

DECOUPLING

Description:

Historically, distribution companies establish an electricity sales forecast that includes both fixed and variable costs of electricity production, and set rates in accordance with that forecast. Once these rates are determined, the distribution companies' revenue is directly dependent on the amount of kilowatt hours sold. Under this construct, a reduction in kilowatt hours sales due to the success of efficiency programs can be harmful to a distribution company's financial performance. One solution is to "decouple" utility sales from revenues so there is less of a disincentive for companies to invest in energy efficiency.¹

There are several options available to achieve decoupling. Both the Natural Resources Defense Council (NRDC) and The American Gas Association (AGA) support mechanisms that use rate "true-ups" and performance-based incentives designed where distribution companies can share savings associated with cost-effective energy efficiency programs. States such as California, Oregon, New York, Washington, and Idaho, have either implemented or are currently looking at implementing decoupling policies.²

Supporting Documents:

Do Electric-Resource Portfolio Managers Have an Inherent Conflict-of- Interest with Energy Efficiency? Devra Bachrach and Sheryl Carter, Natural Resources Defense Council For ACEEE Summer Study, 2004.

http://www.neep.org/policy_and_outreach/ACEEESTudy.pdf

"Efficiency: The Core of California's Energy Future" By Judith Iklé, Branch Manager, Energy Division California Public Utilities Commission

<http://www.ase.org/content/article/detail/2168#GH>

"Breaking the Consumption Habit Ratemaking for Efficient Resource Decisions" By Sheryl Carter, NRDC. From *The Electricity Journal*, December 2001.

<http://www.nrdc.org/air/energy/abreaking.asp>

Statements of Organizations:

The American Gas Association (AGA) and the Natural Resources Defense Council (NRDC) joint statement to the National Association of Regulatory Utility Commissioners

¹ Carter, Sheryl. "Breaking The Consumption Habit Ratemaking for Efficient Resource Decisions". This article by NRDC's Sheryl Carter appeared in *The Electricity Journal*, December 2001.

² Comments by Northeast Energy Efficiency Partnerships, Inc. to the Connecticut Energy Advisory Board on the Proposed 2005 Connecticut State Energy Plan. January 13, 2005.

(NERUC), July 2004. http://www.ase.org/imgs/lib/e-EFFICIENCY/joint_AGA_NRDC_NARUC_statement.pdf

Regulatory Documents:

New York:

State of New York Public Service Commission Docket 04-E-0572 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Electric Service

[http://www3.dps.state.ny.us/pscweb/WebFileRoom.nsf/Web/BFCF5488B5C3620A85256FCD005A5F0F/\\$File/04e0572.ord.03.24.05.pdf?OpenElement](http://www3.dps.state.ny.us/pscweb/WebFileRoom.nsf/Web/BFCF5488B5C3620A85256FCD005A5F0F/$File/04e0572.ord.03.24.05.pdf?OpenElement)

Comments by The New York State Consumer Protection Board on Docket 03-E-0640: Proceeding on Motion of the Commission to Investigate Potential Electric Delivery Rate Disincentives Against the Promotion of Energy Efficiency, Renewable Technologies and Distributed Generation.

<http://www.consumer.state.ny.us/pdf/Utility%20Incentives%20Reply%20Comments%2011-21-03.pdf>

Oregon:

Order 02-634 - Public Purposes Funding and Distribution Margin Normalization

<http://www.puc.state.or.us/orders/2002ords/02-634.pdf>

Initial Testimony of the NW Energy Coalition, Natural Resources Defense Council, Citizens' Utility Board of Oregon, Community Action Directors of Oregon, and Oregon Office of Energy before the Oregon Public Utility Commission, October 2001.

<http://www.nwenergy.org/utilities/docs/decouple.html>