

The Boston Globe

Tuesday, February 19, 2008

State mulls efficiency incentive for utilities Business groups oppose decoupling plan, which would guarantee revenue

By Robert Gavin, Globe Staff

State regulators are drafting a new rate plan to guarantee that utilities won't lose money if their customers use less electricity.

This framework, known as revenue decoupling, aims to revamp rate structures, which environmentalists and utilities say pose barriers to energy efficiency and lower consumption. Currently, utilities make more money by delivering more electricity, giving them little incentive to promote efficiency measures that reduce sales.

Decoupling aims to break the connection between sales and revenue, typically by fixing per-customer delivery charges, which are now adjusted regularly to compensate for changes in sales volumes. Freed from the need to increase sales, utilities can pursue efficiency measures to help customers use less energy and save money, decoupling supporters say.

But Massachusetts businesses, saddled with some of the highest energy costs in the nation, oppose decoupling. They argue it insulates utilities from market forces, eliminating incentives to operate efficiently and lower costs. Greg Vasil, chief executive of the Greater Boston Real Estate Board, likened decoupling to "getting rent on a vacant apartment."

"They are getting money for simply saying, 'We like conservation,' " he said. "You just don't give them money when it's not clear they operate efficiently."

In Massachusetts, utilities only distribute electricity, charging service rates that account for about one-third of a power bill. The biggest portion is the cost of electricity, determined by independent generators selling into wholesale markets.

State regulators have little say over the prices generators receive, but determine what utilities can charge. Traditionally, utility rates are based on cost of service plus a reasonable rate of return, and are set after a public process in which utilities must justify their expenses.

Once the rates are set, a utility is free to sell as much electricity as it can.

Environmentalists and utilities, however, say this model has become outdated as global warming, dwindling supplies of fossil fuels, and soaring prices increasingly require utilities to help customers use less energy. Still, utilities must generate enough revenue to maintain a safe and reliable distribution system and satisfy shareholders.

At least 10 states have adopted decoupling as a way to expand energy efficiency while ensuring the financial health of utilities. Several more states, including Massachusetts, are considering decoupling.

Decoupling is a key component of Governor Deval Patrick's energy policy, which focuses heavily on cutting consumption through efficiency. The state Department of Public Utilities, led by Paul Hibbard, launched an investigation into decoupling last year, holding hearings and soliciting comments.

The Boston Globe

Tuesday, February 19, 2008

Many observers expect the DPU to adopt decoupling. In a proposal to elicit comments, the DPU commissioners suggested a system in which customers are assessed a fixed charge, adjusted annually according to utility revenue.

If revenue falls below an approved target, utilities would recover the shortfall with higher rates. If they exceed the target, money would be returned to customers. The decoupling plan also could include financial incentives and penalties to ensure utilities meet efficiency goals.

"Energy prices are too high, and one of the most important ways to lower energy bills is to increase efficiency," said Ian Bowles, secretary of the Executive Office of Energy and Environmental Affairs. "We need new incentives to save as much power as we can."

Decoupling is not a new idea, but the record is mixed. California credits decoupling, adopted for electric utilities in 1982, with making it the nation's most energy-efficient state. Greg Kats, managing director of Good Energies Inc., a Washington firm, estimates California families pay \$800 a year less than they would without efficiency gains.

Maine, however, gave up on decoupling in 1993 after a three-year experiment. Approved as the state slipped into recession, decoupling entitled Central Maine Power to raise rates to recover a \$52 million shortfall, even though economic conditions, not efficiency, were the primary cause of the shortfall.

Massachusetts businesses say Maine's experience shows decoupling can shield utilities from factors unrelated to efficiency at the expense of consumers. The traditional rate-making system remains the best way to ensure utilities can earn the revenue they need, while protecting consumers, business officials said.

"No one has made a convincing argument that decoupling would benefit anyone but the utilities," said Robert Rio, senior vice president at Associated Industries of Massachusetts.

In comments to the DPU, Attorney General Martha Coakley asked regulators to move cautiously, urging them to make detailed findings that decoupling is needed to realize efficiency gains.

"Let's keep in mind appropriate and fair rates," Coakley said in an interview. "We don't oppose the concept of decoupling, but it is our role to say, 'This is all well and good. But . . .'"