



RECEIVED-DOCKETING DIV

NATURAL RESOURCES DEFENSE COUNCIL

2008 MAY -9 PM 3:17

PUCO

May 8, 2008

07-589-GA-AIR

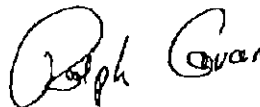
Dr. Alan R. Schriber  
Chairman  
Public Utilities Commission of Ohio  
180 East Broad Street 12<sup>th</sup> Floor  
Columbus, OH 43215

Dear Dr. Schriber:

I write in response to a letter to the OCC of May 1, 2008 from Representative Shannon Jones, addressing the meaning of the term "decoupling" and its relationship to "straight fixed variable" ratemaking. As Director of the Energy Program of the Natural Resources Defense Council (NRDC) since 1979, I have had extensive experience with these issues in every region of the nation.

Representative Jones raises a question about the technical term "decoupling", which refers to a way of breaking the link between utilities' financial health and their retail energy sales. Representative Jones contends that "decoupling" encompasses a "straight fixed variable" (SFV) rate design, which is a way of allocating utility costs between fixed and variable charges to customers. I respectfully but strongly disagree. These are technical terms well understood across the regulatory and utility communities. They reflect fundamentally different rate policies and do not overlap. "Decoupling" involves regular true-ups of variable energy charges to ensure recovery of a utility's authorized fixed costs regardless of unexpected fluctuations in sales volumes, whereas straight fixed-variable rate design aims to separate fixed costs and variable costs in utility rates. Decoupling reinforces customers' and utilities' incentives to improve energy efficiency, whereas SFV reduces customers' reward for saving energy by making more of their bills independent of energy consumption. For obvious reasons, therefore, in thirty years of advocacy regarding energy efficiency, decoupling, SFV and related issues, I have never seen any Commission or legislature use the term "decoupling" to encompass SFV. "Decoupling" and "SFV" are routinely regarded as alternatives, but never in my experience as partial or full synonyms.

Yours sincerely,

  
Ralph Cavanagh  
Co-Director, Energy Program

This is to certify that the images appearing are an accurate and complete reproduction of a case file document delivered in the regular course of business.  
Technician Ann Date Processed 5/9/08

cc: Representative Shannon Jones, 67<sup>th</sup> House District