

FEA CROSS EXHIBIT FOR PSE
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(JAP)

Criteria for Approval. In addition to assuring that the elements above are included and demonstrated to be in the public interest, a full decoupling mechanism should conform to the following criteria:

1. *Application to Customer Classes.* Generally, a full decoupling proposal should cover all customer classes. However, where in the public interest and not unlawfully discriminatory or preferential, the Commission will consider a proposal that would apply to fewer than all customer classes.⁴⁶
2. *Weather adjustment mechanism.* We generally would support including the effects of weather in a full decoupling proposal.
3. *Incremental Conservation.* Evidence describing any incremental conservation the company intends to pursue in conjunction with the mechanism.
4. *Low-income.* A utility proposing a full decoupling mechanism must demonstrate whether or not its conservation programs provide benefits to low-income ratepayers that are roughly comparable to other ratepayers and, if not, it must provide low-income ratepayers targeted programs aimed at achieving a level of conservation comparable to that achieved by other ratepayers, so long as such programs are feasible within cost-effectiveness standards.

adjustment mechanisms and those without. After rates have been set for an electric utility that does not have a power cost adjustment mechanism, the marginal avoided cost of producing or buying electricity, or the marginal revenue (net of marginal cost) from the sale of electricity made surplus by conservation not incorporated into the calculation of the power costs, is a direct benefit to the utility shareholders. For utilities with a power cost adjustment mechanism, loads are projected in a future test year, with reductions in the load for the expected conservation levels. Consequently, for the effective rate year following the setting of rates, only conservation above the expected level of conservation would result in an opportunity to reduce power costs or realize additional revenues from incremental sales. In the years after the projected rate year, the marginal avoided cost of producing or buying electricity, or the marginal revenue (net of marginal cost) from a sale of electricity made surplus by conservation, is a direct benefit.

⁴⁶ As noted in note 33 above, a limited decoupling mechanism may result in cross-subsidies among rate classes. A reasonable mechanism would balance conservation program achievements by class with the revenue recovery expected from that class under the mechanism.