



Revenue Decoupling: New York's Experience & Future Directions

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Revenue Decoupling Mechanisms

- What is an RDM?
- New York's past experience with decoupling
- Alternatives to decoupling
 - project by project lost revenue recovery
 - third party administration of demand side programs
 - command and control
- Pros and Cons of fully cost based rates
- New directions for New York
- Observations

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Revenue Decoupling Mechanisms (RDM)

What is an RDM?

- Eliminates the linkage between electricity sales and utility revenues and profits.
- Existing utility delivery rate designs are, in most cases, “not optimal”, in that they do not collect all fixed costs through fixed charges and all variable costs through variable charges.
- Sets an allowed revenue or revenue per customer target and reconciles actual differences in a subsequent period, through a bill credit or surcharge.
- Implemented to remove any remaining delivery rate disincentives against a utility’s promotion of energy efficiency, and behind-the-meter renewable technologies, and other forms of distributed generation. ³



NYS Past Experience with RDM

- Mechanisms implemented for several utilities in early 1990’s (prior to restructuring)
 - O&R, NMPC, Con Edison
 - Post broad-based RDM, ten year planned DSM expenditure increases, on avg., 370%
 - At four non-RDM utilities, ten year planned DSM expenditures significantly exceeded 370%
 - (net-lost revenue recovery based on measured results)
 - DSM Incentives and State Energy Efficiency Goals may have been primary driver of increases

NYS Past Experience with RDM (cont'd)

- Concerns raised regarding RDMs
 - Skewed price signals (“bundled” rates)
 - Large utility accruals
 - Customer bill volatility
 - Reduced incentives for economic development
- Actual Impacts
 - Revenue reconciliations ranged from a 0.2% annual decrease at O&R to a 2% increase (capped) at NMPC
 - Isolated effect on utility behavior difficult to determine
 - Utility concerns regarding impending competition and rising rates eventually dampened enthusiasm regarding DSM

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Problems less likely to be realized today because:

- Substantial progress made since the 1990’s in moving fixed costs out of volumetric delivery charges
 - Reduced unrealized revenues and smaller true-ups
- After restructuring, revenue decoupling would apply to delivery revenues only
 - Market price signals for commodity would be unaffected
- Decoupling can be targeted to specific classes
- More frequent true-ups enabled by improved metering technology

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Alternatives to Revenue Decoupling

- Project specific lost revenue recovery
 - Petition for recovery of verified net lost revenues resulting from utility-sponsored energy efficiency programs
 - Such mechanisms can be complex
- Third party administration
 - NYSERDA and the System Benefit's Charge since 1998
 - But, utilities have dismantled DSM delivery infrastructure

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Alternatives to Revenue Decoupling (cont)

“Command and Control”

- United Nations: “Cuba has solved its energy crisis without sacrificing its environment”
- “Fidel Castro leads sweeping new energy revolution”
 - Overhaul of antiquated energy grid
 - Adoption of renewable fuels
 - Government led conservation drives



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Alternatives to Revenue Decoupling (cont)

- Cost Based Delivery Rates
 - Movement towards fully cost-based rates can provide improved price signals and significantly reduce utility disincentives to promote conservation programs.
 - Increased recovery of fixed delivery system costs through fixed rather than volumetric charges
 - But, fully cost based delivery rates raise serious issues regarding equity impacts and customer incentives to conserve energy

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Bill Impacts of Fully Cost-Based Rate Design National Grid - SC1 – Residential Rates

<u>kWh Usage</u>	<u>Bills under current rates</u>	<u>Bills with all fixed costs in customer charge</u>	<u>\$ Increase</u>	<u>% Increase</u>
200	\$43.86	\$62.09	\$18.23	41.6%
630	\$102.25	\$102.25	(\$0.00)	0.0%
1,500	\$220.39	\$183.44	(\$36.95)	-16.8%

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New York's Preferred Approach: Combined Strategy

- Combination of:
 - Revenue Decoupling for mass-market customer classes
 - Fully cost-based (hourly) rates for larger commercial and industrial customers
- Increase the frequency of true-ups
- RDM, in tandem with cost-based rate methodologies, enables rate structures that:
 - Provide appropriate price signals,
 - Helps to promote and expand energy efficiency and other behind-the-meter initiatives, while
 - Mitigating significant customer bill impacts.

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Commission Decoupling Order (Case 03-E-0640, Issued April 20, 2007)

- Electric and Gas utilities required to develop true-up based revenue decoupling mechanisms
 - To be designed and implemented in individual utility rate cases, involving all interested parties
 - In existing cases, supplemental procedural phases should be established

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Reasons for Recent Actions

- Complements New York's new 15 X 15 Energy Efficiency Initiative
 - Reduce 2015 electricity sales by 15% from currently projected levels
- Need to “re-engage” utilities in the delivery of energy efficiency programs – in conjunction with NYSERDA
- Sets the stage for consideration of future utility programs, and any associated incentives