Understanding Decoupling

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Decoupling is a tool

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The tool DEFINED

A regulatory mechanism* that changes the revenues an energy utility puts on its books from those actually received to those determined by a regulatory formula.

* Not a rate design or an adjustment designed solely to calculate revenues “lost” because of savings under utility energy efficiency programs
The tool USED

If formula revenues exceed actual revenues, the energy utility’s customers pay a surcharge. If formula revenues are less than actual revenues, its customers receive a credit.

The tool’s PURPOSE

A decoupling mechanism can, in the short term, make an energy utility financially indifferent whether sales of kWh (and, sometimes, kW) or therms are higher or lower than the levels assumed in the last regulatory rate setting.
While the general definition and purpose of decoupling mechanisms are similar, the details can differ a lot.

What is the **FORMULA** for booked revenue? Last approved amount? Escalated or not? Exceptions? Number of meters?

Is there a **LIMIT** on the size of adjustment? What happens to amounts outside the limit?

Which customer classes does it **APPLY** to?

What revenue requirement and rate **COMPONENTS** does it cover?

**HOW OFTEN** should the mechanism trigger an adjustment? Monthly? Semi-annual? Annual?

Should the mechanism adjust actual revenues to “normal” **WEATHER** or not before comparison to the formula revenue?
WHERE Is Decoupling?

The number of states in which at least one electric or gas utility has a decoupling mechanism has been steadily growing but some experimented with decoupling and then abandoned it.

What do we know about DECOUPLING ADJUSTMENTS?

You can download a copy of the study at www.gracefulsystems.com/publications-and-papers.
Adjustments go **BOTH** ways

Most adjustments are **SMALL**

Over the period studied, there were **MORE SURCHARGE** adjustments than refund adjustments.
Monthly gas decoupling adjustments showed the **WIDEST** distribution.

Annual and other gas LDC adjustments were **GROUPED** around +/- 1%.
The bulk of monthly electric decoupling adjustments fell BETWEEN 1-3%. Electric decoupling SURCHARGES outnumbered refunds.
Right **JOB**, Right **TOOL**
- Energy utility financial health is under pressure
- Energy utility sales are difficult to forecast

**AND**
No stakeholder really wants to change anything else about **BUSINESS AS USUAL**
What About **ENERGY EFFICIENCY?**

**NECESSARY?**
Arguable. Unclear correlation between energy efficiency success and presence of decoupling.

**SUFFICIENT?**
Arguable. Also need secure method to recover energy efficiency costs. And some income opportunity to replace that lost to energy savings. And decoupling does not get at culture and beliefs – either of the utility or the other stakeholders in the system.
Regulatory adoption of decoupling usually follows arduous, contentious regulatory proceedings

Utility: Our risk will actually increase and we’ll lose our upside from weather and economic development!

Consumer advocate: Decoupling will reduce your risk! And transfer that risk to ratepayers!
But it’s often really about what we are thinking, rather than saying

Utility: How will the investment analysts put this decoupling mechanism in their models? Will we be seen as a less interesting investment?

Consumer advocate: If sales are flat or falling, it might be because rates are too high... That might mean the utility is abusing its monopoly...
And underneath that are implicit, even unacknowledged assumptions about how things should be

Utility: Our company sells electricity!

Consumer advocate: Utilities exist to sell electricity!
And once adopted, decoupling adjustments are “just routine.”
We don’t ask . . .

What is happening with sales? Where are the differences from what we expected?
Why are these differences happening?
What does it mean?

The opportunity to reach **SHARED INSIGHT** passes . . .
The complex situations the energy utility industry faces today require more than just a **TOOL**. They demand a **FRAMEWORK**.

Decoupling is a **TOOL**.

Building a useable framework requires that we answer (repeatedly) **TWO QUESTIONS**.
WHAT FOR?

What outcomes so we hope that the framework will support? What do we envision happening, for whom, as this framework interacts with the broader environment?
This isn’t just regulatory policies that apply to or control the utility. An effective framework will support actions by most, if not all, participants in the system.
More questions to guide building a framework that could include decoupling!
What are the SERVICES people will hire to help them do jobs they are trying to do that involve applying energy?

POTS? or PANS?

or kWhs?

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And what do we mean when we say a service is a “UTILITY?”

Do we mean that it is
• A MONOPOLY?
• Subject to cost of service ratemaking?
• The same for everyone?

What energy-related services MUST be utility?
Which can be COMPETITIVE? Will this CHANGE over time?
For services that must be utility services, what is SUCCESS?

**RELIABLE.** But exactly what is reliable? For whom? How provided? Increasing or?

**ADEQUATE.** But for who? Just connected end-users? Also energy marketers? Also energy service providers, whether or not they sell electricity?

**REASONABLY PRICED.** But for what characteristics? How measured? In what context?
Decoupling is a tool
OBSERVE what is happening

ENVISION what you want to be happening

BUILD a supportive framework

RE-OBSERVE what is happening and RE-ADJUST the framework as necessary

Use It Wisely

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