

# Decoupling in California: More Than Two Decades of Broad Support and Success

## Workshop on Aligning Regulatory Incentives with Demand-Side Resources

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# Decoupling at PG&E – A Long History

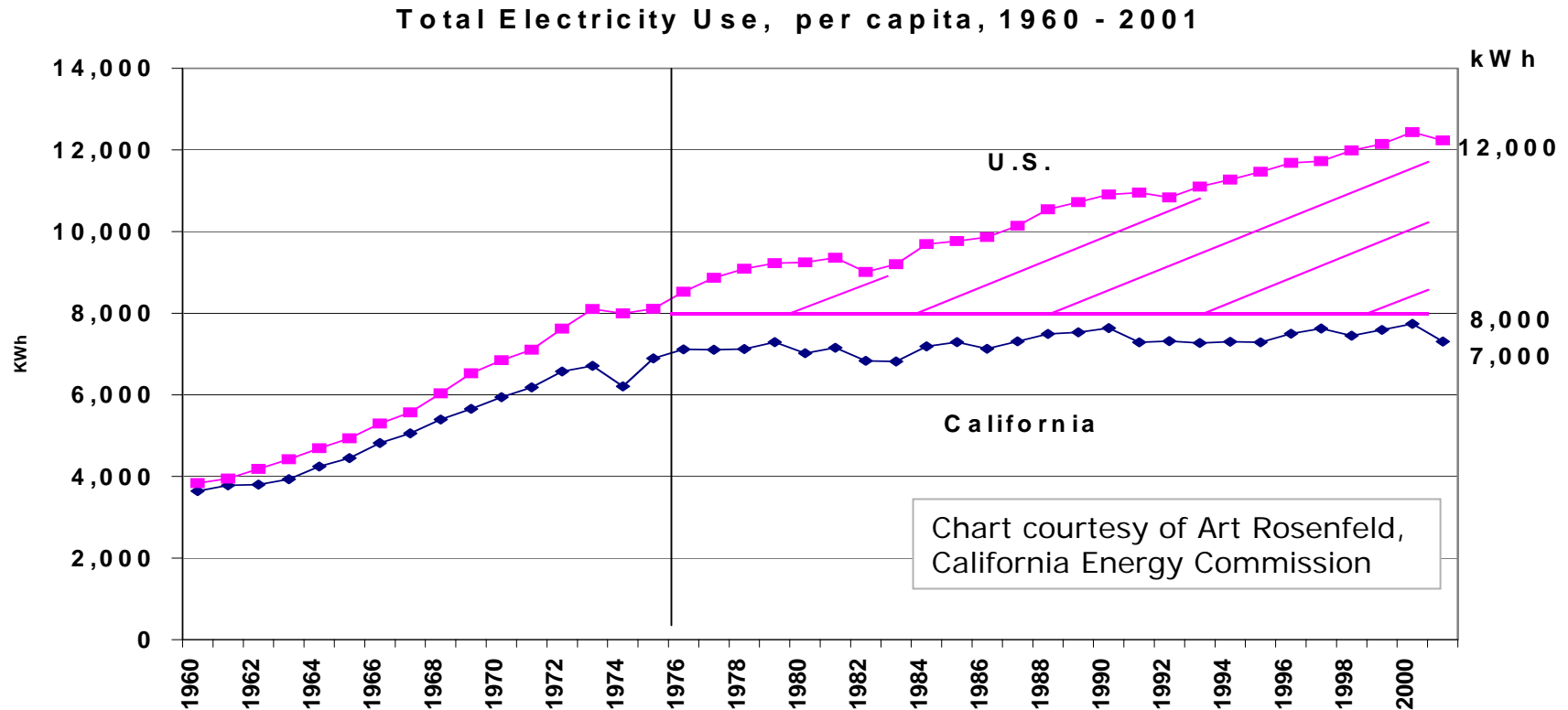
- ❑ Decoupling of revenues/sales for non-fuel costs began in 1978 for natural gas; 1982 for electric:

*"...the adoption of an ERAM [Electric Revenue Adjustment Mechanism] ... will eliminate any disincentives PG&E may have to promote vigorous conservation measures and also be fair to ratepayers in assuring that PG&E receives no more or no less than the level of revenues intended to be earned."*

California Public Utilities Commission  
Decision 93887, **12/30/1981**

- ❑ Key goal: encourage conservation
- ❑ Broad stakeholder support at time: PUC staff, Energy Commission, environmentalists, PG&E, other utilities

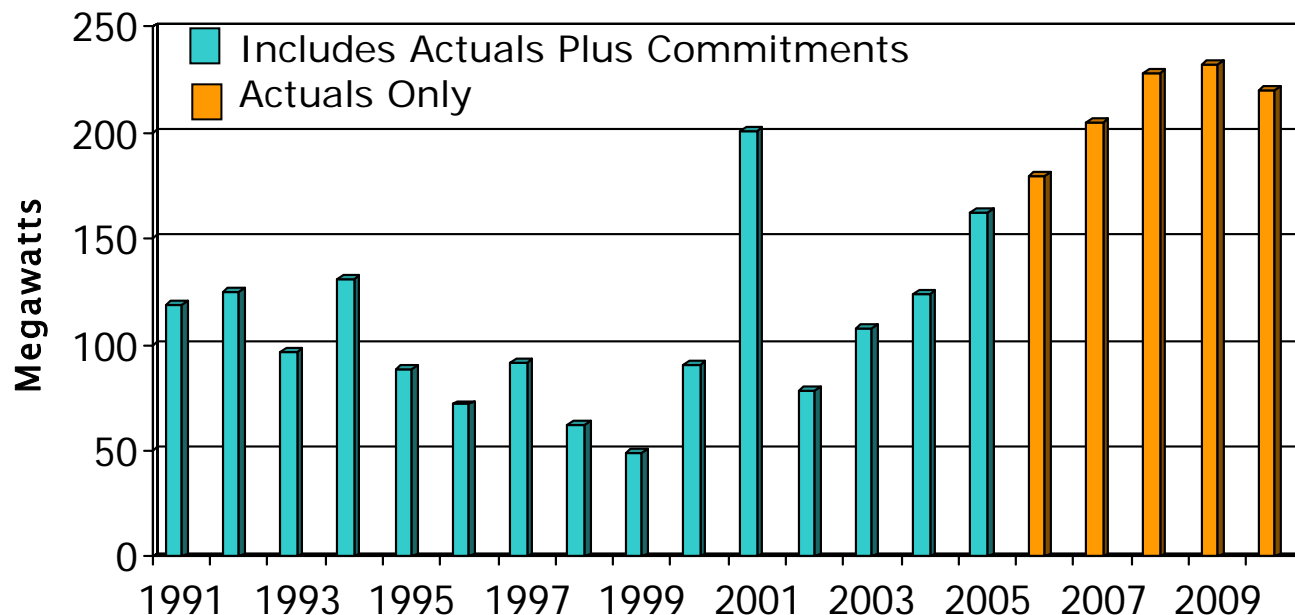
# California's Real-World Success in Decoupling



## Why is California Different?

- ❑ Very large scale, sustained energy efficiency effort
- ❑ Highly effective codes and standards programs
- ❑ Escalating IOU, state effort on solar

# Energy Efficiency Savings Past and Future



MW Savings:  
Historic & Target

## PG&E's Budget and Goals for 2006-2008:

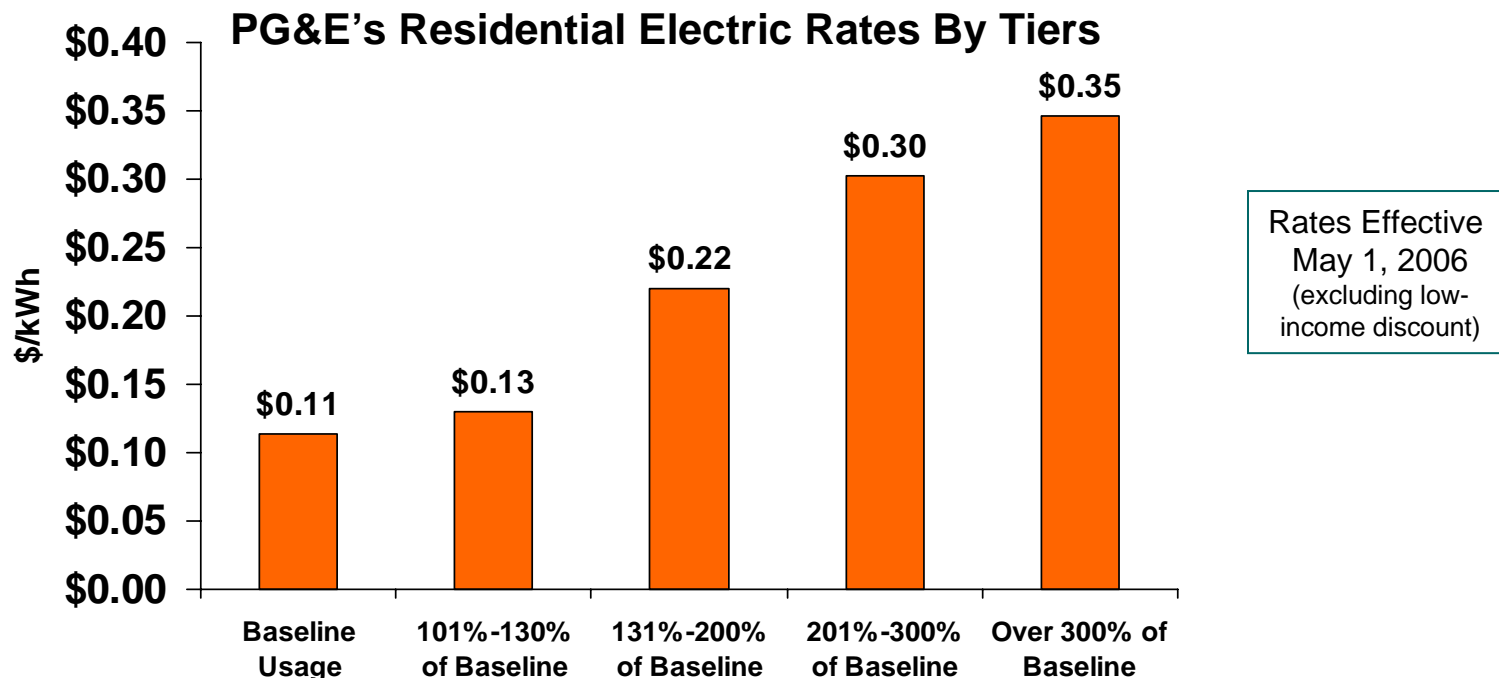
- ❑ Overall budget - \$975 million
- ❑ Incentives budget - \$416 million
- ❑ CPUC goals for PG&E:
  - 613 MW, 2,826 GWH, 45 MM therms

- ❑ Population forecasted to rise from 37.2 million to 42 million (13%) from 2006 to 2016
- ❑ Electric usage forecast to rise from 278,784 GWH to 314,471 GWH (13%) over same period
  - Larger homes in hot valley areas
  - More, higher-use electric devices/household
- ❑ State's peak demand rose 4,000 MW to 50,000 MW in recent heat spell – equal to eight 500-MW plants
- ❑ Efficiency remains lowest cost resource
- ❑ Challenge: optimize regulatory framework for least-cost resource acquisition

# Efficiency Programs' Revenue Impact

- ❑ To address last winter's huge escalation in natural gas costs, PG&E deployed several winter initiatives to encourage conservation
- ❑ Reduced gas demand from conservation resulted in \$47 million decrease in transportation revenues
- ❑ Without decoupling, program would have had negative impact on PG&E's financials – and very likely would not have been proposed

# Rate Structures Also Require Decoupling



- ❑ Inverted residential rates required by Public Utilities Code; mandated since 1970s to incent conservation
- ❑ Inverted rate structure magnifies impact on revenues of weather, other sales changes, e.g., conservation
- ❑ Decoupling allows pricing signals to customers without revenue loss or gain to company

## ❑ Electric decoupling required by Public Utilities Code:

*"The Commission shall ensure that errors in estimates of demand elasticity or sales to not result in material over or undercollections of the electrical corporations."*

Section 739.10, April 2001

## ❑ Nearly all PG&E revenues now decoupled:

- Electric revenues: about 6% at risk
- Natural gas revenues: about 4.2% at risk

## ❑ California PUC considering further decoupling of natural gas revenues in Gas OIR proceeding

## ❑ Continuing widespread support for decoupling (with forward-looking revenue/rate setting) from broad stakeholder group throughout state



# Keys To Decoupling's Success in California

- ❑ Revenue/sales decoupling mechanisms paired with annual attrition rate adjustment mechanism
  - Attrition adjusts annually for customer growth, inflation, replacement of aging infrastructure facilities
- ❑ Sustained, deep commitment by regulators, state lawmakers, utilities, other stakeholders to energy efficiency, conservation, renewables, demand-response
  - California Energy Action Plan, California Solar Initiative (\$2.5 billion 2007-2016, 2,600 MW), Governor's Green Building Initiative, procurement funds for energy efficiency, etc.
- ❑ Growing interest and commitment by public to improve environment and mitigate climate change
- ❑ General agreement utilities are a key player in delivering energy efficiency programs/savings to customers

Questions?

Thank you