Industrial Energy Consumers of America
The Voice of the Industrial Energy Consumers

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April 28, 2009

The Honorable Chris Gregoire
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Chairman Jeff Goltz
Washington Utilities and Transportation Commission
1300 S Evergreen Park Drive,
PO box 47250
Olympia, WA 98504

Commissioner Phillip Jones
Washington Utilities and Transportation Commission
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Commissioner Patrick Oshie
Washington Utilities and Transportation Commission
1300 S Evergreen Park Drive,
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Re: Manufacturers Urge States to Not Revenue Decouple Electricity and Natural Gas - Will Halt Investment in Energy Efficiency by the Manufacturing Sector

On behalf of the Industrial Energy Consumers of America (IECA) we caution state regulatory authorities from decoupling electricity and natural gas utility revenue from volume. Revenue decoupling is a disincentive for the manufacturing sector to invest in energy efficiency to reduce energy costs and greenhouse gas emissions and will un-necessarily raise the cost of electricity and natural gas. Investment in energy efficiency is essential to our competitiveness and retaining jobs.

We are writing to you because electric and natural gas utilities continue to promote revenue decoupling and often refer to the financial incentives for federal energy efficiency grants for states in the recently passed H.R.1, The American Recovery and Reinvestment Act of 2009. The chairman of the House Subcommittee on Energy and Environment, Ed Markey disagrees with the utilities. The below quote is from E&E News.

Rep. Markey Sees No Decoupling Requirement in Stimulus Package:
Rep. Ed Markey, D-Mass., chairman of the House Energy & Commerce subcommittee on energy and environment, said the economic stimulus package that just passed Congress does not require states to adopt decoupling policies in order to receive $3 billion of federal grants, E&E News PM reported. Markey declared that "the language" of the bill "does not mandate decoupling."

To "decouple" – is to separate the natural relationship between the volume of electricity and natural gas that a customer purchases and the price they pay for that energy supply. The net effect being, that if a consumer reduces consumption of electricity or natural gas, their costs will not go down because the price per unit purchased will go up. The windfall beneficiary of this policy change is the monopoly utility company.

Decoupling utility revenue from the volume they sell is a direct disincentive for manufacturers to implement energy efficiency projects that reduce energy costs. Under revenue decoupling, if manufacturers reduce our electricity and natural gas consumption we will not see a reduction in the cost of energy.

Utilities are worried that their volumes will decrease if consumers increase energy efficiency. In fact, we need to increase energy efficiency and volumes will likely decrease - which is the intention of energy efficiency initiatives. However, no business, not even the monopoly utilities should be protected from the implications of a volume drop.

The utilities, under revenue decoupling, want to be allowed to increase their rates in order to retain their "maximum allowable rate of return" (the MARR) which they see as being at risk due to potential volume decreases. To be clear, utilities are not entitled to earn the MARR. In fact, ratemaking policy requires the utility to not exceed it. A better solution for the utilities is to do what every other business must do to cope with falling volume - reduce internal operating cost. Doing so is good for their customers and shareholders.

IECA and our member companies urge you to not revenue decouple electricity and natural gas for the manufacturing sector. IECA strongly supports energy efficiency across all sectors of the economy and look forward to working with you in the future.

Sincerely,

Paul N. Cicio
President

Cc:
The Honorable Jeff Bingaman
The Honorable Lisa Murkowski
The Honorable Henry Waxman
The Honorable Joe Barton
FERC Commissioners

The Industrial Energy Consumers of America is an association of leading manufacturing companies with $500 billion in annual sales and with more than 850,000 employees nationwide. It is an organization created to promote the interests of manufacturing companies for which the availability, use and cost of energy, power or feedstock play a significant role in their ability to compete in domestic and world markets. IECA membership represents a diverse set of industries including: plastics, cement, paper, food processing, brick, chemicals, fertilizer, insulation, steel, glass, industrial gases, pharmaceutical, aluminum, foundry resins and brewing