

Decoupling: Turbocharging Efficiency Programs

Excerpts from Sightline's research on decoupling

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1. What is decoupling?

Utilities are not like other companies. Their profits are dictated by state utility regulators, based on complicated formulas. Since profits rise in direct proportion to sales, investments in improving efficiency can drain away profits. By "decoupling" sales from earnings, utility regulators can write efficiency and security into utilities' bottom lines and turn them into vanguards of clean energy.

2. How does it work?

Excerpt from "The Odd Decouple", 2006

http://daily.sightline.org/daily_score/archive/2006/02/27/the_odd_decoupl

Under decoupling, utility rates are structured so that a utility's profit margins can rise when consumption falls. (In other words, a utility's earnings are "decoupled" from its gross sales.) This simple change can make it profitable for utilities to promote conservation. And as a result, decoupling aligns the utility's incentives with the incentives of its customers: everyone has an incentive to use energy more efficiently. NW Natural, an Oregon gas company, has been operating under a decoupled rate structure since 2002. One result -- it's shifted staff from marketing (trying to get people to buy more gas) to customer service.

Decoupling is one of those nifty little ideas with a huge potential payoff for a seemingly insignificant change. It doesn't take much to make decoupling a reality -- it relies on a simple alteration to the rules, rather than regulatory strictures or costly upgrades to technology.

3. What's happening in the Northwest?

Excerpt from "Idaho's progressive utilities rules," 2008

http://daily.sightline.org/daily_score/archive/2008/12/09/idaho2019s-progressive-utility-rules

Utilities in the Pacific Northwest are conflicted about helping their customers save energy. On the one hand, they're legally obligated to do it. On the other hand, if they do it successfully, they don't make as much money.

Resolving this conflict in favor of conservation requires an innovative form of utility regulation called "decoupling." A [decoupled utility](#) makes profits not in proportion to its sales but in proportion to its success in advancing efficiency. (Decoupled utilities, furthermore, have nothing

to fear from [comprehensive, auctioned cap and trade with built-in protections for working families.](#))

In recent years, Northwest utilities and utility regulators have been making stepwise progress on decoupling. Oregon's two big natural gas companies—NW Natural and Cascade—are decoupled, as is the natural gas division of Spokane-based Avista. California decoupled all its utilities in one sweeping move a few years ago. Perhaps more surprisingly, since March of 2007, Idaho Power has operated under the most progressive decoupling rules in The Pacific Northwest.

Oregon's electric companies and most of Washington's utilities operate under the conflicted old rules. But we may see progress soon. At present, the Oregon Public Utility Commission is considering a proposal from Portland General Electric to decouple its electric rates. (A decision is expected this week.) If the commission approves PGE's proposal, then Oregon's other big electric utility PacifiCorp probably will follow.

Decoupling is an ideologically neutral innovation that helps save energy, lower customer bills, reduce greenhouse gas emissions, and unlock green-collar jobs. Interestingly, both "blue" California and "red" Idaho have wholeheartedly embraced decoupling.

4. Why Decoupling? More Profits and Less Energy

From ["More Profits, Less Energy," 2004](#)

http://daily.sightline.org/daily_score/archive/2004/11/29/more_profits_le

A host of studies, along with years of Northwest experience, show that the most promising—and environmentally sound—new "source" of energy is energy efficiency. But investments in efficiency are often beyond the reach, knowledge, or time horizon of residential consumers and businesses. Only the deep pockets that finance the energy infrastructure—especially electric and natural gas utilities—can seize the full potential of efficiency.

Some Northwest utilities, such as [Seattle City Light](#), are aggressive in helping their customers save energy. But other utilities hold back, in part because they know that more-efficient consumers will buy less energy, possibly trimming company profits.

Oregon has implemented decoupling for NW Natural, a natural gas utility, and the idea is moving forward in other Northwest jurisdictions.

In the case of NW Natural, decoupling works like this: At the beginning of a financial period, the state's utility commission authorizes a target "rate of return" on NW Natural's capital investments. Each month, if the utility sells less energy than expected because of conservation (that is, not simply because of a slow economy or warm weather), then rates increase slightly to reach the target level for revenues. If sales are higher than expected, because of a lack of conservation, then rates and profits diminish.

Decoupling puts the heat of the bottom-line on NW Natural's efficiency efforts. It also has the effect of reducing uncertainties to the utility and their customers. Customer bills vary less than without decoupling.

Decoupling's potential is large, because it finally brings into alignment the interests of consumers (who want to buy less energy to get the same or better energy services) and the interests of producers (who want to make more profit with less risk).

5. Have We Tried This Before?

From [“Cascadia Scorecard 2005”](#)

In the case of PacifiCorp, a Portland-based investor-owned utility that serves parts of the Northwest states, every investment that allows its 121,000 Washington state customers to save 1 percent of their power through better efficiency subtracts well over \$1 million from shareholders' earnings in the first year. Such a move subtracts an equal amount in each subsequent year, often for a decade or more. Not surprisingly, many utilities are halfhearted about efficiency, even if they are legally obligated to encourage it.

But by decoupling sales from earnings, utility regulators can write the Pacific Northwest's long-term progress into utilities' bottom lines and turn utilities—precisely the organizations that have the requisite know-how and capital—into vanguards of the clean-energy revolution. At present, only one northwestern utility has decoupled rates: NW Natural, a Portland-based gas company. Earlier experience is encouraging. For example, Puget Sound Power and Light (now Puget Sound Energy) operated under a decoupling rule from 1991 to 1996 before a tangentially related lawsuit—and more importantly, the ill-fated electric deregulation movement—put decoupling on hold.

Decoupling helped convert Puget Sound Power and Light from a laggard to a leader in energy efficiency. In its first decoupled year, the company's efficiency programs saved almost as much electricity as they had saved during the three previous years combined. In its second year, it boosted savings another 60 percent and single-handedly accounted for 40 percent of all electricity savings in the Northwest states—outdoing even the regionwide federal Bonneville Power Administration—at half the cost.