



# Understanding Decoupling

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Decoupling is a tool





## 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

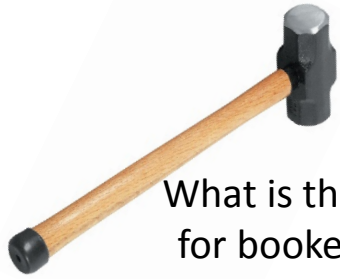


### The tool **USED**

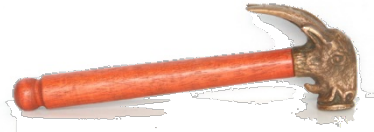
If formula revenues exceed actual revenues, the energy utility's customers pay a surcharge. If formula revenues are less than actual revenues, its customers receive a credit.

### 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.



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?

While the general definition and purpose of decoupling mechanisms are similar, the details can differ a lot.



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

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

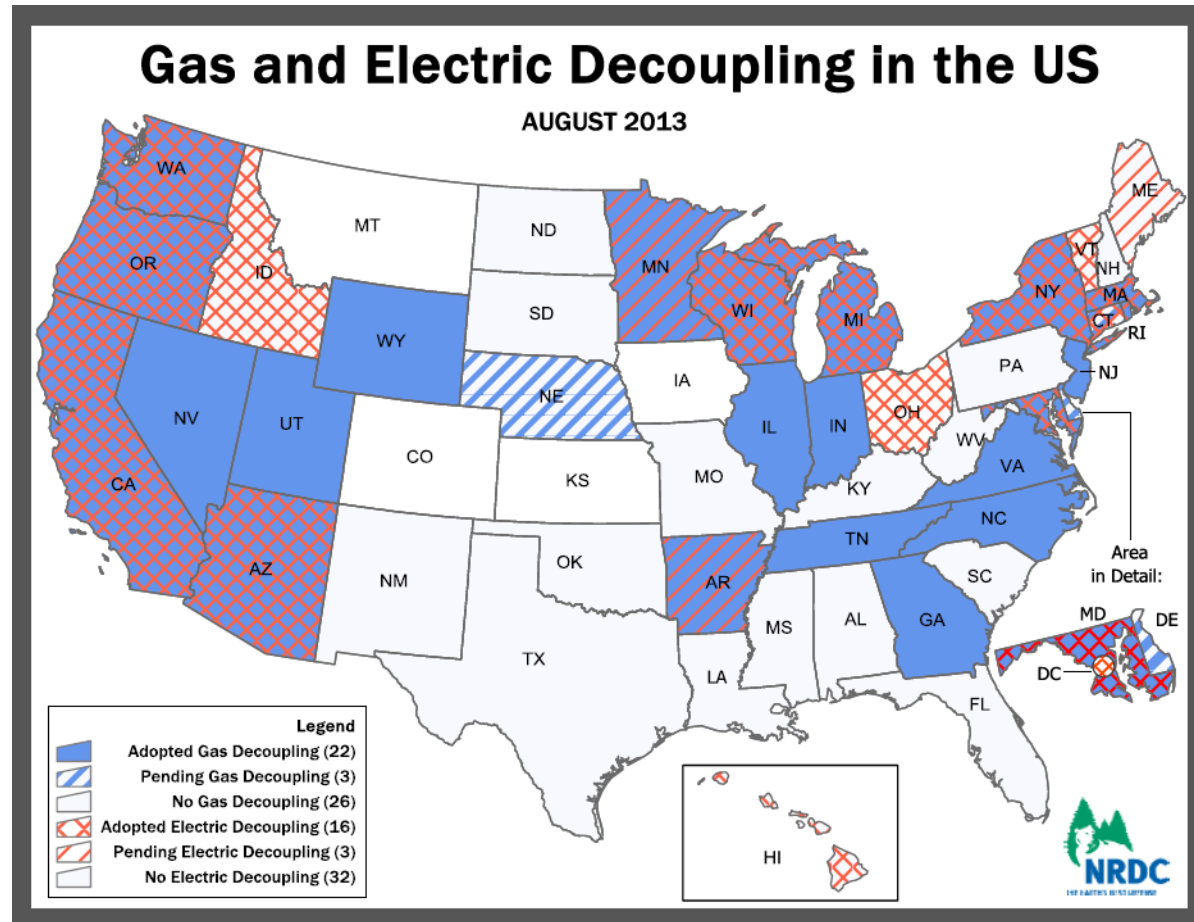


Should the mechanism adjust actual revenues to “normal” **WEATHER** or not before comparison to the formula revenue?



## WHERE Is Decoupling?

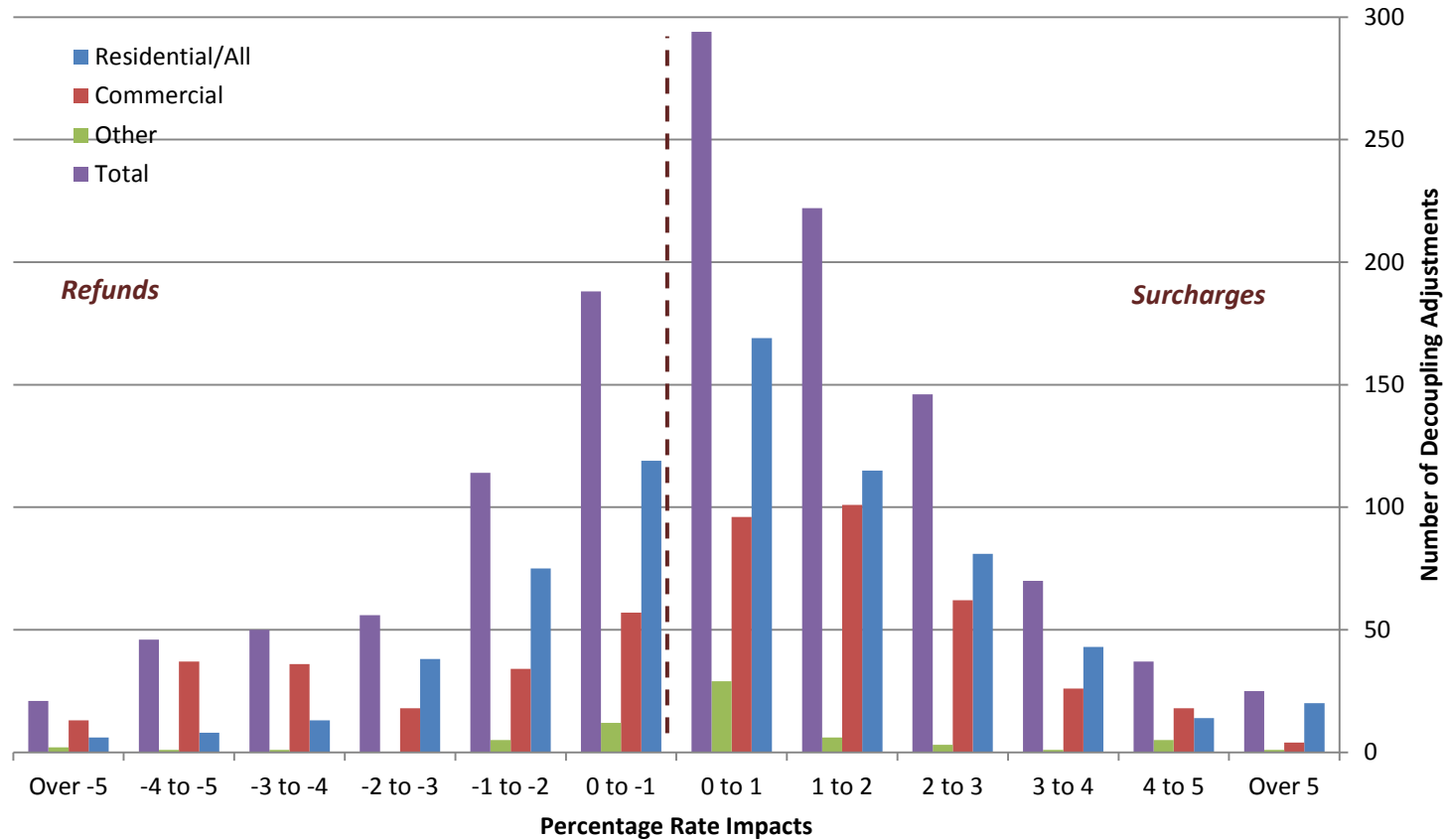
The number of states in which at least one electric or gas utility has a decoupling mechanism has been steadily growing but some experimented with decoupling and then abandoned it.



What do we know about  
**DECOUPLING ADJUSTMENTS?**

You can download a copy of the study at [www.gracefulsystems.com/publications-and-papers](http://www.gracefulsystems.com/publications-and-papers).

# Total Utility Decoupling Adjustment Rate Impacts

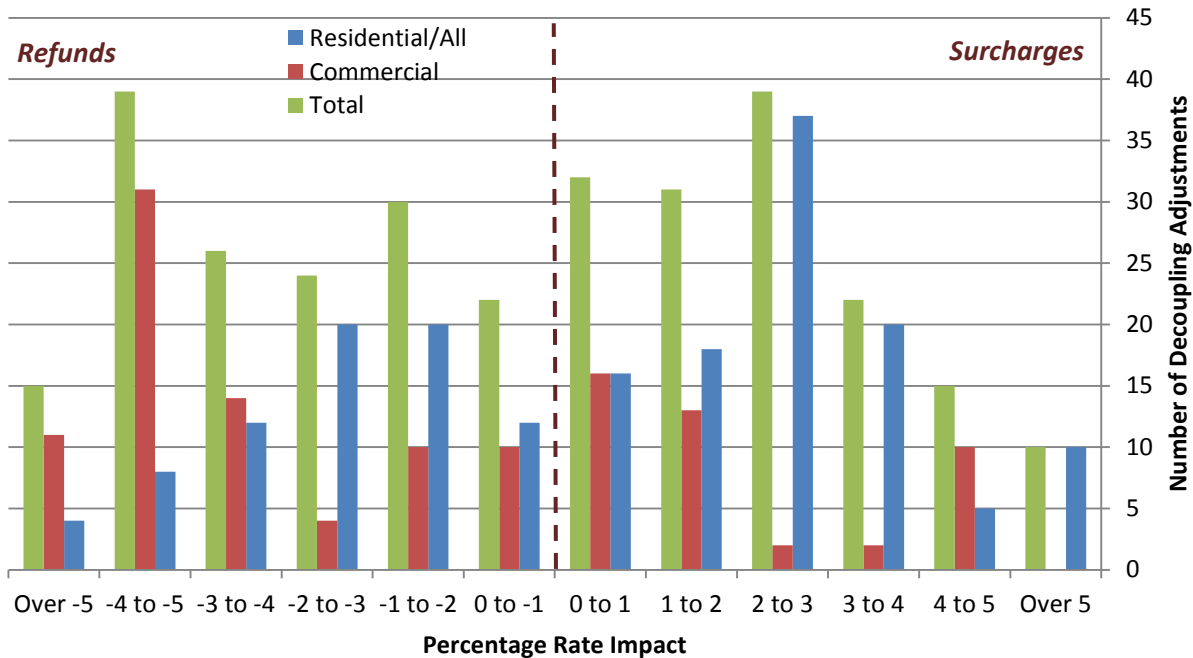


Adjustments go **BOTH** ways

Most adjustments are **SMALL**

Over the period studied, there were **MORE SURCHARGE** adjustments than refund adjustments

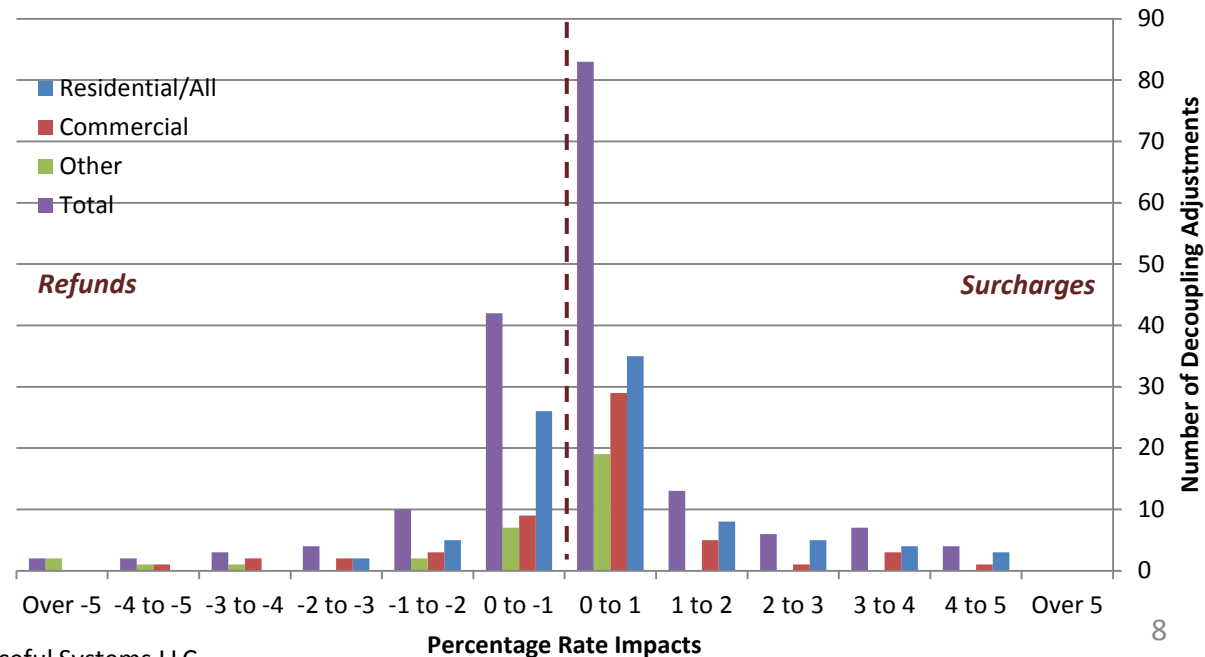
### Monthly Gas Utility Decoupling Adjustment Rate Impacts



Monthly gas decoupling adjustments showed the **WIDEST** distribution

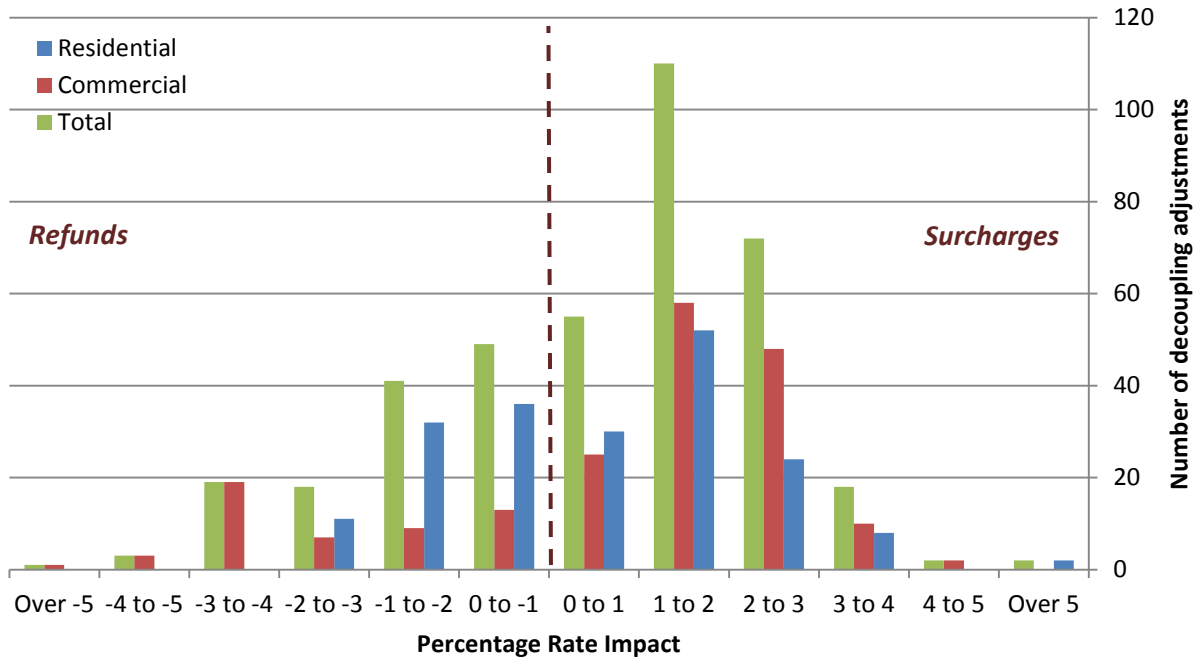
Annual and other gas LDC adjustments were **GROUPED** around +/- 1%

### Annual and Other Electric Utility Decoupling Adjustment Rate Impacts



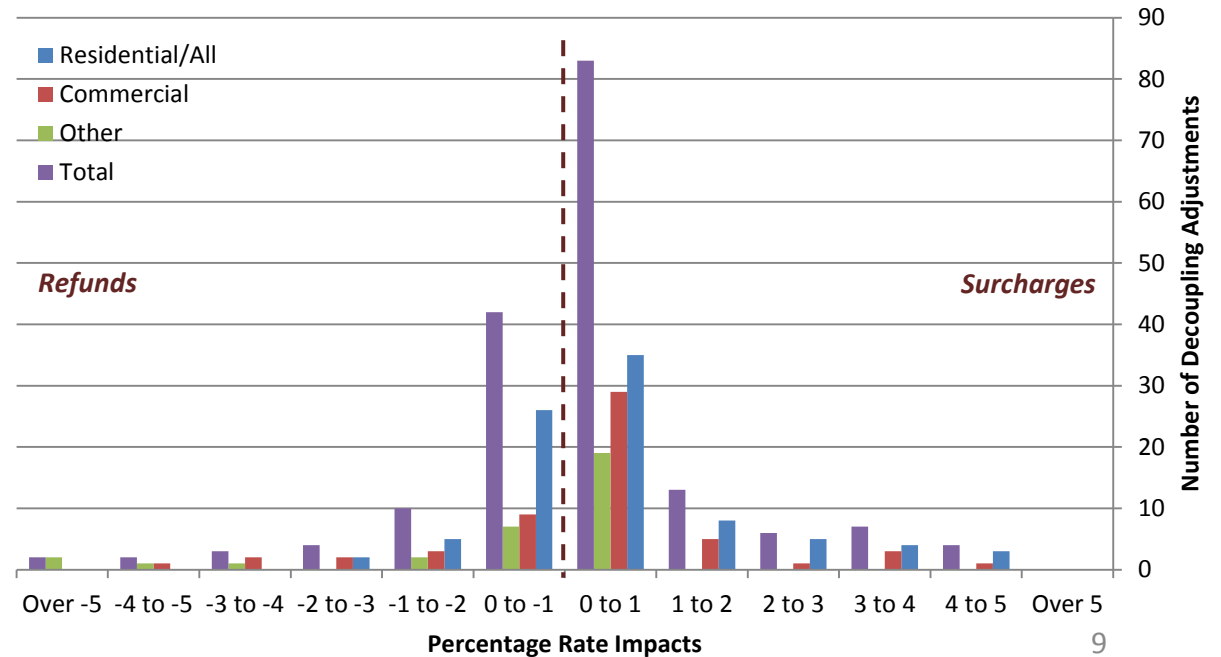


Monthly Electric Utility Decoupling Adjustment Rate Impacts



The bulk of monthly electric decoupling adjustments fell **BETWEEN 1-3%**

Annual and Other Electric Utility Decoupling Adjustment Rate Impacts



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.

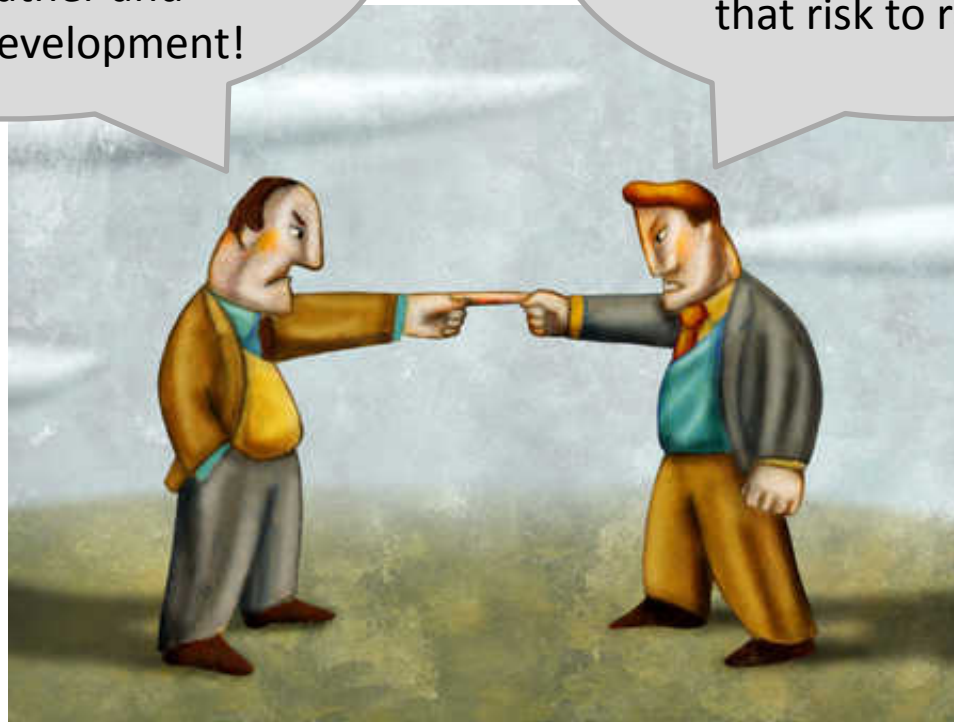
### **SUFFICIENT?**

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 . . .



Decoupling is a  
**TOOL.**



The complex situations  
the energy utility  
industry faces today  
require more than just a  
**TOOL**  
They demand a  
**FRAMEWORK**

Building a useable  
framework requires  
that we answer  
(repeatedly)  
**TWO QUESTIONS**



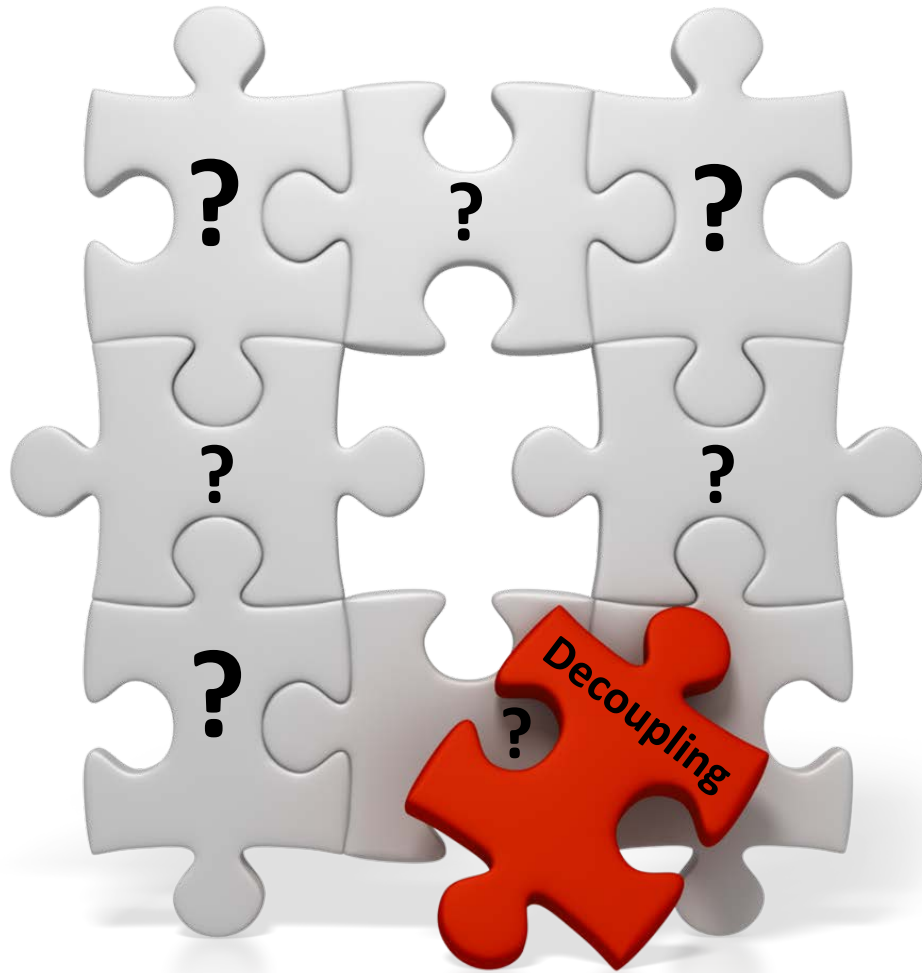




## WHAT FOR?

What outcomes do we hope that the framework will support? What do we envision happening, for whom, as this framework interacts with the broader environment?

## WHAT ELSE?



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

## WHAT NEXT?

More questions to guide  
building a framework  
that could include  
decoupling!



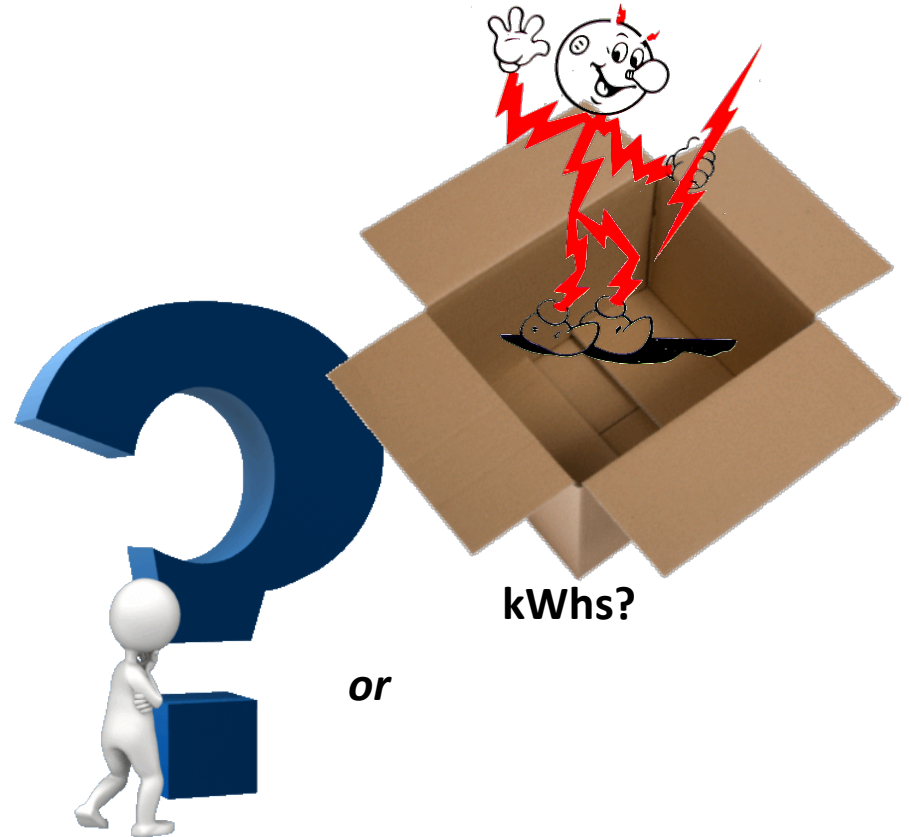


POTS? *or*

P  
A  
N  
S  
?



What are the **SERVICES** people will hire to help them do jobs they are trying to do that involve applying energy ?



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?





**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?

For services that must be utility services, what is **SUCCESS?**

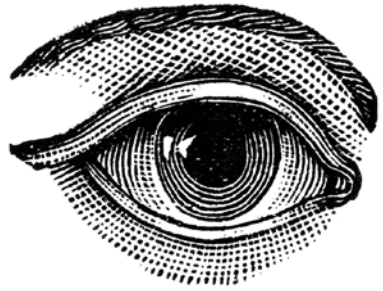
**GROWING SALES?**



**REASONABLY PRICED.** But for what characteristics? How measured? In what context?



Decoupling is a tool

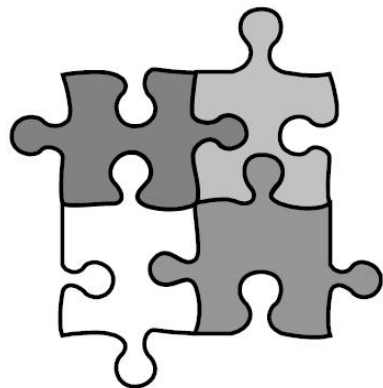


**OBSERVE**  
what is  
happening

**ENVISION**  
what you  
want to be  
happening



**Use It Wisely**



**BUILD**  
a supportive  
framework

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

