BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

PROCEEDING NO. 14AL-0660E

IN THE MATTER OF ADVICE LETTER NO. 1672 FILED BY PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO PUC NO. 7-ELECTRIC TARIFF TO IMPLEMENT A GENERAL RATE SCHEDULE ADJUSTMENT AND OTHER RATE CHANGES EFFECTIVE JULY 18, 2014.

CLEAN ENERGY ACTION BRIEF ON COMMISSION'S QUESTIONS RAISED IN DECISION NO. C14-1130

Clean Energy Action (CEA), by its undersigned counsel, and pursuant to Commission Decision No. C14-1130, respectfully submits the following responses to three questions posed by the Commission regarding Public Service Company of Colorado's (PSCo or Company) revenue decoupling proposal in the above-captioned proceeding.

QUESTION 1:

a) **Is the proposed decoupling mechanism relevant to the rate case at issue in this proceeding, or is it a separate issue?**

CEA RESPONSE:

Yes. The proposed decoupling mechanism is relevant to the rate case at issue in this proceeding. PSCo included the decoupling mechanism in their filing, therefore, it is relevant. Furthermore, if adopted, the decoupling mechanism would be relevant to a rate case because it would alter the financial risks to which PSCo is exposed, insulating them from changes in consumption patterns resulting from increases in energy efficiency and distributed generation. This change in risk exposure might justify a change in their cost of capital, which might be effected by altering their allowed ROE or debt to equity ratio, either of which would appropriate policy questions to consider in the context of a general rate case. Lastly, we note that many other states have dealt with decoupling in a general rate case.[1]

QUESTION 2:

b) If the proposed decoupling mechanism is relevant, to what extent would granting a decoupling mechanism as proposed by Public Service constitute collateral attack on the Commission's recent decisions issued in Proceeding No. 13A-0686EG.

CEA RESPONSE:

Granting a decoupling mechanism as proposed by Public Service, would **<u>not</u>** constitute a collateral attack on the Commission's recent decision issued in Proceeding No. 13A-0686EG. From a policy point of view, the only portion of the recent DSM Strategic Issues Proceeding that is potentially related in a policy sense to the proposed decoupling mechanism is the $5M "disincentive offset" that was approved by the commision. This lump-sum bonus, to be paid upon the company attaining 100% of its DSM targets, is intended to "address the fact that DSM can conflict with the Company's business objectives."[2] A lump-sum bonus was used because the commission found that it was not feasible to calculate the lost margins attributable to the company's DSM programs.[3] Furthermore, in Decision No. C11-0442 of the 2010 DSM Strategic Issues Docket (10A-554EG), the Commission stated that "[b]y adopting this disincentive offset, we acknowledge the disincentive to the Company regarding the provision of DSM services without defining, quantifying, and explicitly compensating the Company for lost margins." Thus, this bonus payment will function as a performance incentive, rewarding the Company for attaining 100% of their energy demand reduction goals, and will not attempt to

[1] *See generally, Attachment SBB-3* to Mr. Brocket's Direct Testimony, which includes *Morgan, P. 2013, A Decade of Decoupling for US Energy Utilities: Rate Impacts, Designs, and Observations. Graceful Systems.*
[2] *See*, Proceeding No. 13A-0686EG, Decision No. C14-0731, paragraph 31.
[3] *See,* Proceeding No. 07A-420E, Decision No. C08-0560, paragraph 105.

remove the structural incentive to sell more electricity (also known as the "throughput incentive") that exists within the current regulatory regime.

The proposed decoupling mechanism does not seek to alter the Commission's prior decision. It does not seek to alter the amount of the bonus payment, or the fact that it is contingent on attainment of the Company's DSM targets. Consistent with the Commission's prior decision, the proposed decoupling mechanism also does not seek to attribute lost revenues to any particular DSM program, or to compensate PSCo for lost margins, which the Commission has found cannot be calculated. Rather, the proposed mechanism would serve to remove the structural disincentive to improved end-user energy efficiency without requiring lost revenues to be calculated. It would ensure that the utility recovers its fixed/non-production costs irrespective of their sales volume in the R and C rate classes.

For all of the above reasons, the revenue decoupling mechanism, if approved by the Commission, would not constitute a collateral attack on the previous DSM decision issued in Proceeding No. 13A-0686EG.

QUESTION 3:

c) **Would acceptance of the decoupling mechanism proposed by Public Service affect the mechanics or strength of the financial incentive mechanism adopted in those recent decisions, and to what extent could it affect future DSM-related proceedings?**

CEA RESPONSE:

If accepted, the proposed decoupling mechanism would presumably operate in parallel with the adopted cost recovery, performance incentives, and bonus payment, and need not have any effect on the mechanics of their operation.

In isolation, the proposed decoupling mechanism would not have any effect on the strength of the adopted cost recovery, performance incentive, or bonus payment. However, by removing the existing throughput incentive, the adoption of the proposed decoupling mechanism could allow PSCo to pursue energy efficiency investments more aggressively. In combination with the approved performance incentive that gives PSCo 5% of any energy savings benefits resulting from their DSM investments, approval of the decoupling mechanism would give the Company an incentive to pursue DSM investments that are sufficiently cost effective to ensure that they are able to capture the entire $30M in approved performance incentives and bonuses, while still staying within their approved DSM budget. In contrast, without the decoupling mechanism, the Company is likely to only make DSM investments that are sufficiently cost effective to ensure that they meet their mandated energy demand reduction targets. Thus the decoupling mechanism could result in a more cost effective deployment of the same approved DSM budget.

If a decoupling mechanism is approved and the throughput incentive is successfully removed from PSCo's business model, it seems likely to have implications for future DSM proceedings. However, the exact nature of those implications is not clear. Decoupling could result in either upward or downward rate adjustments, depending on how the electricity marketplace evolves. We also do not know to what extent PSCo will be able to find additional cost effective DSM investments once the throughput incentive is removed. Given these uncertainties, if the decoupling mechanism were to be adopted in this proceeding, it seems likely that the Commission would want to examine its effects on the Company's DSM program in the next DSM Strategic Issues proceeding.

Respectfully submitted this 26th day of September, 2014.

BY:

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On Behalf of Clean Energy Action

Certificate of Service

I hereby certify that on September 26th, 2014, I caused the foregoing **CEA BRIEF ON COMMISSION QUESTIONS RAISED IN DECISION NO. C14-1130** to be filed electronically at the Colorado Public Utilities Commission through the Commission's E-Fililings System on this date in this Proceeding.

/s/ Vincent P. Calvano