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Energy and Telecommunications Interim Committee
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DECOUPLING LEGISLATION: QUESTIONS TO CONSIDER

INTRODUCTION

The Energy and Telecommunications Committee reviewed a document titled *Decoupling Construction: Considerations for Montana* as part of its March 15-16 meeting materials. The following outline was prepared, including several questions from that document to provide a primer for the committee's discussion of decoupling draft legislation.

The construction of decoupling policies varies nationally among states and further among utilities. Designing a decoupling mechanism requires the consideration of several main policy points in an effort to align the state's, Public Service Commission's and energy stakeholders' policy objectives. The following is a collection of potential policy questions for consideration by policymakers constructing a decoupling policy that fits Montana's energy landscape.

Decoupling policy separates a regulated utility's profits from its total electric or gas sales so a utility isn't incentivized to sell more electricity or gas. The implementation of decoupling policy is most often discussed by the commissions that regulate utilities and often in terms of ratemaking.

The construction of sound decoupling policy usually entails answering the following four policy questions:

1. What entity has the legal authority to enact a decoupling mechanism?
2. What utilities and what utility functions are covered?
3. What method is best to adjust utility revenue under a decoupling mechanism?
4. What method best handles consumer refunds and surcharges?

Regulatory Authority

Historically, decoupling policy is established by a combination of statute and at the regulatory level through the administrative rules at the commission. Several states have enacted decoupling policy at the regulatory level without enabling legislation. The western decoupling states examined in previous meetings implemented policy both by statute and by commission action.

Lawmakers considering the construction of decoupling policy are faced with the following questions concerning the regulatory authority for decoupling policy construction:

1. How much authority should be granted to the Public Service Commission? Does the state need legislation in order to propagate decoupling policy?
2. If statute is required, what policies are implicitly included in legislation and what policies should be decided at the Public Service Commission?

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What is covered?

The second important step in constructing decoupling policy is to decide what utility functions, customer classes, and costs will be included in a decoupling mechanism. Decoupling policy is often crafted at the public service commission level on an individual utility basis during regular rate cases. Four main points can be considered.

1. Is the utility's generation, distribution, and transmission revenue or a combination of the three included?
2. What customer classes, commercial or residential, are included?
3. What elements of the utility's cost should be included?
4. Which utilities should be included, NorthWestern, Montana Dakota Utilities and the electric co-ops?
5. Should all utility functions be included in a decoupling mechanism or should costs be carved out?
6. Is a form of full or partial decoupling the best fit for Montana utilities?

Revenue Adjustment

Decoupling mechanisms rely on several forms of multi-step formulas called revenue adjustment mechanisms to determine allowed revenue for the utilities. Legislators also must consider how often to implement revenue adjustments. In the West, revenue per customer and attrition methods are most common. The accrual policies rely on public service commissions to set base allowed revenue figures and reconcile actual revenue with allowed revenue, refunding the surplus or levying surcharges for the deficit using balancing accounts.

In prior testimony to the Energy and Telecommunications Interim Committee during the January 2018 meeting, both NWE and MDU officials supported a rate-per-customer RAM. Decision makers constructing a decoupling policy would likely consider the following questions:

1. Which rate adjustment method best fits Montana?
2. How much direction for crafting a RAM should be implicitly written into a bill? How much authority should be granted to the PSC in order to develop such a method?

Refunds and Surcharges

The last step in a decoupling mechanism involves reconciling over- or under-collections of revenue resulting in either customer refunds or possible surcharges charged to future customer bills. To calculate refunds and surcharges the mechanism must consider allocation, the frequency of true-ups, and possible caps in decoupling adjustments.

Decision makers constructing a decoupling mechanism should consider the following:

1. What cap, if any, should be placed on the increase or decrease of allowed revenues as a result of a rate adjustment mechanism?
2. How should surcharges and refunds be allocated? Across the board or by customer class?
3. How often should rate true-ups occur in order to ensure the proper surcharges or refunds are being paid?