

# Rhode Island 2010 Decoupling & Efficiency Bill

Summary | June 2010



On May 20, 2010 the Governor signed [“An Act Relating to Public Utilities and Carriers – Revenue Decoupling,”](#) which accomplishes three key policy reforms that remove barriers to investing in cost-saving energy efficiency. First, it requires “decoupling” to break the link between the amount of energy that gas and electric utilities sell and their revenues. This removes the utilities’ disincentive to support energy efficiency programs and aligns their financial incentives with their customers’ interests. Second, the law provides a clear requirement for the RI Public Utilities Commission (PUC) to approve a funding mechanism for expanded energy efficiency programs. Third, the law requires the utility to invest in all cost-effective natural gas efficiency for its customers, lifting a counterproductive cap on energy efficiency investments for natural gas customers. This summary outlines the key elements of this new law, which will reduce energy costs and provide significant environmental benefits.

## Key Elements:

- 1. Utility rate reform through decoupling:** In the past, promoting energy efficiency was bad business for most electric and gas utilities. Utility revenue increased with sales, and when customers invested in efficiency, the utility lost money. Rate reform, also called “decoupling,” is a new but increasingly common way to regulate how a utility gets paid. It breaks the link between the utility’s revenue and the amount of energy it sells, removing the disincentive for the utility to be a full partner in energy efficiency and clean resource investments.

Decoupling changes only the way the utility is compensated for its distribution, or delivery charges. Under decoupling, delivery charges are not based on sales, but rather on how much it costs to run the company and maintain the distribution system. These costs are determined in a rate proceeding before the PUC, and the utility must justify and manage to these costs. If the utility collects more revenue than allowed in the rate proceeding, customers will get a credit on their bills; if the utility collects less, customers will see a small surcharge. Customer savings achieved through reducing energy will benefit them directly and will not affect the utility’s bottom line.

- 2. Funding Energy Efficiency:** Under the new law, the RI PUC must approve funding for all energy efficiency measures that are cost-effective and cheaper than supply included in the utility’s three-year efficiency plan (and any related annual plans), provided that the plans are reviewed and approved by the Energy Efficiency and Resource Management Council (EERMC).
- 3. Natural Gas Least Cost Procurement:** The Comprehensive Energy Conservation, Efficiency, and Affordability Act of 2006 established a nation-leading, innovative approach by requiring Least Cost Procurement in the electric sector- requiring that the electric utility first invest in all electric efficiency that is cheaper than traditional supply. This new law expands Least Cost Procurement to natural gas efficiency programs, opening the door to greater investments in cost-saving energy efficiency through measures such as insulation, air sealing and more efficient heating and hot water systems.

## Significance

Expanded efficiency investments will provide significant economic, climate and air emissions benefits. ENE recently quantified the profound economic impact that investments in efficiency have on local economies in its report, [Energy Efficiency: Engine of Economic Growth](#). In its report, ENE demonstrates that for every additional dollar invested in electric and gas energy efficiency customers will save \$4 and Rhode Island will see an approximate increase in gross state product of \$5 to \$6.

## ENE Contacts:

Abigail Anthony, Policy Analyst, (401) 276-0600, [aanthony@env-ne.org](mailto:aanthony@env-ne.org)  
Sam Krasnow, Policy Advocate & Attorney, (401) 439-0041, [skrasnow@env-ne.org](mailto:skrasnow@env-ne.org)



8 Summer Street, PO Box 583, Rockport, ME 04856 / (207) 236-6470 / [admin@env-ne.org](mailto:admin@env-ne.org)  
Rockport, ME / Boston, MA / Providence, RI / Hartford, CT / Portland, ME  
Charlottetown, PEI, Canada / [www.env-ne.org](http://www.env-ne.org) / Daniel L. Sosland, Executive Director