Decoupling in Minnesota

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Fresh Energy

What is Decoupling?

- A policy designed to **remove the financial disincentive** utilities face towards promoting energy efficiency and conservation.

- A means to **transition away** from the current utility business model that benefits both utilities and customers.

How it works

- In its simplest form, decoupling ensures that a utility collects the revenues authorized by the PUC, **no more and no less**.

- Currently, the PUC sets a rate designed to generate revenues to cover a utility's fixed costs, according to a **forecasted** customer energy demand.

- But if **actual** demand fluctuates up and down, revenues will be above or below what was authorized by the PUC.

How it works

- If actual demand is below what was forecasted…

…the utility fails to collect necessary revenues to **cover its fixed costs** of providing service.

- And, if actual demand is above what was forecasted…

…the utility **collects more revenues** than authorized by the PUC, and customers overpay for the service they receive.

How it works

- Decoupling **smoothes out these fluctuations** between *authorized* revenues and *actual* revenues by periodically truing up the difference.

A decoupling policy should…

- Be “symmetrical” so that both the utility and the customer benefit

- Coincide with other policies that drive energy efficiency and conservation

- Not drive a reduction in a utility’s return on equity

- Be clearly communicated to customers

- Coincide with regular rate cases

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Thank you

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