RMI

ELECTRICITY AFFORDABILITY TOOLKIT

Revenue Decoupling

COST CONTROL

AT A GLANCE

TARGET COST DRIVERS

The policy can help to ease customer cost pressures created by these drivers.

- **Misaligned utility incentives**

IMPACT TIME HORIZON

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How long it typically takes before changes materialize in utility behavior or customer bills

Variable

POTENTIAL COST SAVINGS

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The level of cost savings that can reasonably be expected to result from this policy

Variable

CONTEXT AND BACKGROUND

Revenue decoupling policies remove the link between a utility's revenue and the amount of electricity that it sells to make the utility agnostic to investment in conservation measures and technologies that reduce electricity demand.

Instead of earning more money from the more electricity it sells, a predetermined revenue sufficient to cover the utility's fixed costs is approved by regulators.

At a regular interval, this authorized revenue is compared to actual revenue, and rates are adjusted to refund excess or recover the difference.

This structure guarantees utility revenues, thereby rendering the utility less antagonistic toward third-party services and programs that are designed to reduce electricity sales volume.

REAL-WORLD EXAMPLES

Idaho's revenue decoupling mechanism, implemented for Idaho Power, aims to remove the utility's disincentive to promote efficiency by stabilizing revenues independent of electricity sales. The program includes an annual true-up process with resulting surcharges or credits applied to customers' bills via a monthly rider. The decoupling mechanism began as a commission-approved pilot resulting from a settlement agreement and was subsequently made permanent as an ongoing regulatory mechanism rather than specific statewide legislation.

Minnesota's decoupling framework began with Minnesota Statutes Section 216B.2412, enacted in 2007 by the state legislature, which authorized the commission to consider and approve pilot decoupling programs and report findings. Permanent decoupling programs came later through regulatory approval. Xcel Energy (electricity) and CenterPoint Energy (gas) currently operate revenue decoupling programs. Both programs include annual true-ups.

IMPACT TIME HORIZON

Variable

Removing the incentive to sell more electricity leads to utilities being less averse to pursuing cost-efficiency approaches like energy efficiency, distributed energy, and energy storage because these no longer reduce revenue. However, if implemented without mechanisms that incentivize utility focus on these programs, the presence of revenue decoupling on its own is unlikely to override other utility incentives that render these approaches less attractive solutions to utilities. The timeline of impacts is therefore likely to depend on the design of complementary mechanisms.

POTENTIAL COST SAVINGS

Variable

Revenue decoupling can unlock transformative energy efficiency programs and reduce utilities' incentives to build unnecessary new power plants. However, the design of decoupling mechanisms is complex — cost savings will vary based on design, and if structured poorly, they can even result in unintended and counterproductive outcomes.

FURTHER READING

- "The Nuts and Bolts of Performance-Based Regulation: Tools to Build a More Affordable, Reliable, and Equitable Grid," RMI, 2024
- "How to Restructure Utility Incentives," RMI, 2024