Background

- Over the past few years, both conservationists and gas utilities have pushed aggressively for revenue decoupling (RD); also, the federal government has become active in reviewing RD (pursuant to EPAct 2005) and other governmental entities (e.g., WGA) have endorsed or are reviewing RD
- 2004 and 2005 NARUC resolutions advise state commissions to consider RD for gas utilities
- Gas utilities and conservationists, while generally supportive of RD, have different objectives
Background -- continued

- Gas utilities *with RD*
  - Baltimore G&E
  - Washington Gas Light (MD)
  - Southwest Gas (CA)
  - Northwest Natural (OR)
  - Piedmont Natural Gas (NC)
  - Cascade Natural Gas (OR)
Background -- continued

• Proposals for RD and investigations
  ➢ Washington (last year commission terminated rulemaking investigation, ruling that RD should be addressed in rate case filings)
  ➢ Cascade Natural Gas (WA)
  ➢ Puget Sound Energy (WA)
  ➢ Puget Energy (WA)
  ➢ Questar Gas (UT)
  ➢ Citizens Gas & Coke Utility (IN)
  ➢ Vectren Energy Delivery (IN, OH)
  ➢ NJ Natural Gas
  ➢ South Jersey Gas,
  ➢ CT investigation with commission report to legislature in January 2006

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Background -- continued

- **Cases where RD was rejected, withdrawn or discontinued**
  - Southwest Gas (NV, AZ)
  - Xcel (MN, ND)
  - Maine (electric utilities)
  - New York (electric utilities)
  - Washington (electric utilities)
  - PacifiCorp (WA)
  - Portland GE (OR)
  - Northwest Natural (WA)
Obstacles To RD

• **Inertia** (perception of RD as a radical change to ratemaking and not warranted by conditions)
• **Political populism** (“RD mostly protects the utility and passes risk to consumers without any apparent benefits to them”)
• **Competing ratemaking alternatives** (SFV, LRA, IBT)
Bonbright’s Eight Criteria for Ratemaking

1. Simplicity, understandability, public acceptability and feasibility of implementation
2. Uncontroversial as to proper interpretation
3. Effectiveness in providing the utility with adequate revenues to recover costs
4. Year-to-year revenue stability
5. Rate stability
6. Fairness among customer classes
7. Avoidance of undue price discrimination
8. Economically efficient in giving customers proper price signals, for example, in not over-consuming a utility’s service
# Arguments against Revenue Decoupling

| Need to show special conditions for true-up recovery of revenues | Uncertainty over a future decline in use per customer |
| Inappropriate to single out revenues for true-up adjustments | Lower utility service quality |
| Less likelihood of addressing rate-design problem | More price volatility |
| More certainty of utility benefits than customer benefits | Reduced incentive for customer-initiated energy efficiency |
| Upward pressure on short-term prices, as a utility’s average cost for delivery is likely to increase | Unequivocally increased customer risk |
| Incremental options should be considered | Preference for alternative ratemaking methods achieving similar objectives |
| Possible legal/policy precedent issues | Preference for lost revenue adjustment (LRA) mechanism |
| Overly broad in addressing the problem at hand |  |
State Commission Arguments 
Rejecting RD

• In the absence of extraordinary circumstances, RD runs afoul of acceptable ratemaking
• Other mechanisms more acceptable to stabilize the utility’s earnings
• No evidence that past gas usage trends placed the utility in financial jeopardy
• Not sure that declining use per customer will continue and adversely affect a utility’s future earnings
State Commission Arguments
Rejecting RD -- continued

- RD shields the utility from sales risk by passing it on to consumers
- Don’t need RD to promote energy efficiency
- Need to explore fully, in a broader investigation, the issue of usage volatility and margin recovery
- Concern over the possible future magnitude of surcharges from RD

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Ex Post Evidence on RD: Generally Favorable

- Northwest Natural (OR)
- Baltimore G&E
The Big Issues Being Fought in the Trenches

• Specification and prioritization of the objectives of ratemaking methods
• The merits of RD relative to other ratemaking methods in satisfying the same objectives
• The appropriateness of RD as a tracker
• Utility commitment to promoting energy efficiency

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The Big Issues -- continued

- The risk effect of RD on consumers and the utility
- The need for RD to promote utility-initiated energy efficiency
- The financial effect of declining usage per customer on a utility
- “Revenue assurance” effect versus conservation enhancement” effect of RD
The Big Issues -- continued

• The assessment of RD outside the context of a rate case
• RD structure and implementation (e.g., need for a rate-adjustment cap, cost of capital effect, frequency of rate adjustments, pilot or permanent)
• Overall effect on consumers
Stakeholder Process

• Stakeholders should work together to reach a consensus involving new ratemaking methods such as RD.
  ➢ They need to agree on the objectives of ratemaking and the priority of those objectives
  ➢ Parties should look at different ratemaking methods and assess their strengths and weaknesses
  ➢ Important elements needed to get broad acceptance of RD: (1) commitment by a utility to promoting energy efficiency, (2) demonstration of benefits to consumers, or at least no harm to consumers, and (3) consumer/public education

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