

From: Zeke Maggard
To: Logan Atkinson-Burke
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RE: Decoupling

In the on-going Entergy New Orleans (“ENO”) rate case, the City Council has adopted Resolution No. R-16-03, which required ENO to submit a proposal for a decoupling pilot program meeting certain criteria described in that same Resolution. ENO submitted a proposal for a Formula Rate Plan (“FRP”) to the Council and asserted that this Plan included the required decoupling mechanism. However, the Plan proposed by ENO falls short of the requirements agreed upon by the Council.

In a typical regulated energy market in the United States, like Louisiana, regulators set the prices that utilities charge consumers. The utility’s revenue requirement and customers’ rates are determined in a proceeding commonly called a “rate case”, which is the current situation ENO, the City Council, and its customers find themselves.

Decoupling is a tool used by utility regulators to ensure that a utility’s realized profits and its actual sales of electricity are disassociated from each other. An effective decoupling setup makes the utility indifferent to the idea of selling less product and simultaneously improves the effectiveness of energy efficiency and distributed generation programs in the market. Since the utility is not compensated based upon selling more electricity, conservation programs can be more effective because the utility presumably will not be actively working to sell more electricity. The mechanism by which decoupling works is to periodically adjust customers’ rates to ensure that the amount a utility records as revenue for fixed cost recovery is no more and no less than the amount of revenue authorized by the regulator to recover that cost. Fixed cost in this context does not mean that the cost does not vary, but rather it means that the cost does not vary with *how much energy* a given consumer uses. This rate adjustment causes customers to receive what is effectively either a refund or a surcharge based on whether the revenues the utility actually received from customers were greater or less than the revenues the regulator authorized.

For ENO’s proposed FRP achieve decoupling and its goals, a few things would need to change. What ENO has proposed is not decoupling because in certain situations under their proposed plan, the incentive to sell more electricity would still be present. First, the dead-band that ENO proposes is unacceptable. ENO states that it will not follow the decoupling process if the FRP results in a finding that the earned return on equity is within a “dead-band.” If this occurs, ENO simply will not decouple its revenues from the incentive to sell more electricity. Since this incentive remains in such a situation, allowing the dead-band is totally counterproductive to the purposes of decoupling. Second, the tariff must make clear that decoupling will only operate on revenues ENO receives from energy and demand-driven billing determinants, and not on either revenues from customer charge billing determinants or minimum bill requirements. ENO should only receive the costs provided for within the rider, not more or less depending on sales. ENO should endure some level of financial risk. Finally, the FRP tariff must make clear that the decoupling comparison being made is between the most recently approved revenues and the actual revenues, allocated to rate classes per approved factors, and not to a calculation of required allocated revenues that includes changes in costs during the decoupling period.