

Revenue Decoupling Mechanism (RDM)

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General: Does RDM encourage better energy efficiency and conservation programs?

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- MAYBE. It is a kind of “green light” - but action may or may not happen.
- Vanilla RDM (“Decoupling 1.0”) removes a barrier by providing assurance of revenue recovery as sales decline.
- RDM is not “Decoupling 2.0” - it does not provide a “pull” by monetizing a part of the value of energy conservation and demand control (demand reduction, peak shifting) as a payment stream for the utility.

General: Does RDM encourage better energy efficiency and conservation programs?

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- The impact within the utility as a large-scale organization is nuanced. With decoupling, Efficiency Staff tends to feel that it is OK to exceed program targets. This is not the same as incenting effort or creating a set of rewards for increasing or exceeding program targets.
- This nuanced effect is a sense among Management and Staff that the Executive Level is not concerned if program targets are exceeded.

General: Does RDM encourage better implementation of EE and conservation programs?

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- RDM creates a neutral condition.
- What is done with this neutral condition is a determination at the Executive Level.

General: Does RDM encourage better implementation of EE and conservation programs?

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- With RDM, if the Officers want to do more intensive or complete energy conservation, they are *more likely* to proceed.
- If the Officers are more focused on other areas and issues, there is nothing in RDM to motivate prioritization of energy conservation and Staff will tend not go far to increase or exceed goals without direct Officer interest, encouragement and monitoring.

General: Is RDM just, reasonable and in the public interest?

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- Yes. RDM is a careful and conservative regulatory reform.
- Yes. RDM is harmless. In actual practice, there is no downside.
- Yes. RDM removes a revenue recovery barrier and helps make utility organizations more accommodating to energy efficiency and conservation and renewables whether driven by outside markets, customer initiative, or within by utility Officers, Management and Staff.

General: Do RDM benefits outweigh costs?

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- Yes. There are positive benefits.
- Yes. No traditional Cost of Service class is harmed.
- Yes. There are lower costs.

General: Do RDM benefits outweigh costs?

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- Yes. Benefits are not dramatic but they are positive:
 - ❖ Increased surety of revenue recovery for the utility;
 - ❖ Creation of a nuanced openness to energy efficiency, energy conservation, and renewables (from markets, from customers and from the utility).
- Yes. No traditional Cost of Service class is harmed.
- Yes. All technical work is essentially the same as is done for rate cases so there is no additional internal cost. And, with RDM the need for cases decreases and they will be more spaced out and less frequent.

Issue: Is there a Problem with Alignment of RDM with implementation?

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- No. Decoupling is just a form of Rate. It runs independently from the implementation of energy efficiency and conservation programs. The Decoupling is run independently from Rates & Regulatory Affairs.
- The approaches are complementary but run by two different departments. EE and conservation are implemented by Customer Services.

Issue: Is there an optimal rate mechanism for encouraging EE and Conservation Programs?

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- Yes. Sometimes called “Decoupling 2.0” the optimal rate mechanism has three components:
 - First, Weather Normalization so there is revenue recovery independent of weather, before decoupling is considered.
 - Second, vanilla Decoupling so that there is revenue recovery independent of sales.
 - Third, an incentive mechanism that creates a payment stream to the utility for achieving integration of EE, conservation and renewables.
- This should be supplemented by special funding and rate recovery of system upgrades needed to make the system more resilient, prepare the grid for integration of local microgrids and DERs, and special pilots that contain microgrids, DERs, DERMs, and traditional DSM and DR within single project boundaries.

Issue: Whether decoupling diminishes a utility's incentive to restore service after a storm.

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- No. Service Performance is independent of decoupling.
 - ◇ Performance monitoring and performance regulation remains in place. Any tendency towards lower service levels will be detected and can be addressed.
 - ◇ As a large-scale organization, performance motivation is not based on sales. Utilities are technical organizations - a good image is a spaceship. Nearly all members of the organization are working to a high level in their different technical specialties and are dependent for their success on everyone's commitment to technical excellence and duty. A seasoned fear of any type of perceived failure plays a part in maintaining work discipline. Decoupling does not play into this.
 - ◇ Utilities are career organizations. By the time that someone reaches the top of a technical specialty within the organization, they are excellent at that specialty. Plus, utilities are infused with a public service ethic.

Specific Issues: Does Decoupling require any new technical abilities within the utility?

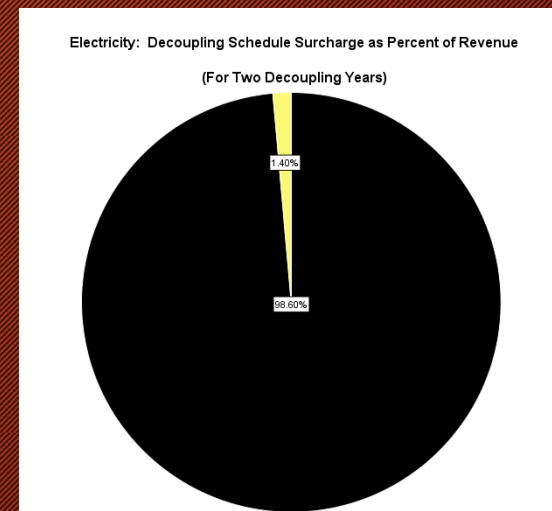
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- No. Decoupling requires talent and expertise that already exist within the utility. Mainly, skill at determining the revenue requirement and forecasting energy use.
 - ◇ The first year of decoupling requires a “K-factor”. This is the same as it required a new volumetric rate - with the difference that the “K-factors” lasts only one year..
 - ◇ The second year requires a “decoupling adjustment”. This is based on actual energy use with in Cost of Service class during the first year. If use is less than projected the per unit energy rate goes up. If use is more than projected, the per unit energy rate goes down for the second year..
 - ◇ The subsequent decoupling years work like the second decoupling year.

Issue: Does Decoupling discourage customer energy conservation?

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- No. Decoupling adjustments are too small to influence customer decisions on energy efficiency & conservation.
 - ◇ An individual customer saves money by using less energy. The decoupling adjustment is usually around 2% or less (of the cost of a therm, kWh, or kW). This is too small an effect to influence customer decisions



Issue: RDM Potential Harms

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- There are no actual harms from decoupling. There are harms that show up in decoupling, but they are in the general environment and occur with or without decoupling:
- For low-income, federal low-income payment assistance is important but erratic as to amount and timing. Federal assistance can decline, creating need that shows up when a decoupling surcharge is applied. But the same thing would happen with or without decoupling.

Issue: RDM Potential Harms

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- For low-income, the federal CPI that is used to adjust poverty loses about one-half of increased costs over approximately 10 years. This increases need for payment assistance above poverty level guidelines and need can show up with application of a decoupling surcharge. But the problem occurs with or without decoupling.
- Customers who use more energy will have higher bills. Some low-income customers have high energy use. This shows up in decoupling but happens regardless of decoupling.
- Very large volume customers may experience large dollar decoupling charges. This shows up in decoupling but would happen with or without decoupling.

Summary: Rate Decoupling Mechanism (RDM)

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- No harm. No downside.
- But, no “pull effect” (need separate incentive)
- Some benefits (surety of revenue recovery; removes a barrier to energy efficiency and conservation).
- Lower cost (fewer rate cases).

Summary: Rate Decoupling Mechanism (RDM)

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- Series of small automatic adjustments rather than more widely spaced and larger rate case adjustments.
- Very small effects each year.
- Within existing skill sets and technical scope. Very doable.