



Utility Decoupling Demystified

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A simple analogy: utility services = taxi ride

- Energy Consumers = Taxi Passengers
- Utilities = Taxi Drivers
- Public Utilities Commission (PUC) = Taxi Licensing Body



Consumer and provider have conflicting incentives

Keep the cost of the ride as low as possible



Charge the passenger as much as possible



In the past, revenues were based on unit sales

- Taxi Driver ran the meter and charged per minute and per mile →



- Taxi Driver could earn the most per trip by **not** taking the shortest, fastest, most efficient route
- Utility revenue was based on units of energy sold →
 - Utility could earn the most by **not** encouraging customers to use energy efficiently



With decoupling, revenues are pre-determined

- Taxi Driver charges a pre-determined flat rate per trip →
 - Taxi Driver cannot charge more if the trip takes longer
 - but won't have to charge less if the trip is shorter



- Utility earns a pre-determined revenue which is decoupled from (not based on) units of energy sold →
 - Utility will not earn more by selling more energy
 - but won't earn less if it sells less energy

Utility is indifferent to variations in customer energy use

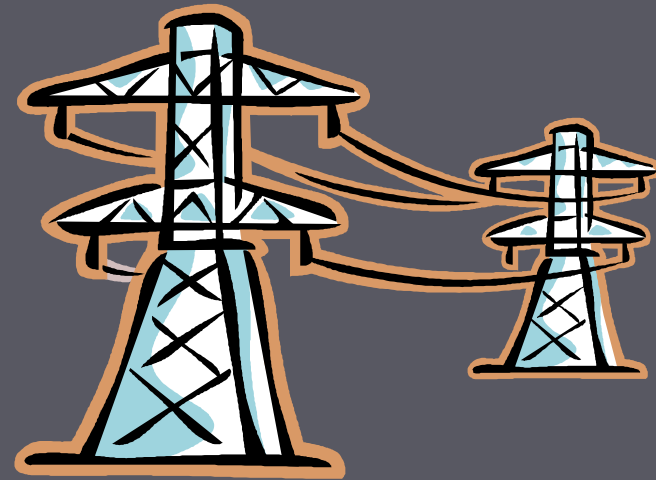
Regulatory agencies can establish revenue decoupling

The city or state licensing body for taxis mandates a flat rate



Regardless of what the metered rate would have been, the driver receives a pre-approved amount for each customer trip

The Public Utilities Commission (PUC) mandates decoupling, setting utility revenue and energy sales estimates



If actual energy sales are above or below the estimate, utility revenue is stabilized through small adjustments in customers' energy rates

Decoupling eliminates risk, both positive and negative

I know I must pay \$30, but I *might* have paid less with the meter...

I know I will charge \$30, but I *might* have received more by running the meter...

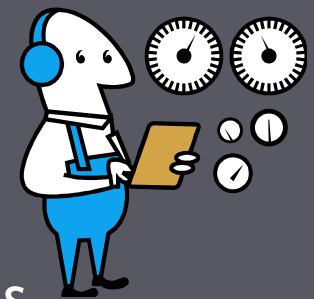
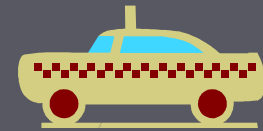
Then again, I could have also paid more.

Then again, I could have also received less.



Decoupling provides a foundation for efficiency

- With a guaranteed fare, the driver has an incentive to get passengers to their destinations as efficiently as possible to—
 - Conserve fuel, which saves the driver money
 - Make more trips per hour, which earns the driver money
- With pre-set revenue, utility decoupling removes a disincentive (but does not by itself create an incentive). Utility income is stable and no obstacle to promoting customer energy management programs that—
 - Encourage consumers to use energy efficiently and reduce their total energy costs
 - Reduce utility energy procurement and delivery costs
 - Potentially enhance the utility's return on capital investments

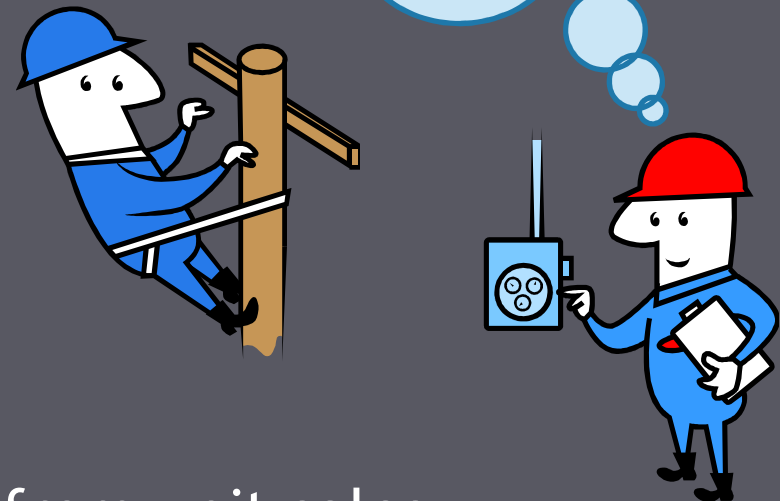


With decoupling in place, the market does the rest

My \$30 is guaranteed--
might as well get her there
ASAP, so I can pick up a
new passenger!

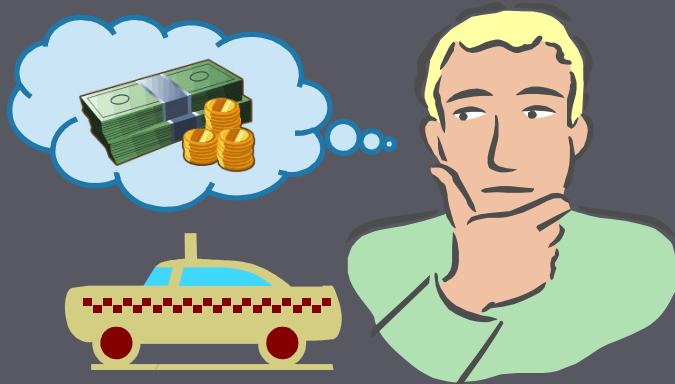


Our revenue is
guaranteed- why not
promote energy
efficiency? We'll reduce
costs AND make
customers happy.



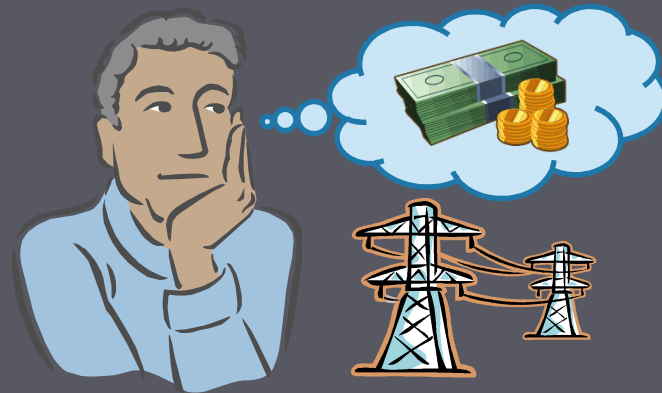
Decoupling revenue from unit sales
removes obstacles to promoting efficiency

Decoupling benefits providers and consumers



Passengers may pay more or less per ride, but they benefit by—

- arriving at the destination quickly and efficiently
- having a set cost to compare with alternatives such as public transit



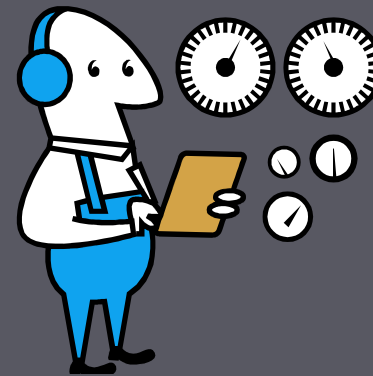
Consumers may pay more or less per unit of energy, but they benefit by—

- helping to make a wide range of energy efficiency programs possible
- participating in such programs to reduce their total energy costs

All of which benefit society and the environment!

For more information

- NRDC map of states with decoupling:
<http://www.nrdc.org/energy/decoupling/files/Gas-and-Electric-Decoupling-Maps.pdf>
- Regulatory Assistance Project resources on decoupling:
<http://www.raonline.org/search/site/?q=decoupling>





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