

# Decoupling



Presentation to Review Panel  
October 18, 2013

# Review: What is Decoupling, and Who is Doing it?

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- Decoupling is a rate mechanism that separates cost recovery from the volume of energy actually sold.
  - On a periodic basis, revenues are “trued up” to the predetermined revenue requirement via a rate adjustment.

## **Decoupling Mechanisms**

- Puget Sound Energy (PSE)
- Los Angeles (LADWP)
- Portland General Electric
- Idaho Power
- PG&E

## **Not Pursuing Decoupling**

- Sacramento (SMUD)
- Chelan PUD
- Tacoma Power
- Colorado Springs
- Lower Colorado River Authority

# Decoupling Pros and Cons

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-  Financial stability for utility: decoupling guarantees collection of the retail revenue requirement.
-  Efficiency: theoretically removes utility disincentive for conservation since revenues are decoupled from customer consumption.
-  Practically, would not impact City Light's implementation of conservation programs.
-  Customer bill predictability: less certainty for customers in the short-term.

# Example: Simple Decoupled Rate

- Revenue deficit/surplus is added/subtracted to revenue requirement for following year.
- Example with 2% and 4% load reductions.

	2015	2016	2017
Load Forecast (MWh)	9,567,000	9,611,000	9,588,000
Load Actual is Down by 2% (MWh)	(191,000)	(192,000)	(192,000)
Revenue Impact (\$M)	(\$15.5)	(\$16.7)	(\$17.8)
<b>Rate True Up</b>		<b>1.9%</b>	<b>1.9%</b>
Load Actual is Down by 4% (MWh)	(383,000)	(384,000)	(384,000)
Revenue Impact (\$M)	(\$30.9)	(\$33.3)	(\$35.5)
<b>Rate True Up</b>		<b>3.7%</b>	<b>3.9%</b>

# Alternative Way to Achieve Decoupling: Using The RSA

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- ❑ Traditional decoupling is periodic rate true-ups.
  - Lagged revenue recovery; changes in revenue are collected or credited to customers in the following year.
  - Adds substantial rate volatility.
- ❑ An alternative for City Light is to use the existing Rate Stabilization Account (RSA).
  - Re-define RSA Baseline =  $NWR + \textit{Retail Revenue (RR)}$ .
  - Operation would stay the same.
    - ❑ At the end of each quarter, the difference between actual revenue and the redefined baseline would be transferred to/from the RSA.
    - ❑ If balance falls below specified thresholds, automatic surcharges (rate adjustments) would be implemented.

# Expanding RSA: Minor Impact

- Retail Revenue (RR) is much less uncertain than NWR.
- RR is a natural hedge for NWR.
  - For example, low load (low RR) means more energy to sell on wholesale market, increasing NWR.

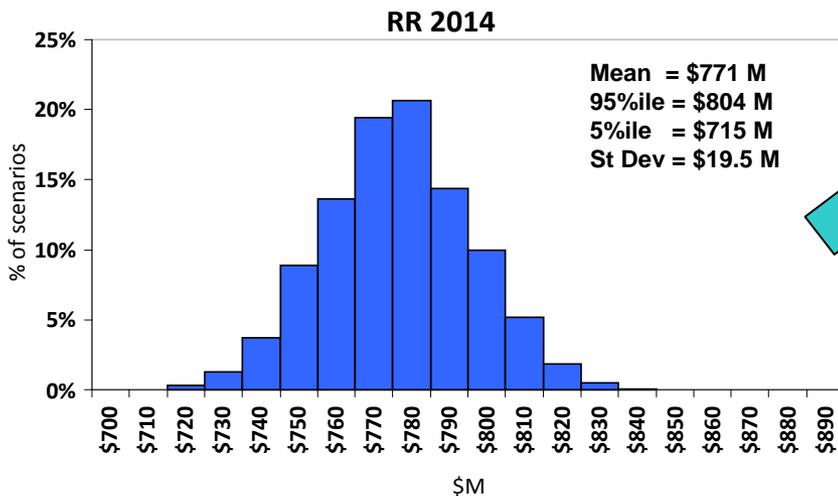
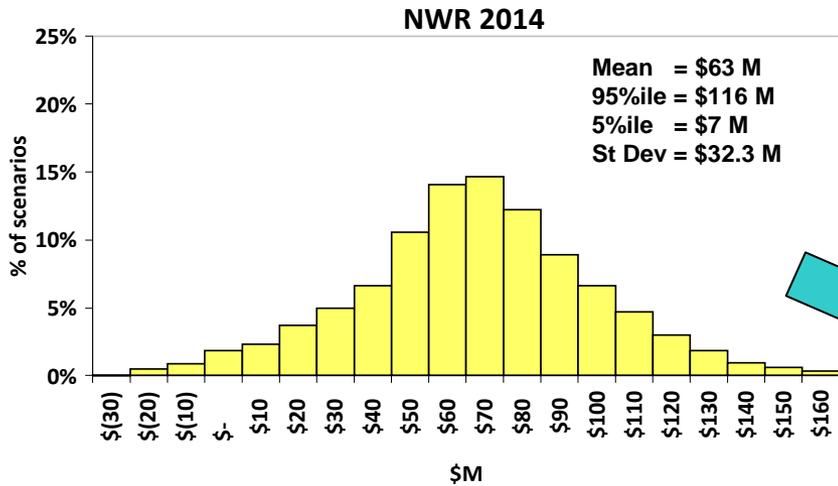
## Historical Retail and Wholesale Revenue

RR	2007	2008	2009	2010	2011	2012	2013	Average
Actual	\$542.4	\$547.9	\$545.1	\$606.3	\$655.9	\$664.3	698.3	
Adopted Budget	\$530.8	\$542.5	\$532.6	\$611.9	\$649.8	\$677.5	\$707.2	
<b>Difference</b>	<b>\$11.6</b>	<b>\$5.4</b>	<b>\$12.5</b>	<b>-\$5.5</b>	<b>\$6.2</b>	<b>-\$13.2</b>	<b>-\$8.9</b>	<b>\$1.1</b>
NWR	2007	2008	2009	2010	2011	2012	2013	
Actual	\$137.3	\$134.4	\$68.4	\$54.2	\$98.4	\$63.9	\$60.3	
Adopted Budget	\$189.6	\$149.8	\$142.2	\$120.0	\$96.8	\$102.1	\$90.0	
<b>Difference</b>	<b>-\$52.3</b>	<b>-\$15.4</b>	<b>-\$73.9</b>	<b>-\$65.8</b>	<b>\$1.6</b>	<b>-\$38.2</b>	<b>-\$29.7</b>	<b>-\$39.1</b>
<b>Total Difference</b>	<b>-\$40.7</b>	<b>-\$10.0</b>	<b>-\$61.4</b>	<b>-\$71.4</b>	<b>\$7.8</b>	<b>-\$51.4</b>	<b>-\$29.7</b>	<b>-\$36.7</b>

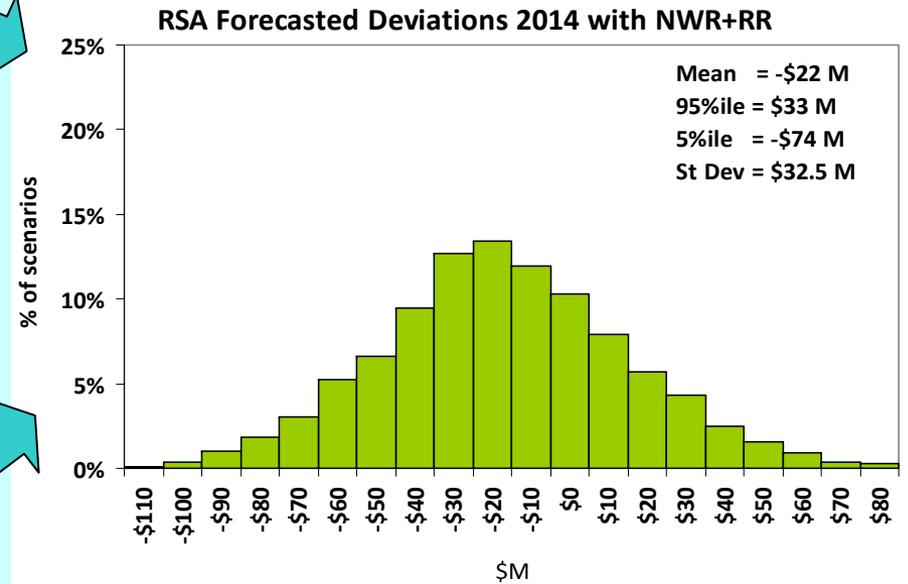
\* 2013 as of 10.04.13

- In 2012, load leveled off due to both economy and weather. This consumption trend is expected to continue.

# Forecast Shows Little Change in RSA Volatility From Adding RR



Resulting RSA uncertainty with RR+NWR is not all that different than uncertainty with NWR alone.



# Decoupling for City Light

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- ❑ Improved financial stability for Utility.
- ❑ Minor decrease in bill stability for customers.
- ❑ No impact to utility's commitment to conservation.
- ❑ City Light rates are already subject to regular oversight.
  - Budget reviewed & adopted every year by City Council.
    - ❑ Council hearing provides for public input
  - Revenue requirements and rates reviewed & adopted every 2 years.
    - ❑ Public input: Review Panel, community meetings, Council hearings
  - Investor Owned Utilities (IOUs) do not review rates on a schedule, only as needed.
    - ❑ If an IOU was over-earning, no rate review would result.

# Decoupling is Not a Substitute for Good Rate Design

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- ❑ Decoupling would not achieve all the same objectives as improved rate design, but could complement it.
- ❑ Example: suppose a customer substantially reduces their energy consumption.
  - With **current rate design**, they would not be paying their true cost of service, and other customers would absorb their cost of service over time.
  - With **decoupling**, the utility would receive its approved revenue but the customer would still not be paying their true cost of service, and other customers would absorb it more rapidly.
  - With **improved rate design**, this customer would pay closer to the true cost to serve them (thereby reducing the subsidy received from other customers).