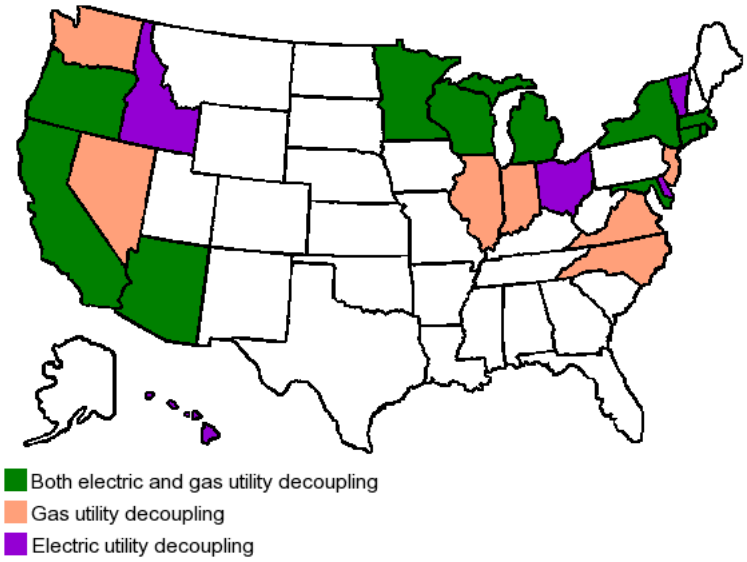
Decoupling Policies



Under the present rate structures in U.S. energy markets, utilities' revenues depend on the amount of energy they produce and deliver to consumers. This type of system makes utilities averse to conservation and efficiency measures because their implementation ultimately cuts into profits by decreasing sales and therefore revenues. "Decoupling" removes the pressures placed on utilities to sell as much energy as possible by eliminating the relationship between revenues and sales volume. Under such a compensation scheme, revenues are "decoupled" from sales and are instead allowed to adjust so that utilities receive fair compensation regardless of fluctuations in sales. Decoupling policies are in place in many states for both electric and gas utilities. For more detailed information on revenue decoupling policies please click here.

Arizona

The Arizona Corporation Commission (ACC) recently provided authority for disincentive removal (revenue decoupling) and/or shareholder incentives for natural gas utilities. On December 13, 2011, the ACC approved a full revenue decoupling mechanism for Southwest Gas as part of the utility's rate case.

Tucson Electric Power has proposed a mechanism including lost revenue recovery via an Authorized Revenue Requirement True-up.

Links:
Southwest Gas revenue decoupling recommended opinion and order
American Council for an Energy Efficient Economy State Maps

California

California initially implemented decoupling in 1978 (Decision 88835). As the gas industry restructured, gas utilities began to serve large customers under a straight fixed-variable rate design, which continues through today. The CPUC stopped the electric decoupling mechanisms in 1996 due to restructuring of the electric power industry. In 2001, the legislature passed Section 739.10, which required that the CPUC resume decoupling. California's current electricity "decoupling plus" program is a revenue decoupling program combined with performance incentives for meeting or exceeding energy efficiency targets. All investor-owned utilities in CA have gas decoupling programs in place.

Links:
American Council for an Energy Efficient Economy State Maps
California Public Utility Commission Energy Efficiency site

Colorado

Connecticut

Connecticut's 2007 Electricity and Energy Efficiency Act (CT Public Act No. 07-242) requires the Department of Public Utility Control to order the state's electric and natural gas distribution companies to decouple distribution revenues from the volume of natural gas or electricity sales. United Illuminating uses a full decoupling mechanism, adjusted annually.

Links:

Connecticut's 2007 Electricity and Energy Efficiency Act (CT Public Act No. 07-242)
American Council for an Energy Efficient Economy State Maps

Delaware

Passed in 2009, Delaware Senate Bill 106 (Title 26, Chapter 15 of the Delaware Code) set a deadline of December 2010 for implementing decoupled rate design for utilities. The state evaluates the issue of decoupling on a utility-by-utility basis when it sets utility rates through rate case proceedings. In September 2009, the Public Service Commission (PSC) entered Order 7641, examining a modified fixed variable rate design for Delmarva (electric and gas). In 2011 the PSC approved a form of decoupling for Delmarva Power & Light.

Links:
Delaware SB 106
American Council for an Energy Efficient Economy State Maps

Hawaii

In August 2010, the Hawaii Public Utilities Commission issued its Final Decision and Order to approve a decoupling mechanism through Docket No. 2008-0274. The decoupling mechanism approved by the Commission includes: (1) a sales decoupling component, or Revenue Balancing Account, which is intended to break the link between the Hawaiian Electric Companies ' sales and their total electric revenues; (2) a Revenue Adjustment Mechanism, which is intended to compensate the Hawaiian Electric Companies for increases in utility costs and infrastructure investment. The policy applies to the Hawaiian Electric Company and its subsidiaries, Maui Electric Company and Hawaii Electric Light Company, which provide electricity to 95% of the population in the state of Hawaii.

Links:
Press Release
Hawaii Public Utilities Commission
American Council for an Energy Efficient Economy State Maps

Idaho

Idaho Power's decoupling mechanism, a Fixed-Cost Adjustment (FCA), was established through ID PUC Order No. 30267 and is designed to provide a surcharge or credit when fixed cost recovery per customer varies above or below a commission-established base. The FCA is being implemented for electric utilities on a pilot basis for a three-year period from January 1, 2007 through December 31, 2009. The FCA applies to all residential and small commercial customers.

Links:
Idaho Public Utilities Commission
American Council for an Energy Efficient Economy State Maps

Illinois

In February 2008, North Shore Gas and Peoples Gas and Coke were both approved for four-year revenue-per-customer decoupling pilots. To continue the program after four years, the utility must make a general rate filing in which the commission extends the program.

Links:
Illinois Commerce Commission
American Council for an Energy Efficient Economy State Maps

Indiana

Indiana Code 8-1-2.5 allows the Indiana Utility Regulatory Commission to approve alternate regulatory plans for Indiana utilities. The Southern Indiana Gas Company and Electric Company, doing business as Vectren Energy Delivery of Indiana, was approved for a decoupling mechanism, referred to as the Sales Reconciliation Component, for its gas utility service.

Links:
Indiana Utility Regulatory Commission
American Council for an Energy Efficient Economy State Maps

Maryland

The Maryland Public Service Commission has approved revenue per customer decoupling for the three investor-owned utilities in Maryland: PEPCO, Delmarva Power and Light, and Baltimore Gas & Electric. Delmarva and PEPCO file Bill Stabilization Adjustments on a monthly basis, showing calculations for the BSA for the prior, current, and next month. Natural gas decoupling has been implemented for Washington Gas Light since 2005.

Links:
Maryland Public Service Commission
American Council for an Energy Efficient Economy State Maps

Massachusetts

All Massachusetts gas and electric utilities must include a decoupling proposal in their next rate case. Target revenues are determined on a utility-wide basis (full decoupling) and can be adjusted for inflation or capital spending requirements if necessary. The Massachusetts Department of Public Utilities expects that all utilities will have fully operational decoupling plans by 2012.

Links:
Massachusetts Department of Public Utilities
American Council for an Energy Efficient Economy State Maps

Michigan

Michigan Public Act 295 of 2008 (enrolled SB 213) brought energy efficiency programs to Michigan in the form of an Energy Efficiency Resource Standard that requires all electric providers (other than alternative electric suppliers) and all rate-regulated natural gas utilities to file energy optimization (efficiency) programs with the Michigan Public Service Commission.

SB 213 mandates that the Commission consider decoupling mechanisms proposed by the state's electric utilities. Consumers Energy and Detroit Edison have decoupling in place.

SB 213 also authorizes natural gas decoupling, which has been implemented in a series of Commission orders. The Commission has approved natural gas decoupling for Michigan Consolidated Gas Company, Consumers Energy, and Michigan Gas Utilities.

Links:
Michigan Public Act 295 of 2008
American Council for an Energy Efficient Economy State Maps

Minnesota

In 2007, the Minnesota Legislature passed the Next Generation Energy Act of 2007 (Minnesota Statutes 2008 § 216B.241). Among its provisions, the Act sets energy-saving goals for utilities of 1.5% of retail sales each year, thereby establishing an Energy Efficiency Resource Standard. This act also directed the Public Utilities Commission (PUC) to allow one or more rate-regulated utilities to participate in a pilot program (of up to 3 years) to assess the merits of a rate-decoupling strategy.

In June 2009, the PUC issued an Order adopting criteria and standards for pilot proposals for revenue decoupling. All utilities plan to file their pilot proposals by December 30, 2011.

One utility, CenterPoint Energy, has decoupling for natural gas customers.

Links:
Minnesota Next Generation Energy Act of 2007
American Council for an Energy Efficient Economy State Maps

Nevada

In 2008, the Public Utilities Commission of Nevada (PUCN) adopted temporary rules allowing gas utilities to propose decoupling their profits from their sales in a general rate case filed within one year of the approval of their energy efficiency programs. The rules specify a revenue-per-customer system for determining utility revenues. The PUCN adjusts this revenue on a per-class basis (i.e., ?residential?). Gas utilities in Nevada can choose to either implement decoupling or use a performance incentive.

Links:
Nevada Administrative Code 704.953 - 704.9718
American Council for an Energy Efficient Economy State Maps

New Jersey

In October 2006 the New Jersey Board of Public Utilities (BPU) approved requests by New Jersey Natural Gas Co. and South Jersey Gas Co. to replace their existing weather normalization clauses (WNC) with a conservation incentive program (CIP) that would capture gross margin variations related to both weather and customer usage. The three-year pilot programs apply to residential and most commercial customers. The decoupling mechanisms include new conservation programs that will be funded by the companies. The BPU may extend, modify or terminate the program at the end of the three-year pilot.

Links:
New Jersey Board of Public Utilities
American Council for an Energy Efficient Economy State Maps

New York

As of April 2007, electric and gas utilities must file proposals for true-up based decoupling mechanisms in ongoing and new rate cases. A revenue-per-class decoupling mechanism has been approved for both Consolidated Edison and Orange & Rockland electric utilities. True-ups occur annually under these mechanisms. Con Ed's revenue-per-customer gas decoupling program received approval to continue. National Fuel Distribution also implements revenue-per-customer decoupling.

Links:
New York State Public Service Commission
American Council for an Energy Efficient Economy State Maps

North Carolina

Piedmont Natural Gas and Public Service Company of North Carolina both implement revenue-per-customer decoupling with semi-annual adjustments. Public Service Company received approval for its program in October 2008 and has not yet undergone an adjustment.

Links:
North Carolina Utilities Commission
American Council for an Energy Efficient Economy State Maps

Ohio

In 2008, the state passed SB 221, which establishes an Energy Efficiency Resource Standard with energy savings goals for electric utilities, and allows for cost recovery and decoupling.

In the Public Utilities Commission of Ohio's (PUCO) rules, the commission may provide for decoupling and an electric distribution utility may submit an application for approval of a revenue decoupling mechanism to the PUCO.

In November 2011, both Duke Ohio and AEP Ohio agreed provisionally to forgo collection of lost revenues and develop a decoupling mechanism for total rate recovery for residential and small commercial customers. PUCO must approve and finalize the agreements.

Rather than true decoupling, the gas utilities have all been allowed to implement straight-fixed-variable rate designs.

Links:
Ohio SB 221
American Council for an Energy Efficient Economy State Maps

Oregon

Three utilities in Oregon currently implement decoupling policies. Cascade Natural Gas was approved for margin-per-customer decoupling effective May 1, 2006, while Northwest Natural Gas has been implementing use-per-customer decoupling since 2003. Portland General Electric (PGE) implements revenue-per-customer decoupling (called Sales Normalization Adjustment) for residential, small business, and other customers.

Links:
Oregon Public Utilities Commission
American Council for an Energy Efficient Economy State Maps

Rhode Island

Enacted in 2010, House Bill 8082 authorizes revenue decoupling for electric and natural gas utilities and requires utilities to submit proposals to implement these policies. In 2011, National Grid proposed a revenue decoupling mechanism.

Links:
Rhode Island House Bill 8082
American Council for an Energy Efficient Economy State Maps

Vermont

Green Mountain Power's Alternative Regulation Plan, implementing partial revenue-per-customer decoupling, was approved by the Public Service Board in December 2006. The plan is for a period of three years, expiring on December 31, 2009. Central Vermont Public Service (CVPS) received approval for a 3-year alternative regulatory plan in September 2008, under which it may adjust rates every year based on forecast costs and sales.

Links:
Vermont Department of Public Service
American Council for an Energy Efficient Economy State Maps

Virginia

In December 2008, Virginia Gas received approval to implement a three-year conservation and ratemaking efficiency plan. The plan has two main components: an Energy Conservation Plan (ECP) to promote conservation and efficiency and a Revenue Normalization Adjustment which provides for a sales adjustment to customers' monthly bills. The ECP and Revenue Normalization Adjustment became effective on January 1, 2009.

Links:
Virgina State Corporation Commission
American Council for an Energy Efficient Economy State Maps

Washington

Cascade Natural Gas began a margin-per-customer decoupling 3-year pilot for residential and general commercial service customers in October 2007. Avista Utilities is currently operating a gas decoupling pilot. This 3-year pilot began in 2007 and imposes a 2% limit on the annual rate increase. Avista recently requested a continuation of the program in April 2009.

Links:
Washington Utilities and Transportation Commission
American Council for an Energy Efficient Economy State Maps

Wisconsin

Decoupling was approved for Wisconsin Public Service Corporation in December 2008, allowing the utility to pursue a four-year pilot program. True-ups occur annually and over- or under-collection is capped at $14 million for electricity and at $8 million for natural gas. Wisconsin Power and Light company has submitted a proposed Gas Cost Recovery Mechanism. Approval is pending as of July 2009.

Links:
Public Service Commission of Wisconsin
American Council for an Energy Efficient Economy State Maps