WUTC DOCKET: UE-230172 & UE-210852
EXHIBIT: AMT-14
ADMIT ☑ W/D ☐ REJECT ☐

Exh. AMT-14
Dockets UE-230172 and UE-210852
Witness: Alex M. Tellez

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PACIFICORP d/b/a PACIFIC POWER AND LIGHT COMPANY,** **Respondent.**	**DOCKETS UE-230172 and UE-210852 (Consolidated)**
In the Matter of **ALLIANCE OF WESTERN ENERGY CONSUMERS'** **Petition for Order Approving Deferral of Increased Fly Ash Revenues**	

EXHIBIT TO TESTIMONY OF

ALEX M. TELLEZ

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Excerpt from "Decoupling Design: Customizing Revenue Regulation to Your State's Priorities"

September 14, 2023

Executive Summary

Introduction

Many states have adopted utility "decoupling,"[1] or revenue regulation, to address the impacts on utilities' revenues from factors that affect their sales levels. Originally, decoupling was conceived as a way to make utilities indifferent to annual sales volume and to address the net revenue losses associated with energy efficiency programs. More recently, it has been considered as one of many tools to mitigate revenue shortfalls from deployment of all distributed energy resources (DER).

The design process of a decoupling mechanism contains a number of decision points that address policy and stakeholder priorities. No two mechanisms are identical, and from an overall perspective of the good of the state, or from the distinct perspective of individual stakeholders, these decisions will enhance the decoupling mechanism or make it less attractive. Examples of the kinds of decisions regulators typically consider and for which stakeholders provide input include the design of the revenue adjustment mechanism, the frequency of adjustments, limits (caps) on the size of the adjustment, and other factors, which this paper will discuss in more detail.

Decoupling can increase the efficiency of utility operations, reduce risk (for both consumers and utilities), promote energy efficiency and conservation, and support deployment of DER.[2] RAP has written extensively on these benefits; this paper is the third in a trilogy of work on decoupling. The first covered the benefits of such a regulatory regime, and the second reviewed how it has worked on the ground in six states. The principal focus of this third paper will be how to make decoupling design decisions that best complement the facts on the ground and the goals of each state, each commission, and its stakeholders. It concludes with sample pathways that could be considered in designing and implementing decoupling. An appendix reviews the benefits of putting a decoupling mechanism in place.

Regulatory Conditions

Decoupling allows the utility to recover net lost revenues due to reduced sales. The concept was introduced to address a belief that it is anathema to the traditional utility business model to order a company to work hard to sell less of its product. The concept was first implemented for natural gas distribution utilities and later expanded to include vertically integrated electric utilities. Inherent downward pressure on utility sales from more efficient devices and processes, even as dependence on electricity increases, has made a difference[3] in utility attitudes toward decoupling. As the cost of renewable energy options declined, decoupling began also to be viewed in some quarters as a mechanism to deal with the impacts of distributed energy resources.[4]

1 Some also refer to decoupling as revenue regulation. These terms are used interchangeably in this paper. As used in this paper, decoupling (and revenue regulation) is defined as an adjustable price mechanism that breaks the link between the amount of energy sold and the actual (allowed) revenue collected by the utility. See Lazar, J., Weston, F., & Shirley, W. (2011). Revenue Regulation and Decoupling. Montpelier, VT: The Regulatory Assistance Project. Retrieved from: http://www.raponline.org/ knowledge-center/revenue-regulation-and-decoupling-a-guide-to-theory-and-application

2 Lazar, J., Weston, F., & Shirley, W. (2011). See also Migden-Ostrander, J., Watson, B., Lamont, D., & Sedano, R. (2014, July). *Decoupling Case Studies: Revenue Regulation Implementation in Six States.* Montpelier, VT: The Regulatory Assistance Project; plus numerous presentation slides available at www.raponline.org.

3 See Appendix for a discussion of the benefits of decoupling for customers and utilities.

4 For more on the treatment of DER in rates, see Hledik, R., & Lazar, J. (2016). *Distribution System Pricing With Distributed Energy Resources.* Montpelier, VT: The Regulatory Assistance Project. Retrieved from: http://www.raponline.org/knowledge-center/distribution-system-pricing-with-distributed-energy-resources