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**ATTACHED EXHIBITS**

Exhibit No. RC-1: Pamela Morgan, A Decade of Decoupling for U.S. Energy Utilities: Rate Impacts, Designs and Observations (May 2013)

# **IdentITY AND QUALIFICATIONS OF THE WITNESS**

**Q. Please state your name and address**.

A. I am Ralph Cavanagh, and my address is c/o Natural Resources Defense Council, 111 Sutter Street, 21st Floor, San Francisco, California 94305.

**Q. In what capacity are you submitting this testimony?**

A. I am a witness for the NW Energy Coalition (“the Coalition”).

**Q. What are your qualifications?**

A. I am a graduate of Yale College and Yale Law School, and I joined the Natural Resources Defense Council (“NRDC”) in 1979. I am a long-time member of the faculty of the University of Idaho’s annual Utility Executive Course, and I have taught courses on utility regulation as a Visiting Professor at Stanford and the University of California, and as a Lecturer on Law at Harvard. From 1993-2003, I served as a member of the U.S. Secretary of Energy’s Advisory Board, and I am now a member of the Secretary’s Electricity Advisory Board. My current board memberships include the Bonneville Environmental Foundation, the Center for Energy Efficiency and Renewable Technologies, the Bipartisan Policy Center, and Renewable Northwest. I have received the Heinz Award for Public Policy (1996) and the Bonneville Power Administration’s Award for Exceptional Public Service (1986). My first testimony to the Washington Utilities and Transportation Commission (“WUTC”) was submitted in 1986 on the issue of Puget Power’s energy efficiency investments, and my first article on revenue decoupling for utilities was published in 1988.[[1]](#footnote-1) Much more recently, I submitted testimony in support of the decoupling mechanism proposed jointly by Puget Sound Energy and the Coalition, which was approved by the WUTC in 2013, after what the Commission characterized as “a thirty year conversation . . . on the subject.”[[2]](#footnote-2)

# **SUMMARY OF TESTIMONY**

**Q. Please summarize your testimony.**

A. The principal purpose of my testimony is to support the Pacific Power & Light Company’s (“Pacific Power’s”) proposal for full revenue decoupling. The WUTC has approved full revenue decoupling for both Puget Sound Energy and Avista, marking a clear transition away from a commodity-based utility business model and removing a major barrier to cost-effective energy efficiency progress. Pacific Power is overdue to make the same transition, and the company’s filing is largely consistent with the other utilities’ proposals, taking the form of “a revenue-per-customer decoupling mechanism that will compare the actual, non-weather-adjusted revenues per customer to the allowed revenue per customer, with any differences deferred for later rebate or surcharge.”[[3]](#footnote-3) In recommending approval, I encourage the Commission also to add the 5% energy efficiency goal enhancement that was included in the Puget and Avista decoupling orders.

I also comment on the company’s proposal to address low-income customers through the filing. The company wants to provide adjustments to its Low Income Bill Assistance (LIBA) rate credits consistent with the provisions of the existing five-year LIBA plan. I support this with one addition; to the extent that decoupling results in any annual percentage increases in residential bills, LIBA rate credits should be increased proportionately.

Finally, Pacific Power proposes to accelerate the depreciation schedules for the coal-fired power plants that serve its Washington customers, in order to “provide greater resource planning flexibility for the company and its customers as Washington implements state and federal environmental policies, including potential future limits on coal imports from other states and greenhouse gas reduction mandates under EPA’s Clean Power Plan.”[[4]](#footnote-4) I agree with Pacific Power’s proposal and rationale, which will help accelerate the retirement of obsolete plants that do not fit the company’s or the Commission’s vision for Washington’s energy future. I do not address and take no position on other aspects of Pacific Power’s petition.

# **PACIFIC POWER’S REVENUE DECOUPLING PROPOSAL**

**Q. Do you agree with Pacific Power witness Joelle Steward (Exh. JRS-1T, p. 3) that the company’s decoupling proposal “is consistent with previous direction given by the Commission and is similar in design to the mechanisms approved for Puget Sound Energy (PSE) and Avista Corporation (Avista)”?**

A. Yes. It is a revenue per customer mechanism, using an annual true-up, incorporating most of the company’s rate classes, with a 3 percent annual rate impact limit and an earnings test.[[5]](#footnote-5) Net power costs are not included, because they are addressed in a separate Power Cost Adjustment Mechanism. Both customers and the utility are relieved of risk from weather-related consumption anomalies. An evaluation will be conducted following the third year. And entirely “consistent with previous direction given by the Commission,” the proposal omits any proposed increase in fixed charges for residential customers.[[6]](#footnote-6)

**Q. Are there any differences between the Pacific Power proposal and the Puget and Avista mechanisms already approved by the Commission?**

A. As witness Steward notes (pp. 12-14), Pacific Power’s decoupling proposal omits the largest industrial power users and does not aggregate the rate classes that it includes for purposes of calculating annual rate adjustments. Nor does it include a 5% increase in energy efficiency acquisition, which figured in both the Puget and Avista decoupling approvals. Given witness Steward’s persuasive explanation for the first two differences, I do not regard them as material. The omitted customer classes provide relatively low fixed cost contributions from their volumetric charges. The failure to aggregate rate classes when calculating true-ups in rates means greater potential year-to-year rate volatility to correct for sales fluctuations within each rate class, but the rate cap will keep annual adjustments within reasonable limits. I do recommend, however, that an examination of this rate class disaggregation be added to the topics to be covered by the proposed evaluation after three years, which will offer the opportunity to determine whether midcourse adjustments are appropriate. I encourage the Commission also to include in its approval of the mechanism the five percent energy efficiency target increase to which Puget and Avista agreed when their decoupling proposals were approved.

In general, the Pacific Power proposal is within the mainstream of revenue decoupling proposals that I have reviewed (see also Exhibit RC-1 for a nationwide overview).

**Q. Is the decoupling proposal accompanied by appropriately ambitious energy efficiency objectives?**

A. In its overall energy efficiency goals, I regard the company’s latest Integrated Resource Plan as an industry leader, for reasons summarized by witness Steward.[[7]](#footnote-7) Her testimony also includes appropriate emphasis on energy efficiency offerings for low-income customers.[[8]](#footnote-8) However, for consistency with the Avista and PSE decoupling orders, I recommend that the company commit to achieve conservation that exceeds by 5% the biennial target approved by the Commission, to demonstrate that the mechanism does indeed remove a disincentive for improved performance. I will never stop encouraging Pacific Power to raise its sights still further on energy efficiency, and my hope is that the proposed decoupling mechanism will help the company exceed all of these goals.

**Q. What is your recommendation regarding this proposal?**

A. I urge the Commission to approve Pacific Power’s decoupling proposal, with the adjustments discussed above, bringing to an end at long last the era of outmoded commodity business models for Washington’s investor-owned utilities.

# **THE HISTORY AND IMPACT OF REVENUE DECOUPLING**

## 1. The Origins of and Rationale for Decoupling.

**Q**. **What is revenue decoupling and how did it originate?**

A, The first revenue decoupling testimony of which I am aware was filed more than three decades ago by a still active consumer advocate named William Marcus[[9]](#footnote-9). Marcus and others long ago recognized the need to prevent changes in customers’ energy use from negatively affecting utilities’ financial health. Much of a typical utility’s cost of serving customers does not rise and fall with their energy use (e.g., paying off the capital costs of equipment that is already installed). Because Pacific Power recovers most of its authorized nonfuel costs of service through volumetric charges on electricity, increases or reductions in consumption will affect recovery of these costs, even though the costs themselves do not vary with consumption. Decoupling fixes this problem by using modest rate adjustments to prevent fluctuations in sales (either up or down) from resulting in over- or under recovery of utilities’ previously approved nonfuel costs. Without decoupling, utilities and their customers would have automatically conflicting interests on even the most cost-effective energy efficiency (utilities would lose a contribution to nonfuel cost recovery from every kilowatt-hour of reduced sales, regardless of net benefits to their customers from the energy efficiency investments that produced the reductions).

## 2. The Nationwide Status and Impact of Decoupling Implementation.

**Q. What is the overall status of revenue decoupling for electric and natural gas utilities?**

A. As of this filing, I count twenty-three states that have adopted decoupling for one or more natural gas utilities and fifteen (including the District of Columbia) for electric utilities.[[10]](#footnote-10) More than half the states have adopted decoupling for at least one utility in either category.[[11]](#footnote-11) In the West, in addition to Washington, California, Idaho, and Oregon have all adopted decoupling for at least one electric utility,[[12]](#footnote-12) and Arizona has endorsed decoupling but implemented it to date only for Southwest Gas.[[13]](#footnote-13)

**Q. What has been the record of decoupling mechanisms in terms of rate impact?**

A. Attached to my testimony as Exhibit RC-1 is Pamela Morgan’s exhaustive review of the last decade of U.S. experience with similar mechanisms in both the electricity and natural gas industries, including rate impacts of more than 1,200 decoupling-related rate adjustments.

**Q. What was your role in Ms. Morgan’s study?**

A. NRDC was a co-sponsor of Ms. Morgan’s study, and I was a reviewer.

**Q. What do you view as the study’s most important findings?**

A. Based on 1,269 separate rate adjustments produced by adjustment mechanisms from 2005-2013, Morgan concluded that annual rate changes were “mostly small” and did not exceed 2 percent for 85 percent of the electric and 75 percent of the gas rate adjustments, with 37 percent involving refunds to utility customers.[[14]](#footnote-14) Put another way, the typical electricity customer’s rate adjustment averaged about seven cents a day (up or down); for natural gas utility customers the average surcharge or rebate was less than five cents a day.[[15]](#footnote-15)

**Q. Where has decoupling helped support aggressive investment in cost-effective energy efficiency?**

A. In a 2011 assessment by the Consortium for Energy Efficiency, seven of the ten states with the highest per-capita investment in electric energy efficiency programs[[16]](#footnote-16) and eight of the ten states with the highest per-capita investment in natural gas energy efficiency programs[[17]](#footnote-17) had decoupling mechanisms in place for at least some of the utilities involved or had adopted decoupling as state policy. The presence or absence of revenue decoupling rightly figures prominently in authoritative energy-efficiency rankings of the states compiled annually by the American Council for an Energy Efficient Economy (ACEEE).[[18]](#footnote-18) And ACEEE’s latest (June 2015) survey shows that utilities in states “with decoupling had much higher energy efficiency spending and savings” than those in the rest of the nation; the ratios are on the order of three to one, favoring decoupling, for both expenditures and savings.[[19]](#footnote-19)

# **PAcific Power’s Low income customer proposal**

**Q. What is your recommendation regarding Pacific Power’s proposal to address low income customers in this filing?**

A. Pacific Power proposes to increase LIBA rate credits consistent with the five-year LIBA plan approved in Docket EU-111190.[[20]](#footnote-20) The proposed LIBA rate credits are calculated based on the proposed rate increase consistent with the five-year plan[[21]](#footnote-21). I support this proposal and recommend that the Company be required to include an additional annual increase to LIBA rate credits proportional to any residential bill increases resulting from the decoupling mechanism. The Commission ordered this method of LIBA increase in the order approving the Puget Sound Energy decoupling mechanism.[[22]](#footnote-22) Consistency on this issue is important in order to hold low-income customers harmless from any adverse rate impacts that occur as a result of decoupling.

The Company also proposes to convene a stakeholder group to discuss any additional LIBA program changes in conjunction with the end of the five-year plan. I wholeheartedly agree with this proposal and suggest that the final order in this case should include a specific timeline for the work of this stakeholder group, which is consistent with the objective of finalizing a new agreement before the five-year plan’s termination in 2017.

# **PACIFIC POWER’S ACCELERATED DEPRECIATION PROPOSAL**

**Q. What is your recommendation regarding Pacific Power’s proposed acceleration of depreciation for coal-fired power plants serving its Washington customers?**

A. I support the company’s proposal to return to the depreciable lives (2025 for the Bridger Units and 2032 for Colstrip Unit 4) that were in use before the Commission changed them in 2007.[[23]](#footnote-23) Continued use of the longer depreciation periods for these plants (ending in 2037 and 2046, respectively) would create an inappropriate financial incentive for Pacific Power to extend the lifetimes and emissions of some of the Northwest’s largest greenhouse gas sources. This is clearly inconsistent with a host of Washington state policies and statutes.[[24]](#footnote-24)

**Q. Pacific Power includes the EPA Clean Power Plan in its list of state and federal policy initiatives to reduce greenhouse gas emissions; what weight should the Commission accord the Supreme Court’s recent stay of the Clean Power Plan?**

A. The Commission should not equate the stay with any prejudgment of the case, since the Court expressed no view whatever on the merits of the Clean Power Plan when it issued the stay by a vote of 5-4 on February 9, 2016.[[25]](#footnote-25) In my opinion, the D.C. Circuit Court of Appeals is likely soon to reject the statutory and constitutional challenges to the Clean Power Plan (oral argument is scheduled for June 2, 2016), and if so, the Supreme Court is unlikely to overrule the D.C. Circuit. The litigation will conclude well before the Clean Power Plan’s emissions limits are scheduled to become effective in 2022. But even an adverse ruling by either court on the Clean Power Plan would not affect the numerous Washington state policies cited by witness Dalley, nor would it stop a nationwide clean energy transition that has seen U.S. coal use drop by more than 21 percent since 2005.[[26]](#footnote-26)

**Q. Does this conclude your testimony?**

A. Yes.

1. R. Cavanagh, Responsible Power Marketing in an Increasingly Competitive Era, 5 Yale Journal on Regulation (July 1988); more recently, see R. Cavanagh, Reinventing Competitive Procurement of Electricity Resources, Electricity Policy.com (October 2010). [↑](#footnote-ref-1)
2. Washington Utilities and Transportation Commission, Dockets UE-121697 and UG-121705, Order 07, p. 57 (June 25, 2013). [↑](#footnote-ref-2)
3. Pacific Power’s Petition for a Rate Increase Based on a Modified Commission Basis Report, Two-Year Rate Plan, and Decoupling Mechanism, Docket UE-15\_\_\_\_ , p. 20 (November 25, 2015). [↑](#footnote-ref-3)
4. Id., p. 4. [↑](#footnote-ref-4)
5. See Direct Testimony of Joelle R. Steward, Exh. No. JRS-1T. [↑](#footnote-ref-5)
6. The Commission earlier invited Pacific Power to substitute revenue decoupling for a rejected fixed charge increase. Washington Utilities and Transportation Commission v. PacifiCorp, Docket UE-140762 et al., Order 08 at 94, ¶ 222 (March 25, 2015). [↑](#footnote-ref-6)
7. See, e.g., Direct Testimony of Joelle R. Steward, Exh. No. JRS-1T, pp. 20-21 (Pacific Power’s latest IRP boosts its predecessor’s 2024 savings target by 59% and aims to meet 86% of forecasted load growth with energy efficiency). [↑](#footnote-ref-7)
8. Id. at pp. 19-20. [↑](#footnote-ref-8)
9. See W. Marcus, *California Energy Commission Staff Report on PG&E’s Financial Needs*, Application No. 60153 (April 21, 1981, Revised July 1981), cited and summarized in R. Cavanagh, Graphs, Words and Deeds, MIT Innovations (Fall 2009), at 89, n. 14. [↑](#footnote-ref-9)
10. The electric decoupling states include Hawaii, California, Oregon, Washington, Idaho, Minnesota, Ohio, New York, Vermont, Massachusetts, Maine, Connecticut, Rhode Island, the District of Columbia, and Maryland. [↑](#footnote-ref-10)
11. These include five of the six New England states (excluding New Hampshire), New York, New Jersey, Maryland, DC, Virginia, North Carolina, Tennessee, Georgia, Ohio, Indiana, Illinois, Wisconsin, Minnesota and eight western states (Arizona, Utah, Wyoming, Nevada, California, Washington, Oregon and Idaho). [↑](#footnote-ref-11)
12. These include Sempra, PG&E, Southern California Edison, Portland General Electric, the Los Angeles Department of Water and Power, the City of Glendale, Portland General Electric, Puget Sound Energy, Avista, and Idaho Power. [↑](#footnote-ref-12)
13. Arizona Corporation Commission, Final ACC Policy Statement Regarding Utility Disincentives to Energy Efficiency and Decoupled Rate Structures, Docket Nos. E-0000J-08-0314 and G-00000C-08-0314. [↑](#footnote-ref-13)
14. Exhibit RC-1, at p. 4. [↑](#footnote-ref-14)
15. Id. [↑](#footnote-ref-15)
16. The states were California, Connecticut, Idaho, Massachusetts, New York, Oregon, and Vermont. See Consortium for Energy Efficiency, *State of Efficiency Program Industry Report*, Table 6, January 12, 2011, [http://www.cee1.org/ee-pe/docs/Table%206.pdf.](http://www.cee1.org/ee-pe/docs/Table%206.pdf) [↑](#footnote-ref-16)
17. The states were California, Massachusetts, Minnesota, New Jersey, New York, Oregon, Utah, and Wisconsin. See Consortium for Energy Efficiency, *State of Efficiency Program Industry Report*, Table 9, January 12, 2011, [http://www.cee1.org/ee-pe/docs/Table%209.pdf.](http://www.cee1.org/ee-pe/docs/Table%209.pdf) [↑](#footnote-ref-17)
18. See the American Council for an Energy Efficient Economy, *The State Energy Efficiency Scorecard*, updated regularly at [http://aceee.org/state-policy/scorecard.](http://aceee.org/state-policy/scorecard) [↑](#footnote-ref-18)
19. M. Molina & M. Kushler, Policies Matter: Creating a Foundation for an Energy Efficient Utility of the Future (June 2015), pp. 15 – 16 (utilities in states with decoupling dedicated an average of 3.8 percent of revenues to energy efficiency investment and achieved annual savings equivalent to 1.4 percent of retail sales; the comparable figures for utilities in states without decoupling were 1.4 percent and 0.5 percent, respectively. [↑](#footnote-ref-19)
20. Washington Utilities and Transportation Commission v. PacifiCorp*,* Docket UE-111190, Order 07, ¶ 17 (Mar. 30, 2012). [↑](#footnote-ref-20)
21. See Direct Testimony of Joelle R. Steward, Exh. No. JRS-1T, pp. 8 and 9. [↑](#footnote-ref-21)
22. Washington Utilities and Transportation Commission, Dockets UE-121697 and UG-121705, Order 07 (June 25, 2013). [↑](#footnote-ref-22)
23. See Direct Testimony of R. Bryce Dalley, Exhibit No. RBD-1T, pp. 10-11. [↑](#footnote-ref-23)
24. A partial list appears at id., p. 5. [↑](#footnote-ref-24)
25. See North Dakota v. EPA, <http://www.supremecourt.gov/orders/courtorders/020916zr4_4g15.pdf> (February 9, 2016. Justice Scalia was one of the Justices who voted in favor of the stay. [↑](#footnote-ref-25)
26. See, e.g., Natural Resources Defense Council, Third Annual Energy Report: A Tectonic Shift in America’s Energy Landscape, p. 5 (October 2015) ( <http://www.nrdc.org/energy/energy-environment-report/files/energy-environment-report-2015.pdf>). [↑](#footnote-ref-26)