

# Decoupling Activities in New England

4<sup>th</sup> National Conference on Energy Efficiency as a Resource  
American Council for an Energy-Efficient Economy  
September 30 – October 2, 2007  
Berkeley, California

Derek K. Murrow, Director, Policy Analysis



**Environment  
Northeast**

# Environment Northeast

## *Who We Are*

- Environmental Policy Research and Advocacy
  - Non-profit NGO
  - Offices: Rockport, ME / Portland, ME / Boston, MA / Providence, RI / Hartford, CT / New Haven, CT
  - Regional approach
- Program Areas
  - Energy Policy
  - Climate Change
  - Diesel Pollution Initiative
  - Forest Practices Initiative
- Environment Northeast is a nonprofit research and advocacy organization focusing on the Northeastern United States and Eastern Canada. Our mission is to address large-scale environmental challenges that threaten regional ecosystems, human health, or the management of significant natural resources. We use policy analysis, collaborative problem solving, and advocacy to advance the environmental and economic sustainability of the region.



# Presentation Outline

- ENE on Decoupling
- Decoupling Status – Significant Progress in NE
  - Connecticut: DPUC Docket No. 07-07-01 (CL&P Rate Case)
  - Maine: PA/PUC Investigation
  - Massachusetts: DPU Docket No. 07-50
  - New Hampshire: PUC Docket No. DE 07-064
- Players – who's for and who's against
- Key Questions and Concerns
- Next Steps
  - Connecticut: other utilities must implement in next rate case
  - Maine: CMP rate case
  - Massachusetts: energy legislation and next rate cases
  - Rhode Island: next rate cases

# ENE Decoupling Position

- Decoupling is a complementary and critical step towards the larger goal of dramatically increasing investments in energy efficiency (procure all cost-effective electric and natural gas efficiency, have performance incentives if EE is utility run, and decouple revenues from sales)
- Full Decoupling Mechanism
  - Keep it simple ! – decoupling does not allow you to avoid all the debates in a rate case around the revenue requirement
  - Step 1: determine, through a rate case, a methodology for annual revenue requirement adjustments that does not involve sales levels, but relies on inflation, capital requirements, productivity, customer changes, or similar factors
  - Step 2: true up actual distribution revenues to the allowed levels on an annual or quarterly basis and adjust the volumetric distribution charges accordingly
  - Do not attempt to “normalize” sales for weather or economic conditions as part of the true up.

# Current Status – Connecticut

- 2007, Connecticut House Bill No. 7432, *An Act Concerning Electricity and Energy Efficiency*, **requires** that all electric and natural gas utilities decouple at their next rate case
- CL&P (NU) is the first utility rate case to come before the department (DPUC Docket No. 07-07-01)
- Other utilities in the state have intervened in relation to the decoupling proposal as it will likely set a precedent
- CL&P Proposal:
  - 2 year rate plan
  - Decoupling with a true-up to the revenue requirement but includes an increase in fixed charges and per-customer and weather adjustments
  - Note: CT rates are generally set based on one historic year of data and traditionally do not factor in growth assumptions such as inflation or planned capital investments

# Current Status – Connecticut (2)

## ■ Participants

- Proponents: utilities and ENE (with some changes)
- Opponents: Consumer Council and large industrial group – oppose it outright and would rather see a lost-revenue adjustment, but we note the legislative mandate

## ■ ENE's Testimony Suggests Removing:

- Fixed charge increases: reduces the incentive for customers to save energy – should still rely on per kWh charges
- Weather Normalization: better to eliminate weather risk for both parties through full decoupling; the CL&P proposal is for annual normalization followed by decoupling which simply introduces inaccuracies to the true ups, such as relying on 30 year historic average weather when global warming is occurring

# Current Status – Massachusetts

- New administration has shown strong support for expanded energy efficiency programs, but legislative changes are needed to ramp-up programs
- DPU initiated a general decoupling investigation, that is meant to complement the expected legislative changes around efficiency
- DPU Docket No. 07-50
- DPU developed a decoupling straw proposal and participants have been asked to react to it
  - Sets out a very good set of goals related to decoupling
  - Proposes decoupling with a true up on an annual or quarterly basis
  - Includes a per-customer adjustment that seems to be intended to avoid having to forecast an increasing revenue requirement in rate cases
  - Asks a number of questions related to other adjustment mechanisms

# Current Status – Massachusetts (2)

- Participants
  - Proponents: utilities (electric and natural gas), environmental groups (ENE & CLF), NEEP, administration (DOER), business (Environmental Entrepreneurs, and Clean Energy Council)
  - Neutral/Questioning: Attorney General
  - Opponents: Business (AIM, TEC), low-income advocates
- ENE Testimony Includes:
  - Broad support for the decoupling proposal
  - Eliminate exclusive reliance on per customer adjustment: no correlation illustrated between utility costs and number of customers; presents an opportunity for gaming (accounts, meters, etc)
  - Revenue requirement adjustment: there is a need to develop forecasted adjustments for each utility which address infrastructure investment needs and other inflation or known cost increases (which could include customer changes)

# Current Status – Maine

- Last session's RGGI and energy efficiency legislation brought decoupling to the attention of legislators (all RGGI allowance revenues to efficiency and a commitment to procure all cost-effective energy efficiency)
- A Public Advocate and PUC investigation requested by legislators is now underway with a group of invited participants (RAP, ENE, utilities, etc)
- Outcome to be determined – report this fall/winter
- Maine's history with decoupling complicates the landscape – past decoupling effort occurred at the same time there was a large economic downturn and bill increases were blamed on decoupling instead of the economic downturn (without decoupling utilities would have come in with a rate case to recover costs and lost revenues associated with lower sales) – decoupling was discontinued

# Current Status – New Hampshire

- PUC Docket No. DE 07-064
- “intend to investigate ratemaking alternatives, such as decoupling, which would remove obstacles to and encourage energy efficiency” – looking at both electric and natural gas and also considering the benefits/impacts related to DG
- Large group of interveners (ENE not participating)
- Ongoing process – technical sessions

# Key Questions and Issues Raised by Various Participants

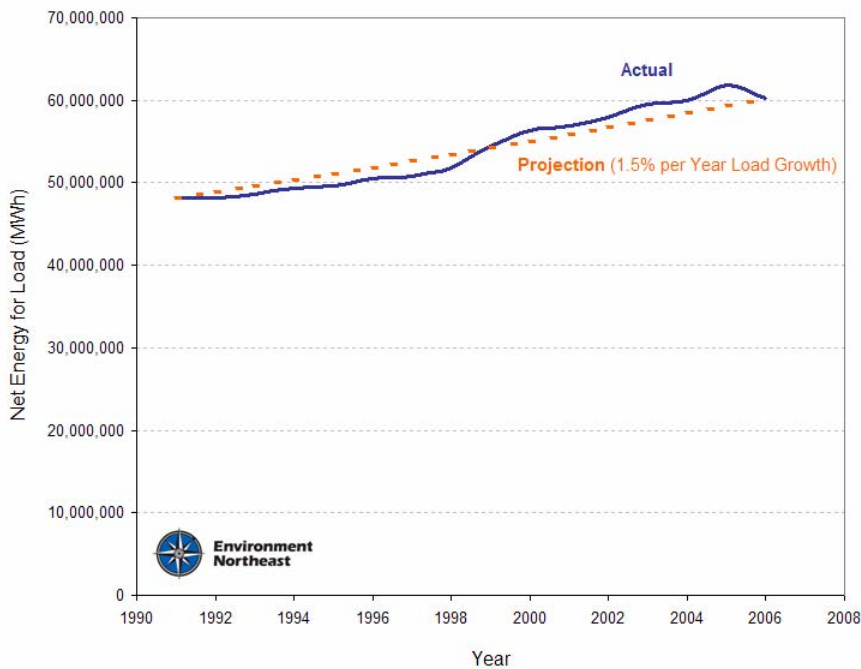
- Decoupling Design & Customer Impacts
  - Does decoupling harm customers?
  - **Will decoupling cause distribution rates to increase significantly?**
  - **Should a decoupling mechanism include a weather normalization mechanism?**
  - Should a decoupling mechanism include an adjustment mechanism for economic conditions?
- Decoupling Impacts on Utilities and their Profits
  - **Why are utilities supporting decoupling?**
  - **Does decoupling guarantee utility profits?**
  - Does decoupling shift risks from utility shareholders onto customers?
  - Should decoupling change a utility's return on equity?
  - Will decoupling compensate utilities for revenue losses due to customer migration to competitive supply?
- Decoupling and Efficiency
  - Does decoupling promote efficiency?
  - Should decoupling be implemented if there is not a corresponding commitment to increased efficiency investments?
  - Will customers who have already made efficiency investments lose out under decoupling?
  - Should we eliminate performance incentives for efficiency?
  - Shouldn't efficiency programs be run by a third party administrator, not the utilities?

Note: questions in bold addressed in this presentation – see ENE Decoupling Q&A for other questions and issues

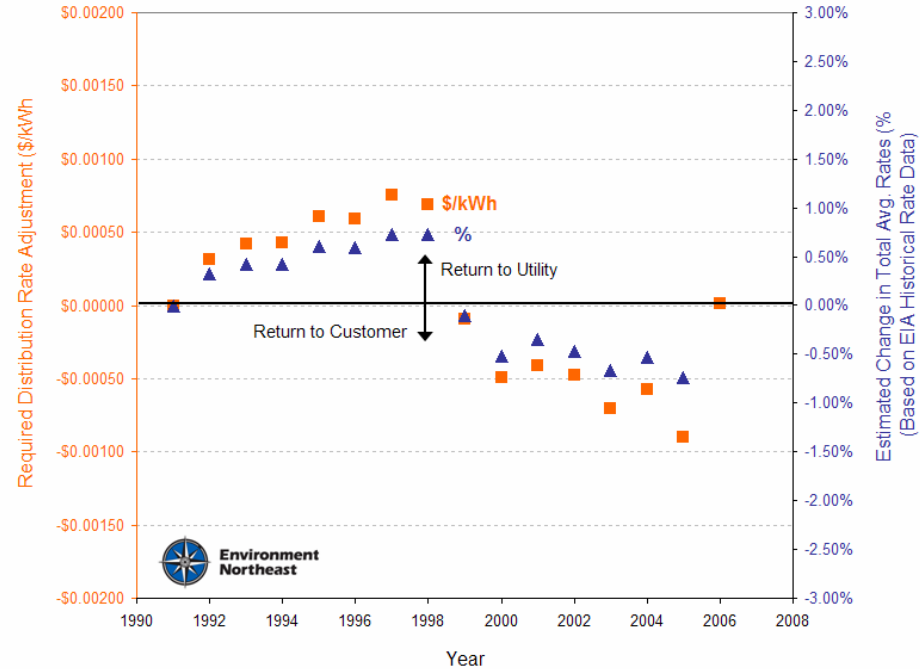
# Will decoupling cause distribution rates to increase significantly? – No, adjustments should be small

The following scenario illustrates what could have happened to distribution rates in Massachusetts if decoupling had been in place from the early 1990s through today.

Massachusetts Projected vs. Actual Net Energy for Load



Projection of Annual Decoupling True-up



Maximum increase due to decoupling of  $\frac{3}{4}$  of a mill per kWh (less than 1% bill increase) or ~ \$6.50 maximum annual increase for residential customers – ups and downs in both directions

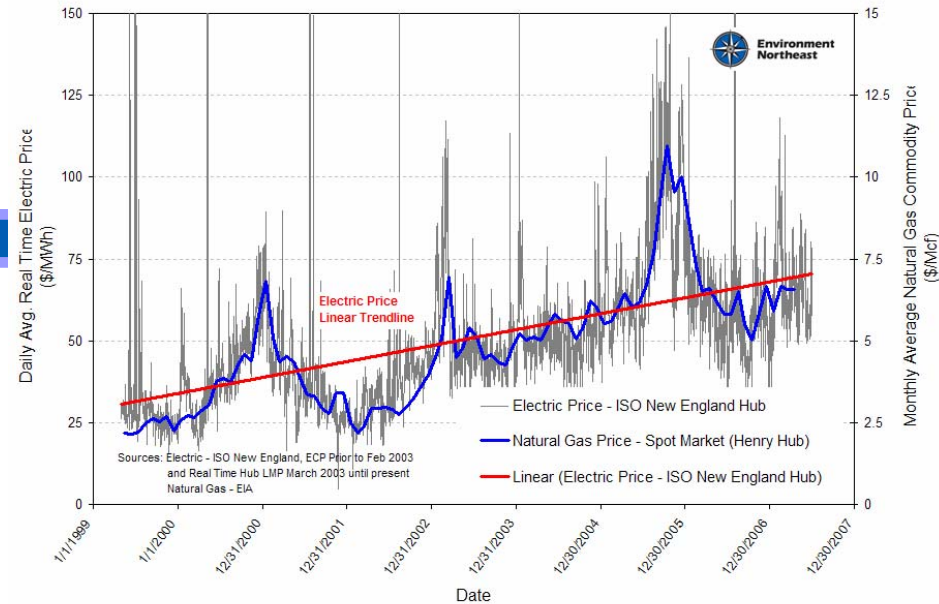
# Should decoupling include a weather normalization mechanism? – No

- Unnecessary - the utility and its ratepayers face opposite risks with respect to weather
- Under traditional rates, an unusually cold winter will cause a natural gas utility to over-collect distribution revenues at the expense of its ratepayers, while during a warm winter, the utility under-collects
- Decoupling reduces the risk for both parties
  - Utility over-collections caused by severe weather refunded back
  - Under-collections due to mild weather also reconciled
- Global warming may skew a weather adjustment in the utility's favor because historic averages will be too low and customers will pay more than they should, over time
- This is different than weather normalized monthly charges (NW Natural) where rates are adjusted to follow monthly weather differences and customers pay accordingly, with an end of year true-up to allowed revenues

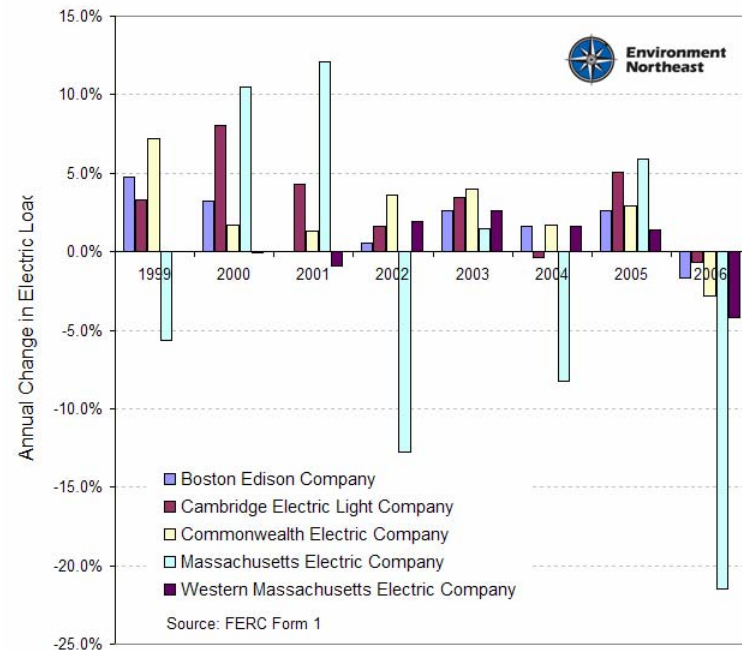
# Why are utilities supporting decoupling?

- Utilities understand that policymakers are increasingly considering climate change and energy independence when weighing energy policy decisions
- Energy market volatility (fuel prices, weather, and load changes)
- Energy efficiency and demand response are increasingly seen as the priority resource for meeting our current energy and environmental needs
- Decoupling allows utilities to have greater certainty over revenue streams while opening the door for greater efficiency investments that are seen as a business opportunity and will also reduce consumer costs

New England Wholesale Electric Prices vs. Natural Gas Prices



Massachusetts Utilities - Annual Change in Electric Load



# Does decoupling guarantee utility profits? – No

- Decoupling only permits a utility to recover an amount of revenue that has been approved by the public utility commission
- This amount is calculated to allow for reasonably foreseeable costs as well as a fair rate of return on shareholder investment
- Without decoupling, a utility can collect more than its allowed revenue if it sells more energy and any revenue that exceeds costs goes directly to profits for shareholders – decoupling eliminates this
- Moreover, like any business, if a utility fails to manage its costs, its profits will decrease because a larger than expected portion of its allowed revenue will go to pay for costs, rather than to rewarding its shareholders.

# Likely Upcoming Decoupling Activities

- Connecticut: implementation for other utilities
- Mass: full implementation may be tied to energy legislation, but likely implementation through individual utility rate cases or settlements
- Maine: TBD
- New Hampshire: TBD
- Rhode Island: recent energy legislation requiring investment in all cost-effective energy efficiency is pushing electric and gas DISCOs to propose decoupling in next rate cases
- Decoupling generally going hand-in-hand with a commitments to expand energy efficiency investments

# Contact Information

---

**Derek K. Murrow**

Director, Policy Analysis

(203) 285-1946

[dmurrow@env-ne.org](mailto:dmurrow@env-ne.org)

**Roger Koontz**

Senior Attorney

(860) 526-4852

[rkoontz@env-ne.org](mailto:rkoontz@env-ne.org)

**Environment Northeast**

Rockport, ME / Portland, ME / Boston, MA  
Providence, RI / Hartford, CT / New Haven, CT

[www.env-ne.org](http://www.env-ne.org)