



# Decoupling in Massachusetts

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## Decoupling

Decoupling eliminates the mismatch between environmental policy goals and utility ratemaking goals.

NSTAR Electric spent \$52 million in 2006 on energy efficiency programs.

## **Rates of Return – No analyst advantage**

*“We have been impressed with the willingness of regulators to consider and authorize gas utilities weather normalization riders, performance-based rate freezes, bad-debt trackers and most recently conservation or ‘decoupling’ mechanisms without forcing gas utilities to undergo base rate cases that are expensive and put gas utilities in a bad public light ... the aforementioned rate mechanisms offer only modest protection against a generally rising operating cost environment.”*

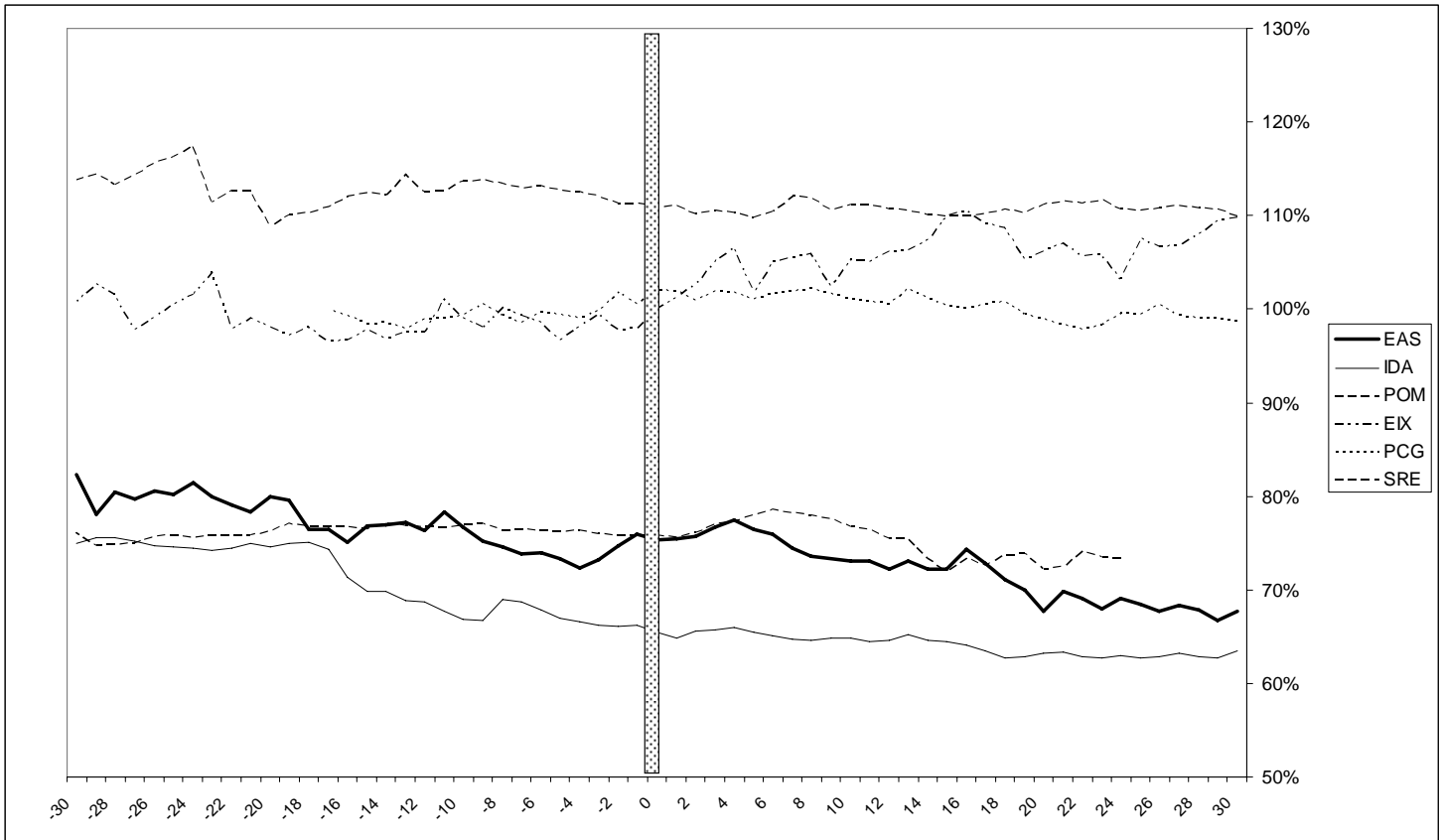
*-AG Edwards, January 2007*

*“LDCs that have, or soon expect to have RD [Revenue Decoupling] stand a better chance than others in being able to maintain their credit ratings or stabilize their credit outlook in face of adversity.”*

*-Moody’s, June 2006*

# Rates of Return – No market advantage

Individual electric utilities' P/B ratios relative to a peer group average  
 P/B ratio before and after announcement of decoupling approval<sup>1</sup>



<sup>1</sup>The electric utility peer group is comprised of the 60 electric utility companies covered by Value Line. Price to Book data was obtained from the SNL database.

## **Rates of Return – No justification for a change**

- Analysts view decoupling as a means of maintaining the status quo in today's volatile utility environment
- Revenue decoupling does not guarantee profit or cash flow – it only improves upon the existing mechanism for delivering Department-approved revenue
- In the Maryland cases, the utilities proposed a 25 basis point reduction in the utilities' return on equity but only after the proposed ROE had been increased by a 25 basis point adder.



## DSM – Utility DSM administration is the preferred energy efficiency mechanism among leading states

The American Council for an Energy-Efficient Economy (ACEEE) publishes an annual scorecard ranking each state's energy efficiency programs. The most recent scorecard was published in June 2007, and seven of the top ten states used utility-administered DSM programs.<sup>1,2</sup>

Rank	State	DSM Admin
1	VT	Third Party
1	CT	Utility
1	CA	Utility
4	MA	Utility
5	OR	Third Party
6	WA	Utility
7	NY	Third Party
8	NJ	Utility
9	RI	Utility
9	MN	Utility

In 2005 California shifted back to letting utilities administer DSM after five years of administration by the CPUC's Energy Division.<sup>3</sup>

<sup>1</sup> ACEEE, *The State Energy Efficiency Scorecard for 2006*, June 2007; report number E075

<sup>2</sup> US Department of Energy, Federal Energy Management Program (website)

<sup>3</sup> California Energy Commission, *Implementing California's Loading Order for Electricity Resources*, July 2005

## DSM – Utility DSM administration is more effective than third party

New York State offers a good comparison – a similar state with a different DSM administration model. It is clear that utilities are a better choice, for several reasons:

- Performance
- Relationships with customers
- In-place program infrastructure
- Less chance that energy efficiency funds will be re-allocated away from energy efficiency programs, as has already occurred in Maine, Ohio and Wisconsin<sup>1</sup>

	2005	
	Massachusetts	New York
Administration	Utilities	Third Party
Lifetime Energy Savings (GWh)	5,200	6,200
Annual Demand Savings (kW)	200,000	116,000
Expenses	\$ 123,100,000	\$ 138,000,000
\$/annual kWh saved	\$ 0.260	\$ 0.267
\$/annual kW saved	\$ 616	\$ 1,190

<sup>1</sup> The Regulatory Assistance Project, *Who Should Deliver Ratepayer Funded Energy Efficiency?* May 2003

## **New rate cases – Unnecessary & costly step**

- All current Massachusetts rate plans have been deemed just and reasonable by the Department
- NSTAR's recent settlement included full costs of service for its electric and gas utilities based on 2005 test year
- Conducting rate cases for all Massachusetts utilities would require 30 months at minimum
- Many existing rate plans specify a time period before the next rate case would be filed – utilities have used this period of stability to enable long-range planning
- Regulatory instability is a key concern among security analysts and rating agencies





## Utility returns have been modest. Financially healthy utilities are needed for safe and reliable service

	Average ROE <sup>1</sup>
Mass Electric	11.0%
KeySpan	10.2%
Boston Edison	10.2%
Fitchburg Electric	9.7%
NSTAR Gas	9.1%
Bay State Gas	9.1%
Cambridge Electric	8.3%
Commonwealth Electric	8.1%
Berkshire Gas	6.5%
North Attleboro Gas	5.1%
Fitchburg Gas	4.8%
Fall River Gas	-0.9%

## **Costs subject to reconciliation – Not affected or replaced by decoupling**

- Decoupling addresses revenue; cost trackers address specific unpredictable costs.
- In all proceedings in which decoupling measures have been approved, existing cost tracker mechanisms were retained, and included with the newly-approved decoupling measure.

## **Summary – Decoupling eliminates the mismatch between environmental policy goals and utility ratemaking goals**

- Without decoupling, utility energy efficiency is the same as *paying to reduce revenue*.
- Current rates of return remain reasonable & appropriate
- DSM programs should continue under utility management
- There is tremendous cost, and little potential value in conducting a new rate case prior to decoupling
- Decoupling does not eliminate the need for already-approved cost-tracker mechanisms



## Thank You

- Questions???
- Additional information from:

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