourage Energy Efficiency

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FUNDAMENTAL NEGOTIATION RULE – *You've got to solve your adversary's problems to get what you want.*

***But Don't Give Away the Store***



## Utility Problems:

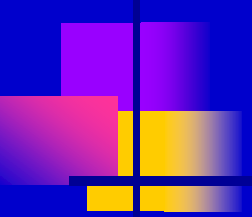
**Conservation reduces a utility's revenues.** For an IOU that means lower profits. It is fundamentally against its shareholders' interests to fund conservation, run good conservation programs or help in legislative efforts to tighten building codes and appliance efficiency standards.

- **Falling Revenues**—and thus profits--can also occur if usage drops for reasons other than conservation, such as a warm winter or economic decline.
- **Uncertainty**—variable revenues due to weather and economic conditions, especially for a gas utility, mean a utility must carry higher reserves which can lower its credit rating, increasing its cost of capital.

# Our Problems



- Utility programs are under-funded and not aggressive enough.
- Utilities fight us in the Legislature over tightening building codes and appliance efficiency standards.
- Utilities resist renewables on customer-side of the meter.
- Utility rate-cases are asymmetric. When utilities lose money they initiate ratecases quickly. When they are over-earning, however, it is very difficult for advocates to bring them in.

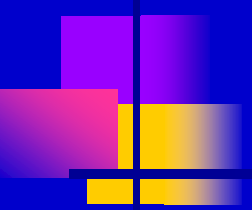


**The Solution – Decoupling.** Provide a mechanism to adjust rates periodically, with a surcharge or credit, to keep utility “whole.”

Decoupling mechanisms adjust for either one or both of two factors:

- (a) Changes in per-customer use due to weather
- (b) Changes in per-customer use due to non-weather-related factors such as conservation, load growth and changes in the economy

# Weather Adjustments

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- Weather risk is more important for gas utilities. Other risks are less volatile.
  - NW Natural's adjustment is best. Weather adjustment is done on each bill; non-weather adjustment is applied yearly. Not all utilities have a billing system capable of doing this type of weather adjustment -- if not, we should oppose.
  - ***Weather adjustment is not just good for the utility.*** Consumers get slightly higher bills in warmer-than-average months, when the bill is low anyway. In cold months, when folks are having trouble paying, the bill is reduced. This adjustment doesn't shift risk from the utility to customers, it *swaps* utility risk with customers, benefiting both.



# Non-Weather Adjustments

- Best done annually
- Can be constrained to a cap -- e.g., no more than 2%
- Rate is increased or decreased so as to provide utility with recovery of approved amount of fixed costs,  
***No more, and no less.***
- Note that rates can go down if per-customer usage increases.



## WHAT SHOULD WE GET IN RETURN?

■ Decoupling provides the utility with real advantages.

- Reduced weather risk;
- Recovery of lost revenues when average per-customer usage decreases;
- Improved Commission, public and consumer-relations, since the utility can now be enthusiastic about conservation.

So what should consumers get as their part of the deal?

# Commitments from Utility (1)

- Commitment to invest in efficiency. Decoupling removes the company's disincentive for conservation, but it doesn't create an incentive to do it. *Commitment should both be for **programs** and **legislative assistance** on code and standard improvements.*
- Reduced rate of return. Because decoupling (especially for weather) reduces a utility's risks, its credit rating will improve and its cost of capital should decrease. This should be translated into reduced rates.

## Commitments (2)



**Periodic rate cases.** Historically, regulation is based on cost of service and has worked well to keep revenues in line with costs, though over-earning is common due to the asymmetry of the process. Decoupling -- a “revenue per customer” instead of cost-based calculation -- is a significant departure with automatic rate changes. In order to ensure that costs and revenues do not diverge too much over time, a decoupling proposal should include periodic cost reviews. It may not need to be a full-blown rate case, but it needs to look at rate base, expenses, and rate of return, perhaps every three years.