



August 29, 2008

Ms. Karen W. Webb  
Economic Analyst  
Office of Strategic Projects & Resource Planning  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Gerald Gunter Building  
Tallahassee, FL 32399

Re: In the Matter of Utility Revenue Decoupling Proceeding, Staff Workshop August 7, 2008

Dear Ms. Webb:

The American Gas Association (AGA) would like to commend the Florida Public Service Commission for the utility revenue decoupling workshop it held on August 7, 2008. We regret that we were unable to participate in the workshop and would like to submit the following comments and attached documents for your consideration; please enter them into the record of the proceedings on our behalf.

Since 2004 the AGA has urged state public utility commissions and officials responsible for publicly-owned natural gas distribution systems to consider natural gas distribution company proposals for implementing cost-effective programs that will increase energy efficiency and reduce the nation's carbon footprint while also balancing shareholder interests. We believe that significant progress towards these objectives can be achieved through state-level regulatory action, and that utility revenue decoupling is an important component of such a strategy.

In many states, the current regulatory treatment of utility revenues can effectively discourage natural gas distribution companies from promoting energy efficiency improvements. When customers use less natural gas, utility profitability almost always suffers because recovery of fixed costs is reduced in proportion to the reduction of sales. Thus, conservation may prevent the utility from recovering its authorized fixed costs and earning its state-allowed rate of return. In this important aspect, traditional rate practices fail to align the interests of utility shareholders with those of utility customers and society as a whole.

In addition to AGA, other leaders in the area of energy efficiency have also supported revenue decoupling as an important tool for achieving cost-effective advances in energy efficiency. The National Action Plan for Energy Efficiency, with input from more than 50 diverse stakeholder

groups, included as one of its five recommendations the need to “[m]odify policies to align utility incentives with the delivery of cost-effective energy efficiency and modify ratemaking practices to promote energy efficiency investments.”<sup>i</sup> Additionally, Congress passed the Energy Independence and Security Act of 2007, encouraging that state regulatory authorities consider “separating fixed-cost revenue recovery from the volume of transportation or sales service provided to the customer.”<sup>ii</sup>

AGA support of revenue decoupling is highlighted in two joint statements issued in collaboration with the Natural Resources Defense Council (NRDC), which recommended measures for increasing energy efficiency and reducing greenhouse gas emissions.<sup>iii</sup> In response to each of these statements, the National Association of Regulatory Utility Commissioners (NARUC) issued resolutions encouraging state officials to give strong consideration to our proposals.<sup>iv</sup>

Today, a significant number of gas distribution utilities have been given permission to adopt ratemaking mechanisms that correct for an incongruity between utility, consumer, and societal interests that is inherent in traditional rate structures. There are now 26 utilities in 13 states serving 20 million residential customers that have some type of revenue decoupling mechanism in effect. For complete descriptions of the innovative rate designs of AGA members that employ some form of decoupling, please see attached document *Natural Gas Rate Round-Up*.

Additionally, we would also like to submit the attached *Decoupling Fact Sheet*, which offers a concise look at how traditional rate structures discourage conservation, while decoupling encourages cost-effective energy efficiency.

AGA and its member companies recognize the importance of this issue and are appreciative that the Florida Public Service Commission does so as well.

Sincerely,



Paula A. Gant  
Vice President, Regulatory Affairs

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<sup>i</sup> *National Action Plan for Energy Efficiency – A Plan Developed by More Than 50 Leading Organizations in Pursuit of Energy Savings and Environmental Benefits Through Electric and Natural Gas Energy Efficiency* (July 2006) at 2, 7, 8, and 1-10. See also *Aligning Utility Incentives with Investment in Energy Efficiency – A Resource of the National Action Plan for Energy Efficiency* (November 2007) <http://www.epa.gov/cleanenergy/documents/incentives.pdf>.

<sup>ii</sup> See Sec. 532(b)(6), *Energy Independence and Security Act of 2007*, P.L. 110-140, Dec. 19, 2007 (In general, “[t]he rates allowed to be charged by a natural gas utility shall align utility incentives with the deployment of cost-effective energy efficiency.” “[E]ach State regulatory authority and each non-regulated utility shall consider- (i) separating fixed cost revenue recovery from the volume of transportation or sales service provided to the customer; (ii) providing to utilities incentives for the successful management of energy efficiency programs, such as allowing utilities to retain a portion of the cost-reducing benefits accruing from the programs;”).

<sup>iii</sup> See: <http://www.aga.org/Legislative/RatesRegulatoryIssues/ratesregpolicy/Issues/EnergyEfficiency/>

<sup>iv</sup> *Resolution on Gas and Electric Energy Efficiency*, sponsored by the NARUC Natural Gas Task Force, and the Committees on Consumer Affairs, Electricity, Energy Resources and the Environment, and Gas. Adopted by the NARUC Board of Directors, July 14, 2004, and, *Resolution on Second Joint Statement of the American Gas Association and the Natural Resources Defense Council in Support of Measures to Promote Increased Energy Efficiency and Reduction in Greenhouse Gas Emissions*, sponsored by the Executive Committee and the Committees on Consumer Affairs, Electricity, Energy Resources and the Environment, and Gas. Adopted by the NARUC Board of Directors on August 2, 2006.

# NATURAL GAS Rate Round-Up

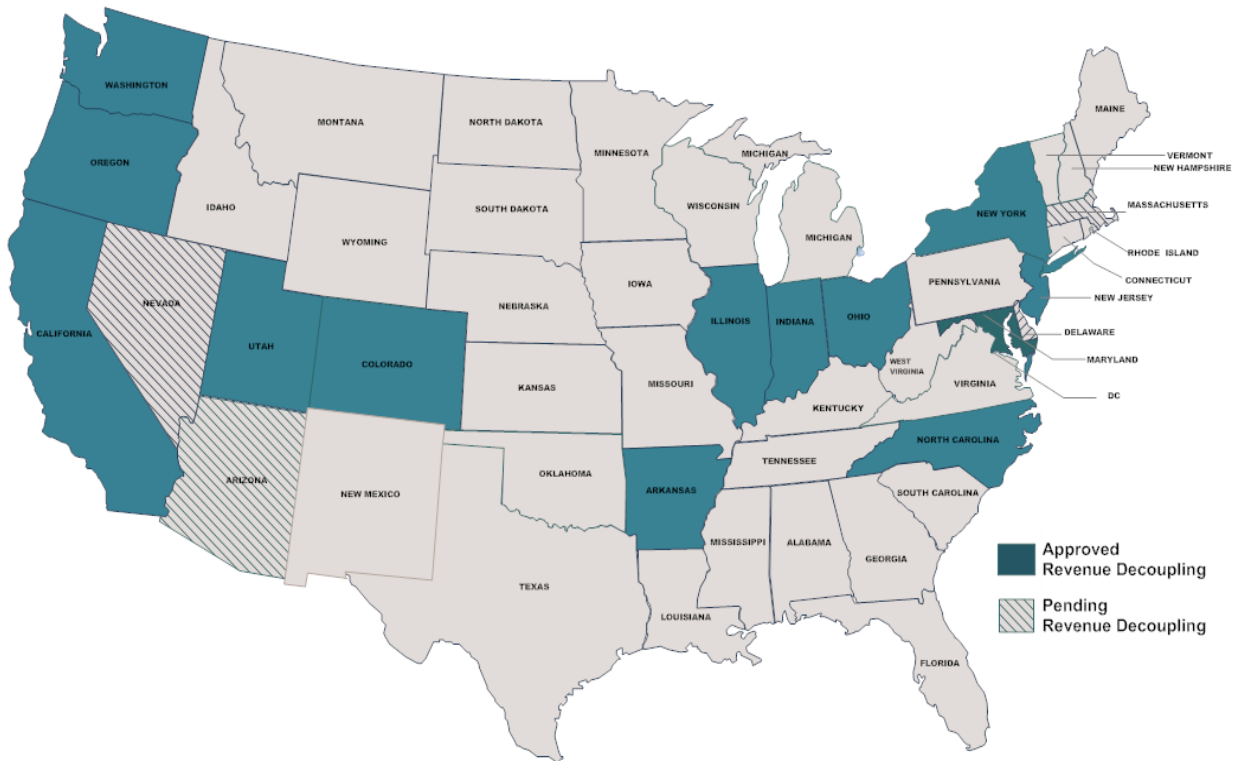
A Periodic Update on Innovative Rate Designs

July 2008

## 2008 Update on Revenue Decoupling Mechanisms

This Rate Round-Up provides an updated and expanded edition of revenue decoupling reports that AGA has issued every year since 2005. Currently, 26 utilities in 13 states have implemented decoupling tariffs that serve 20 million residential customers. Revenue decoupling cases are pending for 8 utilities, and generic proceedings are before 3 state utility commissions, potentially serving another 5 million residential customers. Revenue decoupling is a rate design method that allows utilities to actively promote energy efficiency while preventing the erosion of margins that is the usual outcome of customer conservation and utility energy efficiency.

### STATES WITH NATURAL GAS REVENUE DECOUPLING TARIFFS



## DESCRIPTIONS AND COMPONENTS

### Decoupling Rate Design

America is facing a dual challenge – meeting ever-increasing demands for energy, while at the same time dramatically reducing greenhouse gas emissions. In this new era, traditional rate designs have become a roadblock that discourages natural gas utilities from promoting energy efficiency and conservation. While utilities' costs for delivering natural gas are relatively fixed regardless of how much natural gas customers use, regulations that have been used to set delivery service rates for the past 100 years are based on the amount of natural gas that flows through the pipes. What was once a regulatory paradigm meant to maximize energy sales is now a regulatory impediment to energy efficiency. The good news is that a win-win solution is possible that benefits both customers and utilities, and will lead to far greater energy efficiency.

The problem is simple. Gas utilities are rate regulated by state public utility commissions and the typical utility rate design in place today penalizes utilities if customers become more energy efficient. Most utilities use a 100-year-old rate design that recovers the fixed costs of a fixed cost business, not on a fixed, per customer basis, but on a volumetric basis. This means that under traditional utility rate design, a utility's earnings and profits will decline if customers conserve.

The solution is also simple. Many states, as well as federal policy makers, now discourage increased natural gas sales and encourage energy efficiency and conservation. Consequently, several states have put in place rate mechanisms that separate, or “decouple”, the recovery of fixed distribution system costs from the volume of gas delivered to customers. Revenue decoupling allows the utility to actively promote conservation and energy efficiency without having to sacrifice its financial stability. Revenue decoupling works by adjusting the actual sales volumes to the weather-normalized sales volumes approved during the last rate case. When sales volumes deviate from the level forecasted in the rate case, the true-up mechanism makes a modest adjustment to the distribution charge, which gives the utility an opportunity to recover its authorized fixed costs regardless of fluctuations in energy use.

### Energy Efficiency and Conservation Tariffs

The natural gas industry has been a national leader in energy efficiency. Today, the average American home uses a third less natural gas than it did a quarter century ago. The reduction in per-capita natural gas use has been driven primarily by energy efficiency. Homeowners have conserved by adding storm windows, insulation and weather stripping to their homes. Over the past 25 years, gas appliances have become enormously more efficient. Moreover, new construction, although producing increasingly larger homes, has also produced increasingly energy-efficient homes.

Utility-sponsored customer conservation and energy efficiency mechanisms provide consumers with an incentive to conserve natural gas, or provide education to consumers on how to conserve natural gas. Decoupled rates have been associated with strong energy efficiency programs, and conservation and energy efficiency are being addressed in each decoupling proceeding. Decisions about the inclusion of conservation components and energy efficiency programs within a decoupling program are usually based on the effectiveness of existing energy efficiency programs, the relative satisfaction with existing programs, and the relative desire to push for more aggressive energy efficiency programs—and this all varies by state.

Not all utility-sponsored conservation and energy efficiency programs include a decoupling mechanism. Energy efficiency programs administered by natural gas utilities provide customers

with practical tools for lowering their utility bills. Effective regulatory approaches help utilities recover lost revenues and preserve financial stability so they are able to partner with their customers in conserving energy. According to a recent survey of AGA member companies, 53 natural gas utilities in 27 states have implemented energy efficiency programs and are recovering all or part of related costs in rates. The programs differ in what costs are allowed recovery (e.g., program costs, administrative costs, lost margin costs), and who administers the program (e.g., company, state, or charitable organization). Several states have approved financial incentives for utilities that invest in energy efficiency, and a growing number of utilities are allowed recovery of lost margins and revenues. The March 2008 Rate Round-Up at <http://www.aga.org/NR/rdonlyres/ED01429C-EDC5-477F-B639-2D0953AC97E8/0/0803RATEROUNDUP.pdf> discussed the regulatory treatment and cost recovery methods of energy efficiency measures.

### **Computing the Adjustment and Accounting for Increases in Customer Count**

There are several options for calculating the revenue adjustment, or true-up, and while the results are approximately the same, the different options help companies meet unique regulatory preferences and circumstances. The use-per-customer basis makes a rate adjustment that is based on changes in average use per customer, and then applies that adjustment factor against unit margins by customer class. The margin-per-customer rate adjustment is based on the change in baseline marginal revenue per customer compared to the actual marginal revenue per customer. The total margin revenue adjustment is based on comparison of total baseline marginal revenues to actual marginal revenues.

In order to remove the financial disincentive to promoting energy efficiency and conservation, marginal revenues from new customers are retained by the utility. The rate case level of fixed costs has been based on expenses and return on rate base that matches the rate case number of customers, and those costs do not reflect the additional operating costs and return on rate base arising from the addition of new customers to the utility. The fixed costs from those customers can only be recovered through the margins generated by sales to those new customers. Therefore, prior to determining the revenue adjustment, the amount of actual revenue is adjusted by the level of marginal revenue from new customers.

### **Return on Equity Considerations**

Decoupling is a fair and efficient means to design utility rates from the customer's perspective. The change in rate design decouples the recovery of the utility's return on equity from the volumes of natural gas commodity consumed by the utility's customers. The symmetrical nature of decoupling prevents the utility from increasing its earnings by increasing its delivered volumes because any additional distribution charges collected by the utility in that event are refunded to customers. Moreover, decoupling does not shelter the utility from the impact of increased costs and/or provide a guarantee that the utility will achieve its authorized return.

Return on equity is an important cost component that should be calculated after a thorough examination of the utility's risk profile. ROE is established at a level that allows the utility to compete for the attraction of capital with other companies of similar risk profile, and to pay investors a fair return on their investment. Whether the net result of the risk analysis is a material change in the company's risk profile cannot be determined without company-specific and capital market experience. For example, the utility's peer group that is used for the return on equity determination may already include companies whose rate designs are all or partially non-volumetric in design. Factors that are considered in equity return determinations have seldom, if ever, included rate design, and prior to the advent of non-volumetric rates, the choice of a particular rate design rarely, if at all, caused an adjustment to the allowed return.



Of the 31 states that have authorized non-volumetric rates, only two have tied a utility's ROE to the type of rate design. Illinois and New York both adopted a 10-basis point downward risk adjustment to the authorized ROEs that stemmed from the adoption of decoupling mechanisms. It is interesting to note that New York has allowed weather normalization, a non-volumetric rate design known as partial decoupling, for its utilities since 1980 without requiring a similar downward risk adjustment.

### **Similar Non-Volumetric Rate Design Mechanisms**

More than one rate design method exists that will break the link between volumes of gas consumed and cost recovery for the utility. Currently, more than two thirds of the 64 million residential customers in the United States are being served under non-volumetric rates. Fixed variable rate design places all of the utility's fixed costs, including a regulated profit on the value of the utility's investment in plant and equipment used to provide service to the customer, into a fixed monthly charge called a service charge or a demand charge. This charge is similar to the monthly fee charged by cable TV companies and is unrelated to the amount of gas (or number of TV programs) used by the customer. Eight utilities in six states serving 5 million residential customers currently utilize a fixed charge type of rate design for recovery of their costs. AGA discussed this rate design mechanism in the June 2006 Rate Round-Up [http://www.aga.org/Template.cfm?Section=Rate\\_Roundup&Template=/MembersOnly.cfm&ContentID=20563](http://www.aga.org/Template.cfm?Section=Rate_Roundup&Template=/MembersOnly.cfm&ContentID=20563).

Rate stabilization is another rate design mechanism that decouples a utility's profits from its gas throughput. The mechanism works by adjusting the utility's monthly revenues up or down to meet pre-established revenue and return targets. The amount calculated is added to or subtracted from the commodity charge of the utility in the next month, and the utility files a revised rate schedule with the regulator. Twelve natural gas utilities in six states serving 4 million residential customers have received approval for these mechanisms. The December 2006 Rate Round-Up discussed these mechanisms in more detail: [http://www.aga.org/Template.cfm?Section=Rate\\_Roundup&Template=/MembersOnly.cfm&ContentID=20563](http://www.aga.org/Template.cfm?Section=Rate_Roundup&Template=/MembersOnly.cfm&ContentID=20563).

Weather normalization (WNA) is possibly the best known of the non-volumetric, innovative rate designs. Weather normalization is partial decoupling because it breaks the link between utility revenues and weather-sensitive volumetric customer usage. Like full decoupling, it is not a surcharge but a symmetrical adjustment to rates with rebates going to customers when weather is colder than normal. Some companies have established full decoupling and have eliminated their WNA, while others have implemented partial decoupling and have kept the WNA for the weather component. Forty-nine utilities in 25 states and Canada have WNA clauses, and 16 million US customers are covered by weather normalization. The August 2007 AGA Rate Round-Up at <http://www.aga.org/NR/ronlyres/A0F30D84-A9D5-44F0-AA92-A4E443CB3FB8/0/0708WEANORM.PDF> discussed weather normalization.

### **Conclusions**

While decoupling imposes no additional costs to the customer beyond those approved in the rate case, the mechanism leads to reduced customer bill variability from stabilized fixed cost recovery. Most important, since the biggest portion of a customer's gas utility bill is the cost of natural gas, greater energy efficiency and conservation lead to significantly lower utility bills. Lower bills also lead to lower bad debt expense, which is a system cost paid by all customers. Finally, reduced overall gas demand could lead to lower natural gas prices.

An independent evaluation of one decoupling tariff<sup>1</sup> found the program to be worthwhile and in the public interest. Among the conclusions of the evaluators were that the mechanism is effective in reducing the variability of utility revenues; the mechanism removes disincentives to promote energy efficiency; decoupling changes the company focus from sales advertising to conservation advertising; the mechanism does not reduce the incentive for good customer service; public purpose funding established in conjunction with the conservation component is beneficial to consumers; and the mechanism does not shift risk to customers.

While traditional rate designs contain a financial disincentive that prevents utilities from aggressively promoting energy efficiency and conservation, revenue decoupling breaks the link between a utility's earnings and energy consumption of its customers without adding any additional customer charges beyond what was approved by regulators. States should energetically consider implementing this innovative rate design.

## **CURRENT REVENUE DECOUPLING PROGRAMS**

### **◆ APPROVED**

1. AR Arkansas Oklahoma-
2. AR –Arkansas Western
3. AR –CenterPoint Energy
4. CA – Pacific Gas and Electric
5. CA - San Diego Gas and Elec.
6. CA – Southern California Gas
7. CA – Southwest Gas
8. CO – PSC of Colorado
9. IL – Peoples Gas
10. IL – North Shore Gas
11. IN – Citizens Gas & Coke
12. IN – Vectren Indiana Gas
13. IN – Vectren Southern Indiana G&E
14. MD – Baltimore Gas and Elec.
15. MD – Washington Gas
16. NJ – NJ Natural Gas
17. NJ – South Jersey Gas
18. NY – Consolidated Edison
19. NY – National Fuel Gas Distribution
20. NC - Piedmont Natural Gas
21. OH- Vectren Ohio
22. OR – Cascade Natural Gas
23. OR – NW Natural Gas
24. UT – Questar Gas
25. WA – Avista Corp.
26. WA – Cascade Natural Gas

### **◆ PENDING**

1. AZ – Southwest Gas
2. DE – Generic Proceeding
3. IL – CILCO
4. IL – CIPS
5. IL – Illinois Power
6. IL – Nicor
7. NC – PS Co. of North Carolina
8. NV – Generic Proceeding
9. NY – National Grid - Niagara Mohawk
10. MA – Generic Proceeding
11. WA – NW Natural Gas

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<sup>1</sup>A Review of Distribution Margin Normalization as Approved by the Oregon Public Utility Commission for Northwest Natural, Christensen Associates Energy Consulting, LLC, March 2005.

### **Arkansas – Arkansas Oklahoma**

On Nov. 20, 2007 the Arkansas Public Service Commission adopted a settlement authorizing Arkansas Oklahoma Gas to implement revenue decoupling for residential and commercial customers. The mechanism, a trial billing determinant rate adjustment is similar to the riders authorized for Arkansas Western Gas and CenterPoint Energy Arkansas Gas.

### **Arkansas – Arkansas Western**

On July 13, 2007, the Arkansas Public Service Commission adopted a settlement authorizing Arkansas Western Gas to implement a trial billing determinant rate adjustment (TBDRA) rider, similar to the decoupling rider proposed by the company, to mitigate the impact of reduced customer gas usage associated with conservation programs on the company's revenues. The TBDRA rider is to remain in place at least through year-end 2012, for measurement periods that conclude on July 31, 2010 and the company is permitted to request an extension of the rider.

### **Arkansas – CenterPoint Energy Arkansas Gas**

On October 25, 2007, the Arkansas Public Service Commission adopted a settlement authorizing CenterPoint Energy Arkansas Gas to implement a trial billing determinant adjustment (BDA) rider to mitigate the impact of reduced customer natural gas usage on company revenues. The company supports the Arkansas commission's efforts to implement energy efficiency program guidelines for the state's utilities, and believes that the current decoupled rate design removes a very strong economic disincentive for the company to support those energy efficiency programs.

### **California - Pacific Gas and Electric**

The only state that has adopted decoupling for both natural gas and electric utilities is California. With the goal of encouraging conservation and with broad stakeholder support at the time, Pacific Gas and Electric (PG&E) decoupled natural gas sales in 1978 and electric sales in 1982. In the 1970s, the California PUC mandated inverted block rate design (increasing levels of consumption are charged higher rates) to encourage customer conservation. However, an inverted rate structure magnifies the impact on revenues of weather, conservation, price elasticity and other sales changes. Decoupling allows pricing signals to customers without revenue loss or gain to the company. The revenue decoupling mechanism is paired with an annual attrition mechanism that adjusts annually for customer growth, inflation, and replacement of aging infrastructure facilities. To address the huge escalation of natural gas costs in the winter after Hurricane Katrina, PG&E deployed several initiatives that encouraged conservation but that reduced its natural gas transportation revenues by \$47 million. Without decoupling, the conservation program would have had a negative impact on PG&E's financial performance and very likely would not have been proposed. Today, nearly all of PG&E's revenues are decoupled, with only about 4 percent of natural gas revenues at risk, and support continues to be widespread among stakeholders throughout the state.

### **California - Southwest Gas**

California has had some variation of a decoupling program in place for most of its utilities for nearly 30 years. The impetus for the program was the enactment of lifeline rates legislation, gas supply constraints, and the adoption of demand side management programs by the state. In its most recent general rate case order, effective April 15, 2004, Southwest Gas was granted authority to implement a decoupling mechanism for all customer classes. The decoupling mechanism utilizes a balancing account to protect customers if base revenues exceed authorized levels, and to protect stockholders if base revenues are less than authorized levels. The program is firmly established and utilizes a long-standing regulatory construct that does not recognize an explicit reduction to ROE.



Future test year system annual revenue requirement (margin) is established in a rate case as a fixed dollar amount on a monthly and annual basis. The difference between billed margins and authorized margins, plus carrying costs, is recorded monthly in a deferred account. The account balance is amortized annually through a uniform cents-per-therm rate applicable to all schedules, except special contracts. The test year margin amount increases each January 1 (between rate cases) according to an established formula.

#### **California - Southern California Gas and San Diego Gas and Electric**

The decoupling programs at Southern California Gas and at San Diego Gas and Electric are similar to the programs at Southwest Gas and at Pacific Gas and Electric. The decoupling programs at the California utilities apply to all customer classes, including industrial customers.

#### **Colorado – Public Service Co. of Colorado (a Unit of Xcel Energy)**

On June 18, 2007, the Colorado Public Utilities Commission authorized Public Service Company of Colorado to adopt a partial revenue decoupling mechanism for residential customers following the adoption of a settlement with modifications. The revenue decoupling mechanism will be in effect on a pilot basis from Oct. 1, 2008, through Sept. 30, 2011, after which the PUC will evaluate the mechanism and determine whether it should be continued, modified, or eliminated. As modified by the PUC, Public Service Company is to absorb the lost revenue associated with the first 1.3 percent of any reduction in gas sales each year. The commission noted that over the past five years gas usage per customer has declined about 2.6 percent annually.

#### **Illinois – Peoples Gas and North Shore Gas (Units of Integrys Energy Group)**

On February 6, 2007, Peoples Gas Light & Coke and North Shore Gas were authorized by the Illinois Commerce Commission to implement a decoupling mechanism under which rates will be adjusted to exclude the impact on margin of variations in weather, customer participation in conservation programs, and other factors. The companies also were authorized to implement separate energy efficiency programs, to be recovered through a rider. The decoupling mechanism is updated and true-ups are passed through to customers monthly.

#### **Indiana – Citizens Gas and Coke Utility**

In 2007, Citizens Gas and Coke Utility implemented a decoupling mechanism for its residential and commercial customers that is similar to the mechanisms implemented for the Indiana natural gas utilities of Vectren. The Indiana commission initially rejected the company's proposal for a decoupling mechanism. Citizens then appealed the decision, and on rehearing, the commission authorized the company to implement revenue decoupling.

#### **Indiana – Vectren Indiana Gas**

Vectren Energy Delivery's decoupling mechanism consists of two interrelated components: the conservation funding rider, and the decoupling mechanism. The company filed a petition rather than a new rate case for the conservation program and settled the filing in 2006. The Energy Efficiency Funding Component is assessed to residential and general service (commercial and small industrial) customers, although Vectren is financing a few items itself.

On February 13, 2007, the Indiana Utility Regulatory Commission adopted a settlement in the company's rate case, authorizing Indiana Gas to implement a slightly modified version of the sales reconciliation component of the energy efficiency rider that had been approved in 2006, in which 100 percent of margins lost as a result of gas conservation are to be recovered. The previous decoupling methodology that had been approved in 2006 required that the SRC

charges be reduced by 15 percent to reflect the potential impact upon gas usage of factors other than energy conservation.

### **Indiana – Vectren Southern Indiana Gas and Electric**

Vectren Energy Delivery's decoupling mechanism consists of two interrelated components: the conservation funding rider, and the decoupling mechanism. The company filed a petition rather than a new rate case for the conservation program and settled the filing in 2006. The Energy Efficiency Funding Component is assessed to residential and general service (commercial, small industrial) customers, although Vectren is financing a few items itself.

### **Maryland - Baltimore Gas and Electric and Washington Gas Light**

BG&E's decoupling program began as part of a 1998 base rate case and is a "full decoupling" program, in that it is designed to recover multiple sources of margin loss, including weather and price elasticity, as well as losses caused by customers' conservation and energy efficiency. The Maryland decoupling mechanism utilizes a balancing account that returns to customers excess margin when revenues exceed authorized levels. A conservation component is separate from the decoupling mechanism, which applies to residential and general service firm customers.

BG&E makes adjustments to the delivery price of gas under the applicable schedules to reflect test year base rate revenues established in the latest base rate proceeding, after adjustment to recognize the subsequent change in the number of customers from the test year level. Test year average use per customer is multiplied by the net number of customers added since the like-month during the test year. The product is added to test year revenue to restate test year revenues for the month to include the revised values. Actual revenues collected for the month are compared to the restated test year revenues, and any difference is divided by estimated sales for the second succeeding month to obtain the adjustment to the applicable delivery price. Any difference between actual and estimated sales is reconciled in the determination of the adjustment for a future month. Details of the calculation of the billing adjustment are filed monthly with the public service commission.

In October of 2005, Washington Gas Light implemented a decoupling mechanism outside of a rate case that is similar in design to the decoupling program of Baltimore Gas and Electric. The Washington Gas program applies to all firm customer classes and does not have a conservation component as part of the mechanism.

### **New Jersey - New Jersey Natural Gas and South Jersey Gas**

On October 12, 2006, the New Jersey Board of Public Utilities (BPU) approved requests by New Jersey Natural Gas Co. and South Jersey Gas Co. to replace their existing weather normalization clauses (WNC) with a conservation incentive program (CIP) that would capture gross margin variations related to both weather and customer usage. The three-year pilot programs, which were initiated outside of a base rate case, apply to residential and most commercial customers, who will be segregated in distinct groups to avoid any cross subsidization. The decoupling mechanisms include new conservation programs that will be funded by the company, with additional programs expected to be added during the three year pilot. New Jersey Natural will spend at least \$2 million on the new customer conservation efforts, and South Jersey Gas will spend at least \$1.2 million.

As with the old WNC calculation, gross margin deficiencies attributable to conservation and other non-weather-related factors will be recovered from customers in the subsequent year through the CIP Rider. However, annual recoveries based on those deficiencies will be limited

to a level of agreed-upon gas supply savings. For New Jersey Natural, the initial level of agreed upon savings will be \$10.6 million for each year of the pilot. This amount has been realized by releasing capacity, with BPU approval, from New Jersey Natural Gas to NJR Energy Services, the wholesale energy services subsidiary of New Jersey Resources.

The new decoupling program features a return on equity test that prevents New Jersey Natural from recovering any portion of a CIP deficiency charge that would cause the company to earn in excess of its authorized return during the pilot period. The company will have an independent third-party provide a comprehensive evaluation of the effectiveness of the initial two years of the program and will file a report with the BPU no later than April 1, 2009. The BPU may extend, modify or terminate the program at the end of the three-year pilot and if the program is not extended, the WNC program would be reinstated. The program at South Jersey is nearly identical to the New Jersey Natural decoupling program.

#### **New York – Consolidated Edison Company of New York**

On September 19, 2007, the New York State Public Service Commission adopted a three year gas rate plan for Consolidated Edison Company of New York that authorized the company to implement a transitional, one-year revenue decoupling mechanism (RDM) and a gas energy efficiency program. For the first rate year of the three-year plan, the \$14 million efficiency program will be administered by the New York State Energy Research and Development Authority pursuant to orders issued by the Commission in Case 03-G-1671. A gas collaborative is to be formed to develop a gas efficiency program for rate years two and three, including recommendations for program design, funding levels, administration and incentives for the company. The plan allows for the continuation of Con Ed's weather normalization clause.

#### **New York – National Fuel Gas Distribution Co.**

On December 21, 2007, the New York Public Service Commission authorized National Fuel Gas Distribution Co. to implement a Revenue Decoupling Mechanism (RDM) and a Conservation Incentive Program. The mechanisms will allow the company to implement a surcharge and credit mechanism, through which it will be able to recover lost margin associated with conservation savings of customers. As part of the RDM, National Fuel will establish a Conservation Incentive Program with three main components: (1) a low income usage reduction program that would provide insulation and efficient appliances for qualified low income customers; (2) a high efficiency appliance rebate program for residential and small non-residential customers; and (3) a general customer conservation education and outreach effort with a specific low-income customer component that recognizes that low income customers are among the highest consuming residential customers. The decoupling mechanism will apply to residential and small consumption (less than 5000 Mcf annual) customers and was implemented as part of a rate case.

#### **North Carolina - Piedmont Natural Gas**

This decoupling tariff, approved by the North Carolina Utilities Commission in the company's November 2005 rate case, gave Piedmont Natural Gas permission to implement a Customer Utilization Tracker (CUT). The mechanism was approved as an experimental, provisional tariff for a period of no more than three years and will automatically terminate on November 1, 2008, unless renewed in a general rate case. During the life of the CUT, Piedmont has agreed to contribute \$500,000 per year toward conservation programs. Adoption of the CUT also resulted in the elimination of the company's existing weather normalization adjustment mechanism. In the 2005 ruling, the commission established an approved margin per customer per month for each residential and commercial rate class. Differences between the approved levels and the

actual recovery are tracked monthly in a deferred account and trued-up twice a year. The mechanism applies to residential and commercial customers.

The North Carolina attorney general appealed to the state Supreme Court to overturn the commission action. In July of 2006, Piedmont negotiated a settlement with the attorney general in which the company agreed to an additional contribution of up to \$1,500,000 per year, dependent upon the level of conservation related revenues received by the company through the CUT mechanism. The (up to) \$1,500,000 will be split 50/50 between a direct reduction in customer rates and further contributions to conservation programs, over and above the \$500,000 per year contribution to conservation agreed to in the tariff.

On March 31, 2008, Piedmont filed a rate case with the commission and requested authorization to expand its energy efficiency and conservation programs, and make permanent the CUT. A commission decision is expected prior to November 2008.

### **Ohio - Vectren**

In September 2006, Vectren Energy Delivery received approval from the Ohio Public Utility Commission to implement a conservation tracking mechanism that is designed to provide customers with tools and information to assist them in reducing their energy costs from the level of costs that would otherwise exist absent the program. The program will operate for a minimum of two years and will receive funds from the utility, gas supply portfolio management proceeds, and reduced customer arrearages. The decoupled sales component will recover the difference between actual revenues and revenues approved in the last rate case. The company's most recent rate case came 10 months before the filing, which was settled in April of 2006. The mechanism is assessed to residential and general service (commercial, small industrial) customers.

In 2007, Vectren notified the Ohio PUC that it intended to request an extension of the two-year decoupling rider that was established by the Ohio Public Utilities Commission in September 2006. However, the Ohio Commission Staff indicated that it now prefers straight-fixed variable rate design and has asked the company to modify its rate filing. The PUC is required to complete rate cases within a 275-day period that begins at the time of the actual filing. Therefore, with a late-October 2007 filing, the Commission should complete the case in late July 2008.

### **Oregon - NW Natural**

The Public Utility Commission of Oregon approved a decoupling tariff for NW Natural in September of 2002. The PUC said the tariff was designed "to break the link between an energy utility's sales and its profitability, so that the utility can assist its customers with energy efficiency without conflict." The tariff was a partial decoupling mechanism that allowed NW Natural to defer and then amortize 90 percent of the margin differentials for the residential and commercial customer groups. The mechanism contained two components: 1) a "price elasticity" factor that adjusted for increases or decreases in consumption attributable to annual changes in commodity costs or periodic changes in the company's general rates; and 2) a decoupling adjustment calculated on a monthly basis that accounted for deviations in expected volumes. Weather related risks were not covered by the mechanism. The additional company revenues or credits to customers produced by the mechanism were booked to a deferral account that was reconciled as part of the company's annual purchased gas adjustment.

The NW Natural decoupling tariff was put in place for three years on a pilot basis and had a sunset date of September 30, 2005, unless extended by the PUC. In March of 2005, NW

Natural asked the PUC to investigate whether the decoupling tariff should continue. As part of the petition, NW Natural submitted the results of an independent study that had been required under the original order.

In August 2005, the Oregon PUC extended NW Natural's partial decoupling mechanism for an additional four years. NW Natural revised the decoupling schedule to provide for 100 percent deferral and amortization of the margin differentials. This change eliminated the non-weather related margin variability related to distribution fixed costs. In addition to the decoupling provisions, NW Natural currently has in effect a weather-adjusted rate mechanism (WARM) that was adopted in an earlier rate case and that lasts until September 30, 2008. The WARM covers all residential and small commercial customers, unless the customers opt out. The 2005 decoupling case dictates that public purpose funding and low-income assistance programs will remain in effect throughout the life of the decoupling program. In addition, industrial customers will not be charged or be eligible for any of the assistance programs.

On September 26, 2007, the Oregon PUC adopted a stipulation that extends NW Natural's decoupling mechanism and weather adjustment clause until October 31, 2012, and prohibits the company from filing a new rate case prior to September 1, 2011.

NW Natural has a conservation component to its decoupling program that provides an indirect efficiency incentive to its customers. The company collects from all of its residential and commercial customers a "public purpose" surcharge of 1.5 percent of their total monthly bills. The funds are then passed on to an independent, non-profit organization, the Energy Trust of Oregon. The Energy Trust, which also receives funding from public purposes surcharges from all of Oregon's electric utilities, provides grants to promote energy efficiency and renewable resources among homes and businesses.

The Energy Trust of Oregon disburses approximately \$6 million each year to encourage more efficient use of natural gas. Incentives include: \$450 - \$825 per unit to builders of new home construction if natural gas service is installed; rebates for high-efficiency gas furnaces, water heaters (including tankless units) and other appliances in existing homes; rebates on insulation, new windows and other efforts to reduce home energy use; and rebates on the installation of tankless water heaters, efficient boilers, etc., in commercial buildings.

### **Oregon - Cascade Natural Gas**

Cascade Natural Gas' decoupling mechanism was approved by the Oregon Public Utility Commission on April 19, 2006. The mechanism, which was implemented outside of a rate case, applies to residential and commercial customers, and mitigates demand reduction caused by conservation. The mechanism also adjusts symmetrically for deviations from normal weather. The Conservation Alliance Plan consists of two deferral accounts, one that tracks monthly weather-normalized usage impacts on margins, and another that tracks monthly non-weather related changes in usage on margin. The deferral accounts will be maintained as regulatory assets or regulatory liabilities and will be amortized over the following year as increments to the commodity charge. The Cascade decoupling program includes a 0.75 percent public purpose surcharge to customers and a 0.75 percent of revenue contribution from the company to fund conservation programs for customers.

The Cascade Natural Gas decoupling mechanism imposes service quality requirements, and includes a penalty provision for failing to perform below specified ratios on customer complaints. While there was no reduction to allowed ROE, Cascade's current earnings sharing mechanism was modified to reduce the threshold amount for earnings sharing from baseline ROE plus 300



basis points, to baseline ROE plus 175 basis points. If requested by the commission, the company must file a general rate case in 2008. The plan will remain in effect until September of 2010 and an independent evaluation of the program will be conducted for the parties.

### **Utah - Questar Gas**

Questar Gas received approval for a Conservation Enabling Tariff on October 6, 2006. The three-year pilot program was the result of a four-year process that included numerous task forces and stakeholder groups. The program applies only to the general service class (residential and small commercial) customers and requires the company to aggressively pursue demand side management goals and to fund low-income weatherization programs. The company was granted full decoupling and also kept its previously authorized weather normalization adjustment clause. The program was implemented outside of a rate case.

### **Washington - Avista**

On February 1, 2007, Avista received approval from the Washington Utilities and Transportation Commission to implement a partial decoupling mechanism on a three-year pilot basis. The program, which does not include losses related to weather, will apply to residential and small commercial customers, and rate increases from the program will be capped at 2 percent per year. The company had recently completed a rate case when it filed its petition.

Avista is to defer 90 percent of the non-weather-related margin difference (positive or negative), which is to be recovered from or returned to customers. The recovery of any deferred costs is subject to both an earnings test that would prohibit collection if Avista is earning above its authorized 9.11 percent rate of return, and a demand-side management (DSM) test that would prohibit collection if specific conservation targets are not achieved. Funds not recovered due to the earnings and/or DSM tests may not be carried over to the next period. Also, the commission prohibits Avista from earning interest on deferrals until the deferrals are approved for recovery.

Avista must submit an evaluation of the mechanism and any proposed modifications if it wishes to continue the program after three years. The commission stated that the mechanism will be evaluated, and extension granted, only if there is a demonstration that the mechanism led to cost-effective enhanced conservation.

### **Washington - Cascade Natural Gas**

On January 12, 2007, the Washington Utilities and Transportation Commission authorized Cascade Natural Gas to implement a partial decoupling mechanism on a pilot basis for a three-year period. The mechanism, which will apply to residential and general service commercial customers, would defer non-weather-related margin variances (e.g., changes in usage related to conservation and energy efficiency improvements). In connection with the decoupling mechanism, the settlement called for Cascade to submit a conservation plan, which would be filed after the settlement was approved and an advisory group was convened to review an outside consultant's assessment of the energy efficiency potential in the company's service territory. The settlement specified that the plan would contain targets and benchmarks based on recommendations from the advisory group, and opportunities for penalties and/or incentives. Cascade's program includes paying for customer incentives on rebates for cost-effective demand side management programs, such as high efficiency appliances, insulation and consumer education programs. The decoupling program will be subject to commission approval of a conservation plan, with earnings capped at the authorized 8.85 percent overall rate of return, and will include penalties for failure to meet conservation targets and benchmarks. The pilot program will be evaluated regardless of whether the company seeks to continue the program after the three-year period expires.



## **PENDING UTILITY CASES**

### **Arizona – Southwest Gas**

On August 31, 2007, Southwest Gas filed a rate case at the Arizona Corporation Commission that proposes a non-weather-related decoupling mechanism. The staff of the commission does not support the decoupling mechanism. Southwest previously requested a decoupling mechanism from the Arizona commission, which was denied in 2006. A final commission decision in the current case is expected in September.

### **Illinois – CILOCO, CIPS, and Illinois Power (units of Ameren)**

On Nov. 2, 2007, the Illinois utility operating subsidiaries of Ameren filed with the Illinois Commerce Commission for approval to implement revenue decoupling mechanisms designed to mitigate the impact on revenues of conservation and weather-related variations in gas sales volumes. Ameren has also filed to implement decoupling mechanisms for its Illinois jurisdictional electric utilities.

### **Illinois – Nicor**

On April 29, 2008, Northern Illinois Gas (Nicor) filed a base rate case with the Illinois Commerce Commission and proposed to implement a new “Conservation Partnership Plan,” under which Nicor would establish a conservation fund that would be administered by a third-party, with the company to be permitted to implement a revenue decoupling mechanism to mitigate the revenue impact of conservation programs and allow the company to fully recover its fixed costs.

### **New York – Niagara Mohawk – (A Unit of National Grid)**

On May 23, 2008, National Grid’s upstate New York operating company, Niagara Mohawk, filed a rate case in which it seeks approval from the New York Public Service Commission to implement a Revenue Decoupling Mechanism (RDM). The RDM would cover residential and commercial customers and calculate the true-up adjustment on a revenue per customer basis. National Grid would also implement an energy efficiency program. The costs of the energy efficiency program and the company’s lost revenue would be collected through a systems benefit charge until the RDM goes into effect. National Grid has requested a \$95 million rate increase, of which \$11 million would be for the system benefits charge.

### **North Carolina – Public Service Company of North Carolina**

On March 31, 2008, Public Service Company of North Carolina requested a customer utilization tracker for residential and customer customers as part of its rate case before the North Carolina Public Service Commission. The company also proposed several conservation initiatives. A decision in the case is expected by November 1, 2008.

### **Washington – NW Natural Gas**

On March 28, 2008, Northwest Natural Gas filed a rate case with the Washington Utilities and Transportation Commission in which it seeks to implement a revenue decoupling mechanism. A decision is expected in March 2009.

## **PENDING STATEWIDE INVESTIGATIONS**

In December of 2007, Congress passed the Energy Independence and Security Act, which modifies the Public Utility Regulatory Policy Act and requires that states consider implementing natural gas rate designs that align natural gas utility incentives with the deployment of cost-effective energy efficiency, and further requires state commissions to consider separating fixed-cost revenue recovery from the volume of transportation or sales service provided to customers. With this directive, many of the states that do not already allow non-volumetric rates will be holding statewide investigations during 2008 to consider changes to their rate design policies.

### **Delaware**

In March 2007, Delmarva Natural Gas settled its gas base rate case with the Delaware Public Service Commission and the parties agreed to investigate the development of a decoupling mechanism through a statewide process with all parties reserving all rights to argue that a ROE adjustment or some other adjustment may or may not be appropriate if a decoupling mechanism is adopted. While the rate case did not propose a conservation component, as part of the company's recent, "Blueprint for the Future" filing, the company did include rebate programs for DSM and energy conservation programs for gas and electric customers in Delaware.

### **Massachusetts**

On August 9, 2007, the Massachusetts Department of Public Utilities (DPU) opened an investigation that is designed to boost conservation, energy efficiency activities, and demand side response by electric and natural gas utilities, and ratemaking mechanisms to promote such efforts. Massachusetts utilities currently operate under Performance Based Regulation (PBR) because the DPU, after extensive review, found that PBR is better suited for promoting the traditional rate objectives of safe, reliable, and least cost utility services. While Massachusetts natural gas utilities support revenue decoupling mechanism because such measures give utilities more of an incentive to push for efficiency measures and increased conservation, they also support the continued reliance on PBR ratemaking. A report is expected in July 2008.

### **Nevada**

In 2006, Nevada enacted SB 437, which requires the Nevada Public Utility Commission to adopt regulations to establish methods and programs that remove financial disincentives that discourage natural gas utilities from supporting energy conservation. Utilities may, but are not required to, implement these programs. The utility is required to file a rate case if it chooses to use a program that removes the financial disincentives. The Nevada commission is currently conducting a hearing pursuant to the requirements in SB 437 and a final regulation, which would not require decoupling for any utility, is not expected for several months.

## **RESOURCES: COMPANIES, RATE ORDERS, WEBSITES, CONTACTS, ETC.**

Arkansas Oklahoma Gas – Arkansas – Approved - Docket No. 07-026-U, 2007,  
<http://apps.puc.state.or.us/orders/2006ords/06-191.pd>;

Arkansas Western Gas – Arkansas – Approved - Docket No. 06-124-U, 2007,  
<http://apps.puc.state.or.us/orders/2006ords/06-191.pd>;

Ameren – Illinois – Pending – Docket Nos. 07-0588, 07-0589, and 07-0590, November 2007;  
Contact Bob Mill at 314-554-3734

Avista Corp. – Washington – Approved – Docket No. UG-060518, January 2007;  
<http://wutc.wa.gov/rms2.nsf/vw2005OpenDocket/F1C66EC379B178FE88257412007A22CB>;  
Contact Kelly Norwood @ 509-495-4267

Baltimore Gas & Electric – Maryland – Approved – Maryland Case No. 8780, Feb. 2005,  
[http://webapp.psc.state.md.us/Intranet/CaseNum/NewIndex3\\_VOpenFile.cfm?ServerFilePath=C%3A%5CCasenum%5C8750%2D8799%5C8780%5C049%2Edoc](http://webapp.psc.state.md.us/Intranet/CaseNum/NewIndex3_VOpenFile.cfm?ServerFilePath=C%3A%5CCasenum%5C8750%2D8799%5C8780%5C049%2Edoc), Contact Laurie  
Duhan @ 410-265-4031

Cascade Natural Gas – Oregon – Approved - Docket No. UG 167, April 19, 2006,  
<http://apps.puc.state.or.us/orders/2006ords/06-191.pdf>; Contact Jon Stoltz @206-624-3900

Cascade Natural Gas – Washington – Approved – Docket No. UG-060256, January 12, 2007;  
<http://wutc.wa.gov/rms2.nsf/frm2005VwDSWeb?OpenForm&vw2005L1DktSh=060256-Documents&NAV999999>; Contact Jon Stoltz @206-624-3900

CenterPoint – Arkansas – Approved – Arkansas - Docket No. 06-161- U; October 25, 2007;  
<http://www.apscservices.info/news/06-161-U1FinalOrderNewsRelease.pdf>; Contact Chuck  
Harder at 713-207-7273

Citizens Gas – Indiana – Approved – Indiana URC Cause No. 42767, April 2007; Contact  
LaTona Prentice @ 317-927-4529

Consolidated Edison Co. of New York – New York – Approved - 06-G-1332, September 19,  
2007; [http://www.coned.com/documents/gas\\_tariff/pdf/0002-Table\\_of\\_Contents.pdf](http://www.coned.com/documents/gas_tariff/pdf/0002-Table_of_Contents.pdf)

Delaware – Statewide Investigation Pending – Regulatory Docket No. 59; Contact Bill Moore at  
302-354-1811 or at bill.moore@pepcoholdings.com

Massachusetts Department of Public Utilities – Generic Investigation Pending – August 9, 2007,  
Docket No. DPU 07-50; <http://www.mass.gov/Eoca/docs/dte/electric/07-50/10507dpumem.pdf>

National Fuel Gas Distribution Co. – New York – Approved - 07-G- 0141, December 21, 2007;  
[http://www3.dps.state.ny.us/pscweb/WebFileRoom.nsf/ArticlesByCategory/6FEEF4939FED9F9E852573B8004F0AF6/\\$File/102\\_07G0141final.pdf?OpenElement](http://www3.dps.state.ny.us/pscweb/WebFileRoom.nsf/ArticlesByCategory/6FEEF4939FED9F9E852573B8004F0AF6/$File/102_07G0141final.pdf?OpenElement); contact Eric Meini @ 716-  
857-7805

Nevada Public Utility Commission – Generic Investigation Pending – June 27, 2007, Docket No.  
07-06046;  
[http://pucweb1.state.nv.us/wx/ISubmitQuery.aspx?Credentials=28:94C2FC7D931B3F4ECAA4F41A202064580941F8BE7B063F5F73835BE9B5A4263F7A9FF0EACEFBF44C8649DB83A24ED30BD5B2E4B457A6716A20C942CD05DCC00E&DSN=PUCN%20Imaging&Appname=DOCKETS\\_2005\\_THRU\\_PRESENT&DOCKET%20NUMBER=07-06046&~~field1=on&~~field2=on&~~field3=off&~~field4=on&~~field5=on&~~field6=on&~~field7=on&~~field8=off&~~field9=off&~~field10=on](http://pucweb1.state.nv.us/wx/ISubmitQuery.aspx?Credentials=28:94C2FC7D931B3F4ECAA4F41A202064580941F8BE7B063F5F73835BE9B5A4263F7A9FF0EACEFBF44C8649DB83A24ED30BD5B2E4B457A6716A20C942CD05DCC00E&DSN=PUCN%20Imaging&Appname=DOCKETS_2005_THRU_PRESENT&DOCKET%20NUMBER=07-06046&~~field1=on&~~field2=on&~~field3=off&~~field4=on&~~field5=on&~~field6=on&~~field7=on&~~field8=off&~~field9=off&~~field10=on)

New Jersey Natural Gas – New Jersey – Approved – October 12, 2006, Docket No.  
GR05121020; <http://www2.njresources.com/news/trans/newsrpt.asp?Year=2005>; Contact  
Annemarie Peracchio @ 732-938-1129

Niagara Mohawk – National Grid – New York – Pending - 08-G-0609, May 23, 2008;  
[http://www3.dps.state.ny.us/pscweb/WebFileRoom.nsf/ArticlesByCategory/2F69771F03A15E928525746B00607F9B/\\$File/166\\_08g0609.pdf?OpenElement](http://www3.dps.state.ny.us/pscweb/WebFileRoom.nsf/ArticlesByCategory/2F69771F03A15E928525746B00607F9B/$File/166_08g0609.pdf?OpenElement); contact Marcia Collier @ 315-428-5692

Nicor – Illinois – Pending, Docket No. 07-0242; 2008; Contact Bob Mudra at 630-388-2829

North Shore Gas – Illinois – Approved, Docket No. 07-0241; 2008; Contact Valerie Grace at 312-244-4466 or [vgrace@pecorp.com](mailto:vgrace@pecorp.com)

NW Natural – Oregon – Approved - Order No. 05-1041, September 26, 2005;  
<http://apps.puc.state.or.us/orders/2005ords/05-1041.pdf>, Contact C. Alex Miller @ 503-721-2487

NW Natural – Washington – Pending – Docket No. UG-080546, March 28, 2008;  
<http://wutc.wa.gov/RMS2.nsf/vw2005OpenDocket/6369CA804F078F9E8825743200683C9B>;  
Contact C. Alex Miller @ 503-721-2487

Pacific Gas and Electric Co. – California – Approved – December 30, 1981, California  
Application No. 02-02-012, Decision No.93887; Contact Roland Risser @

Peoples Gas – Illinois – Approved, Docket No. 07-0242; 2008; Contact Valerie Grace at 312-244-4466 or [vgrace@pecorp.com](mailto:vgrace@pecorp.com)

Piedmont Natural Gas – North Carolina – Approved – Dockets G-9, Sub 499, G-21 Sub 461, G-44 Sub 15, November 3, 2005; <http://ncuc.commerce.state.nc.us/docksrch.html>, Contact: David Carpenter @ 704-364-4242

Public Service Company of Colorado – Colorado – Approved – Docket No. 06-656G, 2007;  
Contact Ron Darnell at 303-294-2180 or [ron.darnell@xcelenergy.com](mailto:ron.darnell@xcelenergy.com)

Public Service Company of North Carolina – North Carolina – Pending – Docket No. G-5, Sub 495, March 31, 2008

Questar Gas – Utah – Approved –Docket No. 05-057-T01, October 6, 2006;  
[http://www.questar.com/news/2006\\_news/01-27-06.pdf](http://www.questar.com/news/2006_news/01-27-06.pdf), Contact Barrie McKay @ 801-324-5491

San Diego Gas and Electric. – California – Approved – Date, California Application No. 02-02-012

Southern California Gas – California – Approved – Date, California Application No. 02-02-012

South Jersey Gas – New Jersey – Approved – Docket No. GR05121020, October 12, 2006;  
Contact Sam Pignatelli @ 609-561-9000 x4204

Southwest Gas – Arizona – Pending – Arizona Docket No. G-01551A-07-0504, August 2007;  
Contact Roger Montgomery @ 702-876-7321

Southwest Gas – California – Approved – California Application No. 02-02-012, Decision No. 04-03-034; Contact Roger Montgomery @ 702-876-7321

Vectren Indiana Gas – Indiana – Approved – Indiana URC Cause No. 42943, December 1, 2006; Contact Scott Albertson @ 812-491-4682

Vectren Southern Indiana Gas and Electric – Indiana – Approved – Indiana URC Cause No. 42943, December 1, 2006; Contact Scott Albertson @ 812-491-4682

Vectren Ohio – Ohio – Approved – Case No. 05-1444-GA-UNC, September 13, 2006;  
<http://dis.puc.state.oh.us/DMPDFs/GWFLPPVGK@LU501L.pdf>; Contact Jerry Ulrey @ 812-491-4138

Washington Gas Light –Maryland – Approved – Maryland Case No. 8990, October 1, 2005,  
<http://webapp.psc.state.md.us/Intranet/mailllog/orders.cfm> Contact Paul Buckley @ 703-750-5260

### **ADDITIONAL INFORMATION**

If you would like more information about a particular program or would like to speak to another AGA member regarding the details of the program, please contact: Cynthia Marple, AGA director of rates and regulatory affairs, [cmarple@aga.org](mailto:cmarple@aga.org) or 202-824-7228.

# Decoupling and Natural Gas Utilities

## Rethinking Rate Structures to Promote Energy Efficiency

*America is facing a dual challenge – meeting ever-increasing demands for energy, while at the same time making dramatic reductions in greenhouse gas emissions. In this new era, traditional rate structures have become a roadblock that discourages natural gas utilities from promoting energy efficiency and conservation.*

### What Customers Pay for Natural Gas

The monthly natural gas bill received at a home or business contains two types of charges: the cost of the natural gas used by the customer during the previous month and the delivery and service fees that reflect the utility's costs of delivering gas by pipeline to customers.

- The first charge, which usually represents about 70 percent of the bill for an average home, is strictly a “pass along” for the actual cost of the gas. By law, natural gas utilities are not allowed to mark up the cost of the natural gas they purchase for delivery to consumers.
- The second set of charges generate the revenue utilities need to run their business: to operate and maintain the pipelines, provide customer service, pay employees and provide a reasonable return on investment for shareholders. State government regulatory authorities must approve all the rates that utilities can charge.

### Traditional Rate Structures Discourage Conservation

Volumetric rates actually penalize utilities if customers use energy more efficiently:

Less gas flowing through the pipes means less revenue – so a utility that aggressively promoted conservation efforts would likely lose money

For utilities, the costs for delivering natural gas are relatively fixed, regardless of how much natural gas customers actually use. This should make utilities natural supporters of energy conservation.

However, the structures and formulas that have been used to set delivery service rates for the past 100 years are based on the amount of natural gas that flows through the pipes.

When setting delivery rates, regulators look at the volume of gas sold and the costs incurred by the utility for providing service during a “test year” (usually the previous year, with adjustments for abnormal weather or economic patterns). Rates are then set at a level sufficient to allow the utility to recover delivery costs, plus a modest return on investment for shareholders. That total amount (often called the revenue requirement), is then divided by the volume of natural gas used during the test year to come up with a per-unit delivery rate, which, when added to the per-unit “pass-along” gas charge, is what customers pay.

The problem with this rate structure of fixed delivery and service fees “coupled” to the gas usage of customers is that utilities have a disincentive to support conservation and energy efficiency.



## Decoupling Encourages Conservation Programs

*Benefits customers, utilities and the environment*

Recognizing this problem, many states over the past 20 years have moved to “decouple” these service rates from the volume of natural gas delivered.

Under “decoupled” rate processes, the delivery service fee is initially set in the usual way. If the volume of gas delivered at the end of the year is not the same as the volume of gas on which the delivery service fee was set, a “true-up” mechanism goes into effect. This minor rate adjustment will be either a small customer surcharge or a small rebate to the customer. In either case, the actual costs for delivery service will be the same as it would have been under traditional rate design.

Decoupling the utility’s fixed delivery expenses from the variable usage of customers frees natural gas utilities – which are best placed to reach their customers with the message – to promote efficiency and conservation measures without placing themselves in financial jeopardy. Customers who practice energy conservation in their homes benefit by not paying for gas they do not use.

Decoupling allows natural gas utilities to encourage conservation and efficiency measures that reduce overall energy use – benefiting the environment and reducing customers’ monthly bills

## Decoupling Success Stories

- Decoupling has been endorsed by major environmental groups, including the Natural Resources Defense Council, as a solution to help promote energy efficiency
- California began natural gas decoupling in 1978 and electric decoupling in 1982. Since 1970, California has reduced its per person residential energy consumption by 19 percent, while residential energy use per person for the United States overall increased by 9 percent.
- In Oregon, which adopted natural gas decoupling in 2002, a study by the Public Utilities Commission found that customer bills remained stable, the utility improved its ability to recover fixed costs, and the utility’s advertising focus shifted from marketing to conservation. The state now has the highest share of high-efficiency furnaces in the nation (as a percentage of new furnace sales)

## Natural Gas Revenue Decoupling

*As of May 2008*

