Real Possibilities

To: The Honorable Bob Smith, Chairman
NJ Senate Environment and Energy Committee

Fr: Evelyn Liebman, Associate State Director
AARP New Jersey State Office

Re: Decoupling Work Group

Date: June 23, 2014

Thank you for the opportunity to participate in the Decoupling Work Group. The Work Group met on May 23, 2013 where many divergent opinions were shared. No consensus was reached on the question of whether or not decoupling is an appropriate mechanism by which to incent utilities to participate in energy efficiency (EE) and renewable energy (RE) programs. On behalf of AARP's 1.3 million Garden State members, I write to provider further input on our concerns with decoupling and the dangers such mechanisms can pose for consumers.

While decoupling has been used to describe a variety of different rate mechanisms, generally the term refers to attempts to sever the regulatory connection between the amount of energy sold by a utility and the amount of revenue that the utility can collect from its ratepayers. Breaking the regulatory link between utility service and utility revenue is analogous to partial deregulation, will by its very nature result in less transparency and distort current ratemaking mechanisms and incentives for efficient utility performance.

Decoupling itself does not provide an incentive. Eliminating a disincentive (sometimes referred to as the "throughput disincentive") is not equal to creating an incentive for a utility to perform in a certain way. Importantly, decoupling is not the only mechanism by which to incentivize utility participation in energy efficiency and renewable programs.

Under the assumption that pursuing a certain amount of energy efficiency is the least cost resource option for New Jersey's investor-owned utilities to meet the future demand for electricity, utilities already have an obligation to invest in every reasonable, cost-beneficial opportunity for energy efficiency under our long-standing regulatory goals of providing safe, adequate and reliable service at affordable rates. Moreover, New Jersey provides additional supports for these investments through N.J.S.A. 48:3-98.1 (Section 13 of RGGI), which allows deregulated gas and electric utilities to invest in renewable energy (RE) and energy efficiency (EE) programs and which allows alternative revenue mechanisms for these programs. As noted by the NJ Division of Rate Counsel, NJ utilities are employing Section 13 to make substantial investments of almost $1.5 billion in EE and ER programs. These ratepayer funded investments are in addition to annual ratepayer investments made through the Societal Benefits Charge, which funds the BPU's Office of Clean Energy programs. The Office of Clean Energy's proposed FY'15 budget is almost $250 million.

While decoupling shifts the risk of doing business from the utility corporation and its shareholders to its customers, it is unclear whether or not decoupling encourages consumer benefits that outweigh the additional risks that consumers would be forced to bear under such a mechanism. In fact, decoupling can be counter-productive to the goal of saving energy because it deprives consumers of the full utility bill savings of their efficiency efforts. Decoupling can result in New Jersey consumers, already hard pressed under the weight of the 7th highest electric rates in the nation, saving more only to pay more.

Decoupling poses a number of problems for consumers including paying rates that are not linked to actual EE and/or RE performance. There are a number of reasons for reduced revenue that are out outside the control of the utility company, including weather or significant economic events like the recent great recession. Decoupling can reward a utility – while punishing consumers – as a result of revenue reductions that are completely unrelated to ER and/or RE programs. If residents and businesses are cutting costs to adjust to economic conditions, utilities should do the same, rather than have mechanisms that guarantee a utility's cost recovery and profits.

While promoting increased investments in effective energy efficiency measures is an important public policy objective, decoupling can unduly shift risk to consumers, raise prices during periods of declining sales and does not guarantee investment in needed efficiency improvements. Establishing revenue decoupling requires a complex analysis, well-beyond the resources of the current Work Group, and is unique to the circumstances of each utility.

Given the real and substantial risks decoupling poses for New Jersey consumers, AARP recommends policymakers and regulators consider alternate means of promoting EE and RE in New Jersey that include specific EE and RE targets.

AARP appreciates being part of this important conversation and looks forward to working with you and other stakeholders to ensure the best and most affordable energy future for New Jersey.