

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	
Complainant,)	Dockets UE-121697 and UG-121705
)	<i>(Consolidated)</i>
v.)	
)	Dockets UE-130137 and UG-130138
PUGET SOUND ENERGY, INC.,)	<i>(Consolidated)</i>
)	
Respondent.)	
_____)	

EXHIBIT NO. ____ (MCD-6)

**Rate Impacts and Key Design Elements of Gas and Electric Utility Decoupling: A
Comprehensive Review (Excerpt)**

April 26, 2013

Rate Impacts and Key Design Elements of Gas and Electric Utility Decoupling: A Comprehensive Review

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Opponents of decoupling worry that customers will experience frequent and significant rate increases as a result of its adoption, but a review of 28 natural gas and 17 electric utilities suggests that decoupling adjustments are both refunds to customers as well as charges and tend to be small.

Pamela G. Lesh

Across the United States, interest in decoupling – a regulatory policy by which utility revenues are tied to factors other than consumption of natural gas or electricity – is as high as it likely has ever been. Since the start of 2008, 10 utilities have implemented mechanisms, and another three states have issued orders endorsing the policy and inviting or requiring utility proposals for mechanisms. Section 410 of the American Recovery and Reinvestment Act of 2009 required that, for

additional energy efficiency funding, the state's governor provide written assurance that the appropriate state regulatory agency would put in place a general policy assuring that each utility's financial incentives are aligned with helping its customers use energy more efficiently. Moreover, as a limit on greenhouse gas emissions appears imminent, utilities and regulators across the country are looking to decoupling mechanisms to maintain the utilities' financial health while

Table 2: Different Features of Decoupling Mechanisms.

Feature	Gas Decoupling	Electric Decoupling
Revenue change between rate cases		
Revenue-per-customer ¹	23	4
Attrition adjustment ²	3	4
No change	3	1
No separate tariff	3	3
Timing of rate true-ups		
Annual	19	8
Semi-annual/quarterly	2	1
Monthly	4	3
Weather ³		
Not weather-adjusted	20	10
Weather-adjusted	8	2
Limit on adjustments and/or dead-band ⁴	9	6
Per class calculation and adjustments ⁵	25	7
Earnings Test ⁶	4	
Pilot/known expiration date	11	4
Surcharges only	3	
Total utilities analyzed	28	12

Notes:1. "Revenue per customer" means that the decoupling mechanism calculates the authorized revenue to which the utility will reconcile its actual revenues by dividing the last approved fixed cost revenue requirement by the number of customer accounts assumed in that ratemaking process, and then multiplying the per-customer amount by the number of customers in the current decoupling period. For example, if the authorized fixed cost revenue requirement was \$1 billion and the ratemaking number of accounts was 1 million, the fixed cost per customer amount would be \$1,000/year. If, during a given decoupling year, the actual number of customer accounts was 1,050,000, the utility would refund any amount by which its actual revenues exceeded \$1.05 billion. Thus, the additional customer accounts contribute \$50 million to fixed cost recovery.

2. "Revenue requirement true-up" means that the decoupling mechanism simply compares the actual fixed cost revenues to the amount authorized for fixed cost recovery in the utility's last rate case, even if that was several years prior. Thus, the utility may face declining income as inflation and other factors increase fixed costs. The sub-category of these that are "with attrition" indicate the utilities for whom that authorized revenue requirement changes from year to year according some formula, generally an inflation index less an assumed amount of productivity improvement. This may be part of the decoupling mechanism, done as a means of calculating the comparator for the actual revenues collected, or external to the decoupling mechanism and causing its own rate adjustment.

3. "Weather" refers to revenue variances attributable to actual weather differing from the weather conditions assumed in the ratemaking process. If a decoupling mechanism uses actual revenues that are not weather-adjusted, that means that revenue variances attributable to weather will affect the size of the customer refund or surcharge.

4. "Limit on adjustments or a dead-band" refers to features in a given decoupling mechanism that limit the size of any (or a cumulative set of) customer refund or surcharge, or in the case of a dead-band, exclude a certain amount of the variance (again, refund or surcharge) before calculating the positive or negative decoupling rate increment. For most of the mechanisms that have a limit on the size of decoupling adjustments, any amount not refunded or surcharged carries over to the next decoupling period. That is not always the case, however.

5. "Per class calculation and spread of adjustments" means that the mechanism determines the difference between the authorized fixed cost revenue and the actual revenue on a per class or per rate schedule basis and refunds or surcharges the resulting amount only to that rate schedule or customer class. Included in the count are utilities for which the decoupling mechanism applies only to one customer class or rate schedule. Only eight utilities have mechanisms that do not do this.

6. "Earnings test" refers to a limitation on decoupling surcharges by which the utility may not recover revenue differences calculated by the mechanism to the extent that recovery would increase its earnings over a specified return on common equity, whether the last authorized or another amount.

the rate change customers would experience would be a small increase, as the prior credit expired and was not fully replaced by the current credit. The reverse can also happen: the expiration of a decoupling surcharge will produce a rate decrease unless the subsequent decoupling adjustment is the same or a larger surcharge. Second, many utilities combine one or more rate changes at one time. Changes in commodity costs or balancing accounts or other tariff riders along with the decoupling adjustment are common and could easily offset or mask the decoupling adjustment. For two utilities, such offsetting was the deliberate design.

IV. A Closing Observation

Finding all of the decoupling mechanisms and summarizing the adjustments made under them was an exceedingly difficult task. I have a total of over 25 years in utility matters, most spent in the regulatory affairs department of a mid-sized electric utility. I know my way around a tariff and am generally familiar with naming conventions and so forth used by public utility commissions. Despite this wealth of experience, the task was difficult. This caused me to wonder what those not on the "inside" can possibly think of how utilities and regulators present information. It is unlikely that most would think that the