DECOUPLING

Making Energy Efficiency a Reality...

E4 Inc.

http://www.e4energy.org/

What is Decoupling?

Decoupling is the process of removing utility disincentives to support energy efficiency. Currently, profits made by utilities are directly related to the amount of energy consumed. Under this structure, efficiency is detrimental to both the utility and their stockholders.

How are Utility Rates Currently Determined?

Rates are comprised of a utility's fixed costs, the cost of labor and fuel, a reasonable rate of return on capital investment, and dividends paid to stockholders. If a utility wishes to change a rate, the adjustment must first be approved by the Public Service Commission of Wisconsin, which approves or disapproves the rate based on assumptions about retail sales. Under this system, a utility can both under or over-recover authorized costs, resulting in a loss or a profit.

How will Rates be Determined with Decoupling?

By adjusting utility rates in the form of true-ups, a utility's ability to recover authorized fixed costs can be decoupled from sales. A true-up corrects for disparities between a utility's actual fixed cost recoveries and the revenue requirement established by the PSCW. Dollars that are over- or under-recovered will be either restored to the utility or given back to the customers. This system does not change the rate structures and it assures that a utility will always recover authorized fixed costs, regardless of sales, which encourages engagement in energy efficient practices.

What Happens After Decoupling is Instated?

In order for decoupling to be effective, it must be supplemented by a cost-recovery system to provide funding for utilities' energy efficiency programs. Utilities' should also be able to receive a performance-based reward for their measured and verified clean energy successes, while incurring corresponding penalties for failure to achieve minimum targets.

How Decoupling Affects…

Utilities and their Stockholders:

With decoupling, the wind fall profits or losses that resulted from inaccurate rate forecasting will be eliminated. Instead, utilities will be assured that success in helping customers reduce energy use does not automatically translate into shareholder pain, in the form of reduced fixed-cost recovery. At the same time, of course, utilities will be giving up the ability to profit from sales increases, so regulators in other states typically have concluded that decoupling should not affect overall authorized rates of return. Utilities are not guaranteed any particular level of profitability under decoupling, and their incentives to minimize costs are undiminished.

As utilities begin to implement efficiency programs more enthusiastically, energy demand should stabilize and eventually decline. Lower customer demand results in less investment in building new or expanding current power plants. The cost of increasing property, plant, and equipment assets to accommodate energy demands is enormous. However, if demand falls, this money can be reallocated to stockholders or reinvested in improving the utility's operating efficiency to name a few possibilities.

The Commercial and Industrial Sector:

More progressive energy efficiency programs established as a result of decoupling will help commercial and industrial energy customers lower energy bills, conserve energy, and possibly gain emissions credits. A cap-and-trade program that allows the commercial and industrial sector to trade such credits is still pending, but if approved, emissions credits could become a very valuable asset.

As decoupling allows more energy producers and consumers to practice energy efficiency, the demand for energy will level off or even begin to fall. Subsequently, fuel costs would decrease, resulting in lower rates and even lower bills for the energy intensive commercial and industrial sector.

The Residential Sector:

Decoupling will not impose any new or additional costs on customers and initially rates will only oscillate up or down very modestly. However, residential electric consumers will now have more opportunities to use energy efficient practices in their own home through their utility's support, which will result in lower utility bills. As energy efficiency becomes a more prevalent practice, the residential sector will also benefit from overall declining utility rates.

Successful Decoupling in Action→

Adopted Gas Decoupling:

- Arkansas, California, Indiana, Maryland, Missouri, Ohio, Oregon, Nevada, New Jersey, New York, North Carolina, Utah, Washington

Adopted Electric Decoupling:

- California, Delaware, Maryland, Idaho, New York

Pending Gas Decoupling:

- Arizona, Colorado, Delaware, Illinois, Massachusetts, Michigan, Minnesota, New Mexico, Pennsylvania, Tennessee, Virginia

Pending Electric Decoupling:

- Hawaii, Massachusetts, New Hampshire, New Jersey, Wisconsin

California was the first state to decouple revenue from sales in 1978 for natural gas and in 1982 for electricity. Consequentially, the state's utilities are conducting the nation's most aggressive energy efficiency programs. In contrast to the continually increasing national trend, California's electricity use per capita has remained relatively unchanged for the last 30 years. To meet the energy demands for a rapidly growing population, California recently has doubled its energy efficiency targets, which will result in an estimated net benefit of at least $10 billion in energy savings over the next decade.

Why Is Decoupling the Future?

* **Decoupling is essential for sustained progress in energy efficiency.**
* **Under decoupling, utility investments in energy efficiency can have the same effect as building new power plants at 1/3 to 1/4 of the cost.**
* **The Governor's Task Force is suggesting that 3-4 times more money be spent on energy efficiency programs.**
* **Without decoupling, utilities and their shareholders will suffer substantial losses from progressing statewide conservation initiatives.**
* **Nationally instating decoupling and energy efficiency incentives will likely result in tens of billions of dollars in energy savings and reductions of tens of millions of tons of emissions over the next decade.**

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