

## Why Punish Utilities for Efficiency?

### ISSUE SUMMARY:

Imagine telling a restaurant to sell less food.  
Imagine telling a bookstore to sell fewer books.  
Imagine telling a utility to sell less energy.

Selling less product sounds unappealing to most companies, but it is exactly what we are asking our utilities to do when we encourage them to offer more energy efficiency programs.

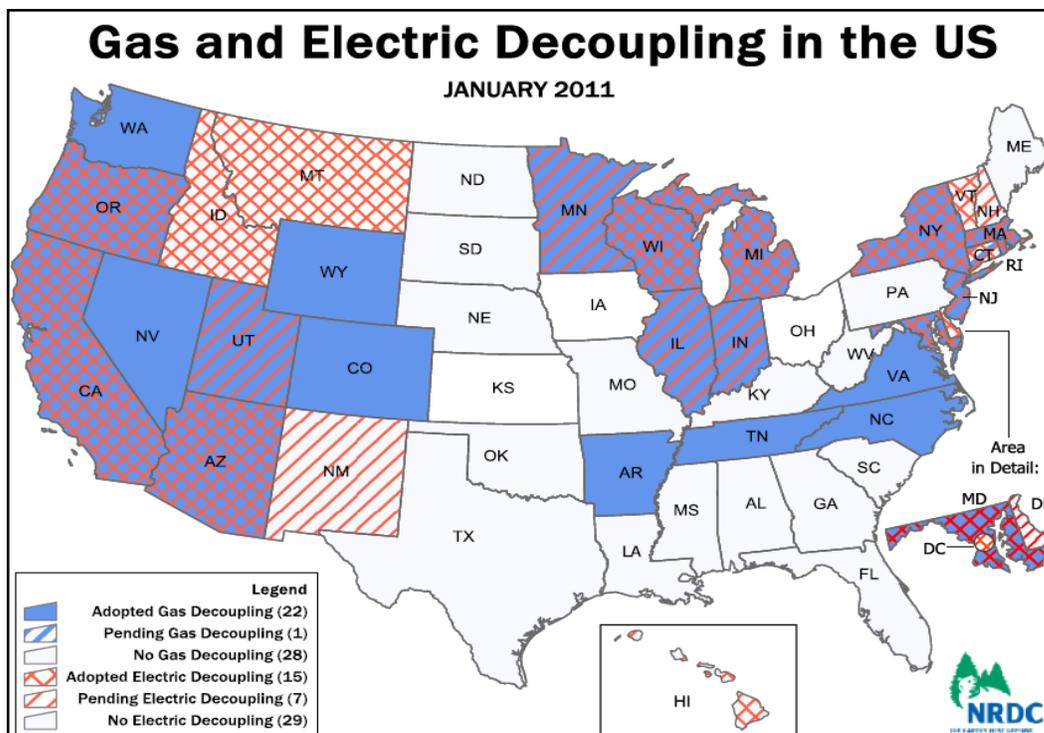
In Texas, utilities' profits are based on the amount of electricity or gas sold, so selling less hurts the bottom line.

However, this disincentive has been overcome in many states (see map below) with a policy called "decoupling," in which the profits of utility companies are separated, or decoupled, from the volume of electricity or gas sold.

The Texas electric market structure presents some unique, but not insurmountable, challenges. In Texas, decoupling could apply to the regulated utilities, i.e., the "poles and wires" companies, as well as natural gas and water utilities. It would allow Texas utilities to aggressively increase energy efficiency programs, saving ratepayers money, without sacrificing shareholder returns.

### KEY POLICY CONSIDERATION:

- Since decoupling is a complex policy endeavor that has not been fully considered for Texas markets, one approach could be to pass a bill requiring a study on decoupling in Texas that would make recommendations about how it could be implemented to benefit both ratepayers and utilities.



## TALKING POINTS:

- Under the current market structure, Texas utilities have no motivation to do more than the required amount of energy efficiency.
- In fact, utilities actually hurt their bottom line if they do energy efficiency programs too well.
- This situation is backwards. Utilities should not be punished for efficiency.
- Dozens of states have implemented decoupling measures. Texas is not one of them.
- Texas' electric market presents certain challenges. A study to focus on how to do this correctly could be helpful.
- As the cheapest and cleanest way to meet future energy needs, energy efficiency is a win-win for utilities and ratepayers, so an effective market should encourage increased investment in cost-effective efficiency.

## OPPONENTS SAY:

- *“Decoupling cannot work in Texas' unique market.”*

RESPONSE: The Texas energy market structure presents some unique, but not insurmountable, challenges. In Texas, decoupling could apply to the regulated utilities, i.e., the “poles and wires” companies, as well as natural gas and water utilities. A study would be a prudent.

- *“Decoupling is just a way for utilities to make more money.”*

RESPONSE: Decoupling is NOT a way for utilities to make more money. It's a way to prevent them from taking a financial hit if they aggressively pursue energy efficiency. Utilities should not be punished for being energy efficient, but without decoupling they would clearly lose money by selling less power. Undoubtedly, ratepayer interests have to be protected, which has been done successfully done in many other states.

## BACKGROUND AND HISTORY:

Decoupling was first implemented in the early 1980's and has been steadily gaining traction around the country. 23 states have adopted or are adopting decoupling for gas utilities, and 22 have done so or are in process for electric utilities.

Texas is not among these states.

A review of the State's efficiency programs mandated by the Legislature stated that “[utility] administrators usually begin to resist [energy efficiency] program expansion unless they are offered... some form of decoupling” (*Itron 2008*). The report recommended “consideration of mechanisms to decouple utility revenues from kWh sales...”

Several bills were introduced last session to require a study that could provide this kind of consideration, but none were enacted into law.

## RESOURCES AND CITATIONS:

Itron (December 2008). *Assessment of the Feasible and Achievable Levels of Electricity Savings from Investor Owned Utilities in Texas: 2009-2018*.

[http://www.texasefficiency.com/media/files/itron\\_texas\\_potential\\_study.pdf](http://www.texasefficiency.com/media/files/itron_texas_potential_study.pdf)

Eto, Joseph, et al. Lawrence Berkeley Laboratory (January 1994). *The Theory and Practice of Decoupling*.

<http://eetd.lbl.gov/ea/ems/reports/34555.pdf>

Arizona Corporation Commission. *ACC Policy Statement Regarding Utility Disincentives to Energy Efficiency and Decoupled Rate Structures*.

[http://www.swenergy.org/news/news/documents/file/ACC%20Decoupling%20Policy%20Statement%20Extracted\\_12\\_29\\_2010.pdf](http://www.swenergy.org/news/news/documents/file/ACC%20Decoupling%20Policy%20Statement%20Extracted_12_29_2010.pdf)

Regulatory Assistance Project page on decoupling and financial incentives:

<http://www.raponline.org/Feature.asp?select=78>