California's Decoupling Policy

California's decoupling policy is largely responsible for making California the nation's most energy efficient state, while promoting economic growth.

How decoupling works:

- Utilities submit their revenue requirements and estimated sales to regulators.
- The CPUC sets the rates by regularly applying adjustments to ensure that utilities collect **no more and no less** than is necessary to run the business and provide a fair return to investors.
- Any excess revenue gets credited back to customers.
- Any shortfall gets recovered later from customers.

California's investor-owned utilities administer energy efficiency programs with oversight by the California Public Utilities Commission (CPUC). The CPUC sets aggressive goals for energy efficiency and conservation as the highest priority resource to meet energy needs in a clean, low cost manner and reduce greenhouse gas emissions. Adopted by the CPUC for the natural gas industry in 1978 and 1982 for the electric power sector, California's long-standing "decoupling" policy is designed to remove the disincentives for utilities to promote energy efficiency and conservation among energy customers. Decoupling ensures that utilities retain their expected earnings even as energy efficiency programs reduce sales.

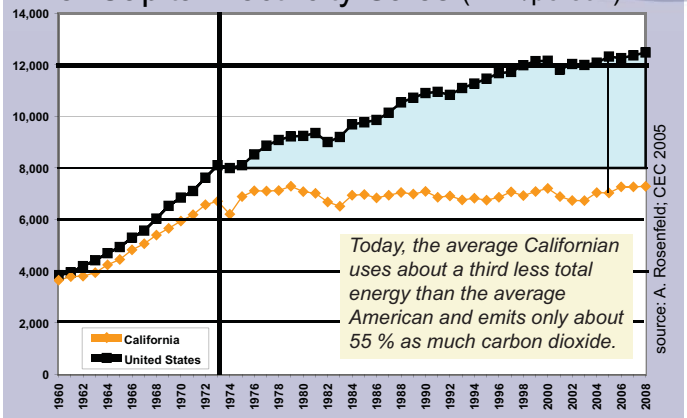
Under decoupling, California's per capita energy has remained relatively flat over the last thirty years. In perspective, energy use per capita in the rest of the country has surged by 50%.

Why decoupling works:

- Removes the disincentive for utilities to encourage energy conservation, since their revenues are not tied to the amount of energy sold.
- Provides an incentive for utilities to focus on effective energy efficiency programs and invest in activities that reduce load.
- Aligns shareholder and customer interests to provide for more economically and environmentally efficient resource decisions.

Energy Efficiency is California's highest priority resource for meeting growing energy needs in a clean, low-cost manner and reducing greenhouse gas emissions.

Per Capita Electricity Sales (kWh/person)



Electric power generation now accounts for less than 20% of California's greenhouse gas (GHG) emissions. In contrast, 40% of the nation's GHG emissions come from the electric power sector.

By breaking the link between the utility's sales and profits, decoupling creates an incentive for utilities to sell less energy and focus on energy efficiency.

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California's Next Step
Decoupling "Plus"

On September 20, 2007, California adopted an unparalleled new regulatory framework for achieving and exceeding the state's aggressive energy savings goals . This bold step extends the commitment to efficiency as the highest priority energy resource.

Unlike utilities in most other states, California's investor-owned utilities (IOUs) have no disincentive to encourage energy conservation. The long-standing decoupling policy ensures that utilities retain their expected earnings even as energy efficiency programs reduce customer sales. The California Public Utilities Commission (CPUC) recently went one step further to counteract the inherent utility bias towards building new power generation facilities or procuring "steel-in-the-ground" energy resources, because of expected profits for shareholders.

The CPUC approved an innovative plan that establishes incentives of sufficient level to generate comparable earnings for IOUs when they invest in cost-effective energy efficiency methods. It offers a way for utilities to view energy efficiency as a core part of their operations and capable of producing meaningful revenue. At the same time, the new system (known as "decoupling plus") provides an estimated return to customers of over 100% of their investment in energy efficiency as ratepayers in the state.

Decoupling "Plus":

- **Establishes** a new system of incentives and penalties to drive investor-owned utilities above and beyond California's ten-year energy savings targets
- **Rewards** utilities that succeed in helping customers become more energy efficient, by designing and delivering programs that encourage consumers to save energy.
- **Offers** a way for investor-owned utilities to generate earnings for shareholders when they invest in cost-effective energy efficiency — comparable to procuring "steel-in-the-ground" supply-side resources or building new power generation facilities.

This approach further motivates utilities to help their customers use less energy, reducing their energy bills and the global warming emissions produced by energy generation.

Decoupling "Plus":

- **Protects** ratepayers' financial investment.
- **Ensures** that program savings are real and verified.
- **Enforces** penalties for substandard performance.

Using limited energy supplies resourcefully is smart business for consumers in California and the least-cost way to fight global warming.

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