



# Decoupling: Potential Value for CHP and Challenges to Getting it Right

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# Rationale for Decoupling

## **Minimize Utility Opposition to CHP (Eliminate Lost Revenue)**

- Changes attitudes and incentives in rate cases
- Redirects utility “soft power” before PUCs, legislatures, etc.

## **Supports Generally Favorable Regulatory Environment**

- Evolving regulatory assumptions and PUC staff attitudes

## **Works in Concert with Other Pro-CHP Policies**

- Direct Incentives for CHP: easier to get
- No Need for Lost Revenue Adj. Mechanisms
- Program Cost Recovery: still an issue
- (Lost Revenue Recovery No Longer Required)

## **Allies and Coalitions**

- Efficiency Advocates
- Mainline Environmental Organizations



## Integrates with Other Policies

- Incentive programs for CHP  
(direct grants, tax credits, utility programs, etc.)
- Performance incentives for utilities
- Broad-based policy initiatives (CO tax or cap, RPS, EE goals, state planning, etc.)
- “3-legged stool” of cost recovery, decoupling and performance incentives; we need all of these, not just one or two



# What if there's cost-recovery and incentives, but not decoupling?

- Sounds good...but incentives must first outweigh utility lost revenue
- Who controls incentive design? (Will CHP be on equal footing with other measures or technologies?)
- Complicated management of LRAM
- Cost recovery usually implemented per *program* basis...and program design is hard to get right... especially absent decoupling!
- Miss the broader signal that all potential measures merit consideration  
(Important if CHP is stranded between EE and RE)



# Potential Dangers when Implementing Decoupling

- No panacea: interconnection, program design, state regulations, etc., all remain important
- Utility may face an incentive to wait for affirmative incentives if such programs are on offer for other technologies
- Bad rate design details can wreck everything
- Options seem complex and daunting (but are not and need not!)



# Beware of Standby Rates as a Decoupling Model

- “Decoupling” via stabilized customer payments, not stabilized revenue, fails to address broader incentive issues
- “Contract demand” sounds like a decoupling mechanism... but would a PUC or the public accept that for all customers?
- {In fairness, standby rates can help make utilities indifferent to CHP...but details still matter. A lot.}
- Consider modifying standby after decoupling?



# *How Do You Sell Something So Vague?*

- Partner with Efficiency, in advocacy & argument as well as for political support
- Work with environmental & consumer organizations (NRDC invaluable support)
- Evidence that financial markets see decoupling reducing cost of capital because of more stable utility revenues
- Can make regulator's job easier, less risky and more fun



# Patience is a Virtue

- Very long process convincing the PUC, and staff: this challenges assumptions behind many careers!
- Other stakeholders need education, too
- Great opportunity for CHP community to build new alliances
- Develop PR, regulatory, legal, legislative ... as broad a base of supporters



# Thank You!

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