

Review Decoupling task force

# Energy Efficiency Prospects Surge for Minnesota Utilities

June 23, 2014 By [Samantha Williams](#)



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The Minnesota Public Utilities Commission has rejected a nearly two-fold increase in fixed charges for CenterPoint Energy Resource’s residential customers, and ordered a mechanism – decoupling – for the gas utility that’s aimed at encouraging more energy savings for the state’s homes, businesses and industry.

Last week’s ruling sets an important precedent for states striving to achieve robust energy-saving goals and move toward a low-carbon future. As [NRDC](#) has written extensively about in the last few weeks, using these mechanisms to increase energy efficiency also can help move states closer to the proposed U.S. Environmental Protection Agency standards to reduce the power plant carbon emissions that contribute to climate change.

But first things first – what is decoupling and how does it accomplish these benefits?

Traditionally, a utility’s ability to recover its “fixed costs” (i.e. the cost of meters, service lines, meter reading, and billing) is linked to how much energy it sells. As a result, it has an incentive to focus on sales volume rather than helping customers save energy. Decoupling breaks that link, freeing the utility to promote conservation.

And decoupling is very simple in practice: each year CenterPoint will adjust its rates up or down to cover its fixed costs – no more and no less – of serving homes, businesses and industry in Minnesota. These adjustments are small, but the impacts are *huge*, driving deeper energy savings and thus saving customers money on their bills.

**Decoupling furthers Minnesota’s goals**

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NRDC, along with Minnesota-based advocates Fresh Energy and the Izaak Walton League, shepherded CenterPoint's decoupling proposal through this case, by:

- Supporting the decoupling request as an essential tool to move CenterPoint away from its current business model and create a more favorable regulatory environment for vigorous energy efficiency investment in the future.
- Strenuously opposing the request to nearly double fixed charges for residential customers (from \$8 to \$15/month). These increases inhibit conservation by sending an "all you can eat" price signal to customers, while reducing rewards for those who act to reap the benefits of efficiency.

Rather than increasing fixed charges, decoupling is the solution – an approach that both utilities *and* consumers can get behind.

The commission concurred, in a 3-2 decision, and found that decoupling is *exactly* the kind of policy that Minnesota law envisions to drive utility investment in efficiency. One commissioner even commented that the commission would be "*failing to satisfy its statutory directive*" if it did not implement decoupling. They concluded that "*decoupling has substantial potential to align the [utility's] interests with the public's interest in energy efficiency.*"

This mechanism also satisfies a number of other important state goals. It is the *only* approach presented in the CenterPoint case that balances competing principles of rate design, including avoiding consumer rate shock, conserving energy, protecting consumers from rate volatility, and providing a utility with a reasonable opportunity to recover its costs of service.

But with decoupling in place, it also means that a utility will not need to increase its fixed customer charge – an increase that can destroy customer energy efficiency efforts. Rate design is often referred to as a "zero sum game;" when a utility increases its fixed customer charge, it simultaneously *decreases* the variable charge that goes up and down as customers change how much energy they use. This variable charge is the only portion of the bill that customers have the ability to control through energy efficiency.

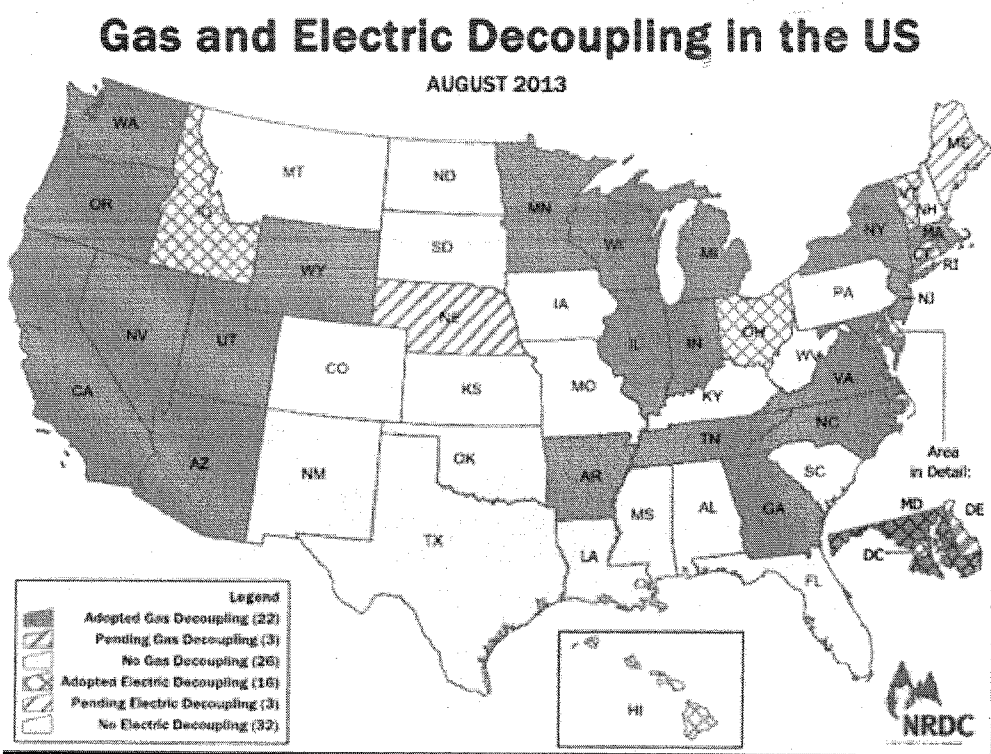
A fixed charge increase reduces customers' propensity to invest in efficiency. It sends them a counterintuitive message: "We'll reward you for using more energy, and penalize you for using less."

Again, the Minnesota commission concurred, finding that decoupling achieves the same goal as increasing the fixed charge – making the utility whole and stabilizing rates for customers – but without destroying conservation. As the commission stated, "*given the protection provided by revenue decoupling, [we] will not approve the Company's proposed increase.*"

### **Decoupling is becoming the norm – not the exception – nationwide**

Decoupling precedent in other states also came to bear on the CenterPoint case. Recent studies make clear that decoupling is commonplace across the nation, with half the states having adopted such mechanisms for at least one electric and/or gas utility, and, in total, 28 natural gas utilities and 51 electric currently implementing decoupling.

In fact, it is becoming the industry standard, and has helped spur some of the best-performing energy efficiency programs in the country. For example, seven of the ten states that lead the nation in per-capita investment in residential natural gas efficiency programs – Massachusetts, New Jersey, Utah, Minnesota, Michigan, Oregon, and Rhode Island – have decoupling for at least one natural gas utility.



#### What comes next?

In the last decade, Minnesota has made significant strides toward a clean energy future, including a commitment to reduce power sector carbon emissions 25 percent below 2005 levels by 2025.

One key to that success is the state's requirement that utilities reduce energy sales by 1.5% annually through energy efficiency programs. As noted above, this commitment to conservation will be a key tool for further reducing emissions and achieving EPA's proposed carbon pollution rules for power plants. ←

Importantly, the CenterPoint decision shows once again that decoupling is a great incentive that will help Minnesota's utilities – and many states – cross that finish line.

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