Decoupling in the West
1990 - 2008

Minnesota Public Utilities Commission

April 14, 2008

Jim Lazar

The Regulatory Assistance Project

50 State Street, Suite 3
Montpelier, Vermont USA 05602
Tel: 802.223.8199
Fax: 802.223.8172

27 Penny Lane
Cedar Crest, New Mexico USA 87008
Tel: 505.286.4486
E-Fax: 773.347.1512

110 B Water St.
Hallowell, Maine USA 04347
Tel: 207.623.8393
Fax: 207.623.8369

Website: *http://www.raponline.org*

Utilities with Current or Past Decoupling Mechanisms

- Electric
  - California
    - Pacific Gas and Electric
    - Southern California Edison
    - San Diego Gas and Electric
  - Washington
    - Puget Sound Energy (terminated 1995)
  - Idaho
    - Idaho Power
- Natural Gas
  - California
    - Pacific Gas and Electric
    - San Diego G & E
    - Southwest Gas
    - Southern California Gas
  - Oregon
    - Northwest Natural Gas
    - Cascade Natural gas
  - Utah
    - Questar
  - Washington
    - Avista
    - Cascade Natural Gas

California -- All Regulated Electric and Gas Utilities

- Pioneer of decoupling in the west.
- Suspended during the restructuring experiment; reinstated 2002-2005.
- **Full decoupling**; multiple balancing accounts for various cost centers.
- Electric utilities have very high purchased power, with debt attribution; they are allowed unusually high equity capitalization ratios and ROE.

Idaho
Idaho Power Company (Electric)

- Approved March, 2007 by Settlement
- Separate Elements
  - Fixed cost per customer (delivery)
  - Fixed cost per energy (power supply)
- **Limited Decoupling**: Weather-related sales variations are not trued up with surcharges or credits
- Adjustment combined with conservation program charge on bills
- 3% Rate Increase Cap

Oregon –
Northwest Natural Gas

- Approved in 2002; extended to 2009
- Initially **Partial Decoupling** (90% deferral and recovery of distribution margin)
- Changed to **Full Decoupling** in 2006.
- Requires utility to dedicate 3% of revenue to Energy Efficiency, through the Energy Trust of Oregon and low-income weatherization agencies.
- Christensen evaluation report noted improved financial strength.

Oregon
Cascade Natural Gas

- Settlement in 2006
- **Full Decoupling**: Separate Conservation Variance and Weather Variance adjustments.
- No Cost of capital reduction, but a requirement to contribute 0.75% of revenues to Energy Trust of Oregon for DSM
- 5-point Service Quality Measure, with penalties
- Earnings sharing agreement if ROE exceeds baseline by more than 175 basis points.

Utah
Questar Natural Gas

- Approved in October, 2005, as part of implementation of a DSM program.
- **<u>Full Decoupling</u>**, subject to 1% cap.
- Initial credit of $1.1 million in lieu of any cost of capital adjustment, based on post-rate-case actual sales volumes
- No new customer adjustment
- No cost of capital adjustment

Washington
Puget Sound Energy - Electric

- Adopted in 1990.
- Two parts:
  - "Base" costs, **Full Decoupling**, based on revenue per customer with no inflation or productivity adjustment.
  - "Power" costs, based on actual.
- Power Cost Adjustment (PCA) included fixed and variable power supply costs. NOT a traditional fuel and purchased power mechanism.
- Terminated in 1995 due to high power supply costs; the distribution decoupling mechanism was at most a minor factor.
- PCA replaced in 2002, but not base cost decoupling.

Washington
Avista (Natural Gas)

- Adopted Feb., 2007 by settlement
- **<u>Partial and Limited Decoupling</u>**,
  - **Partial**, depending on achievement of DSM targets
    - <70% of target -- No decoupling surcharges
    - 100% of target -- 90% of deferral surcharges flowed through
  - **Limited**: no recovery of margin associated with variation in sales volumes due to weather.
  - **Limited**: New customers are excluded from the mechanism.
- Earnings test: no increase if Actual ROR > Allowed ROR
- Maximum 2% rate adjustment.

Washington
Cascade Natural Gas

- Adopted January, 2007
- **<u>Limited Decoupling</u>**:
  - Weather-related sales variations are not trued up with surcharges or credits
- Subject to:
  - Approval of conservation plan with penalties for failure to achieve targets
  - Earnings cap with sharing of excess earnings