



THE DEVELOPMENT OF WASHINGTON'S DECOUPLING POLICY AND ITS IMPACT ON ENERGY EFFICIENCY

**Patrick J. Oshie, Commissioner
Washington Utilities & Transportation
Commission**

What is decoupling?

- Decoupling is a mechanism designed to break the link between utility revenue and sales.
- Decoupling is not new; mechanisms in place since the 1980s for some California utilities.

What is decoupling?

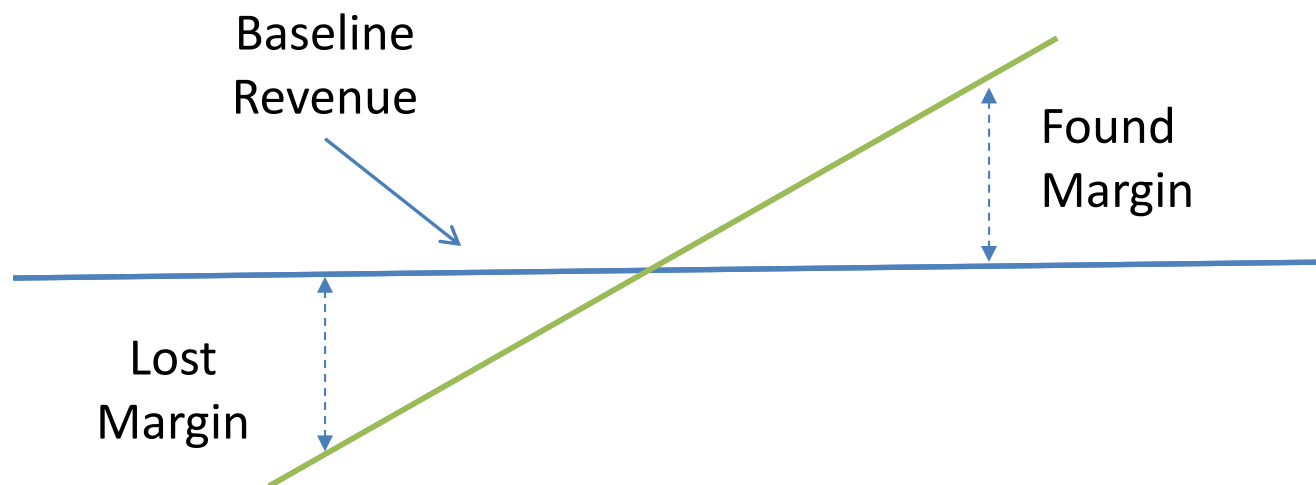
- Basic Revenue Decoupling has two primary components:
 1. Determine a “Target Revenue” to be collected in a given period. Target revenues are equal to Test Year Revenue Requirements.
 2. Set a price which will collect that target revenue.
- This is the same as the last step in a traditional rate case – i.e. $kWh \text{ Price} = \text{Target Revenues} \div kWh \text{ Sales}$.

What is decoupling?

Under Revenue Decoupling, a utility's target revenue is the baseline for determining whether conservation has an actual effect on earnings:

- If kWh or therm sales fall below the baseline, then Revenue Decoupling would allow a utility to recover those lost earnings, which is commonly referred to as “lost margin.”
- If sales exceed the baseline, then Revenue Decoupling would return these excess earnings to ratepayers. We refer to excess earnings as “found margin.”

What is decoupling?



Why decoupling? Why now?

- Reduced sales due to conservation may act as a disincentive to a utility to fully support conservation measures.
- Increased reliance on conservation as a resource has brought greater attention to decoupling and wider adoption around the country.



Previous UTC-approved decoupling programs

- Avista
 - Allows recovery for Avista's programmatic and educational programs.
- Cascade
 - Pilot program ended in September 2010. In the end, Cascade did not pursue permanent approval.
- PSE PRAM (approved in 1991; terminated in 1996)



Commission Inquiry on Conservation Incentives

Commission Inquiry on Conservation Incentives

- I-937 created the mandate that utilities achieve all cost-effective conservation.
- UTC conducted an inquiry on conservation incentives and decoupling in response to proposed legislation in the both the House and Senate last year.
- PURPOSE: Better understand the balance between the recovery of a utility's lost revenue due to conservation and the benefits and costs to rate payers.

Commission Inquiry on Conservation Incentives – Commission Process

- Wide stakeholder participation:
 - Utilities, Ratepayer Advocates, Government, Energy and Environmental Community
- Robust discussion in two work sessions, extensive written comments submitted at all intervals during the inquiry.
- Final statements of positions on four issues:
 1. “Full decoupling”
 2. Recovery of “lost margin” due to conservation
 3. Direct incentives
 4. Independent administrator of conservation programs

Decoupling Background

- In setting rates, the Commission determines the utility's estimated future load or sales.
- Review Slide 2 : $kWh \text{ Price} = \text{Target Revenues} \div kWh \text{ Sales}$
- Actual load can vary from estimate, either up or down, based on a number of factors, including weather, economic factors, or consumer usage patterns.



Decoupling Background (cont.)

- Therefore, a utility may sell more or fewer therms or kWH in a given period.
- Uncertainty is reflected in the utility's risk profile, which is taken into account when the Commission sets the utility's rate of return.

Decoupling Issues

1. Offsets (“found margin”)
2. Measurement (EM & V)
3. Impact on rate of return
4. Need in light of requirement to meet conservation goals
5. Earnings test
6. Other mechanisms to compensate for lost margin
 - a. Incentive rate of return
 - b. Pro forma adjustment to reflect future decrease in load



Commission Policy Statement on Decoupling



Summary of UTC Decoupling Policy

1. Partial decoupling
2. Full decoupling (electric or gas utilities)
3. Direct Incentives

Partial Decoupling

-
- Applicable to gas utilities only
 - Reconciles only a percentage of the difference between expected and actual revenues (*i.e.* a utility might be allowed to recover 90 percent of revenue shortfall from decreased sales).
 - Only the portion of decreased sales directly attributable to programmatic and non-programmatic conservation is eligible for recovery (“limited decoupling”).
 - “Found Margin”
 - Earnings Test
 - Impact on ROR

Full Decoupling

- Applicable to both electric and gas utilities
- Reconciles any difference between expected and actual revenues regardless of the underlying cause of the difference.
- “Found Margin”
- Earnings Test
- Impact on ROR

Full Decoupling

- At this time, 12 states and the District of Columbia have adopted some form of full decoupling for electric utilities.
- Some state commissions have adjusted utilities' ROE to reflect reduced risk resulting from decoupling .

Direct Incentives

- I-937 requires utilities to set conservation targets every two years and to meet those targets within the following two year period.
- Commission receptive to proposals establishing incentives to utilities to acquire additional cost-effective conservation at levels exceeding these targets.