



SOUTHWEST ENERGY EFFICIENCY PROJECT

Saving Money and Protecting the Environment Through More Efficient Energy Use

Revenue Decoupling to Support Energy Efficiency

January 2015

- Revenue decoupling is a policy to ensure that utilities are not harmed financially when they implement energy efficiency programs for their customers, and thereby reduce the level of electricity consumption and sales.
- Revenue decoupling involves periodic small adjustments to electricity or natural gas rates so that utilities collect the amount of revenue authorized by their regulator (i.e., the state public utility commission), and no more or no less, in between the rate cases where regulators establish how much revenue a utility is entitled to collect during a base year.
- Under revenue decoupling, a small surcharge is added to electricity or natural gas rates if a utility under-collects its authorized revenue while a small reduction in rates is adopted if a utility over-collects its authorized revenue. Experience has shown that these rate adjustments are typically 2% or less, with surcharges some times and rate reductions other times.
- Revenue decoupling removes the incentive that utilities traditionally have to increase energy sales and thereby increase profits (and oppose policies that cut sales), once rates are set. In this manner it supports a number of public policy goals including promoting energy efficiency, promoting adoption of solar energy and other distributed energy sources, and reducing pollutant emissions associated with energy production and supply.
- Revenue decoupling is often adopted on a “revenue-per-customer” basis, meaning that the amount of revenue a utility can collect from its customers increases as the number of customers grows. This is fair because costs increase as new customers are added to the utility system.
- Revenue decoupling was first adopted more than 20 years ago in California and is now in place for electric utilities in 14 states and for gas utilities in more than 20 states. The experience with revenue decoupling has been very positive and additional states were considering adopting decoupling as of January, 2015.
- Revenue decoupling is relatively simple to implement. The rate adjustments are typically made annually by customer class based on the authorized revenue for that class; i.e., the adjustments are made separately for residential customers, small commercial customers, large commercial and industrial customers, etc.
- Adoption of revenue decoupling is associated with strong utility energy efficiency programs. According to the American Council for an Energy-Efficient Economy (ACEEE), decoupling is in place in eight of the top ten states with respect to electricity savings achievement from utility efficiency programs.
- Lost revenue adjustment mechanisms (“LRAM”) are the other policy that some states have adopted to ensure that utilities are not harmed financially when they implement energy efficiency programs. LRAM allows utilities to charge customers for their “lost sales” resulting from energy efficiency programs. LRAM has proven to be highly contentious in a number of states.