From: Gant, Paula [PGant@aga.org]
Sent: Friday, August 29, 2008 2:59 PM
To: Karen Webb
Subject: Submission by American Gas Association in Florida PSC Workshop Proceedings on Decoupling
Attachments: AGA Submission in Florida PSC Workshop on Decoupling 082908.doc; Natural Gas Rate Round-Up.pdf; Decoupling Fact Sheet.pdf

Ms. Webb,

Please accept the attached submission on behalf of the American Gas Association and its members for consideration in your commission's current workshop proceeding on decoupling.

We would welcome the opportunity to respond to any questions or requests for more information.

Sincerely,

Paula Gant

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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."[i] 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."[ii]

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.[iii] 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.[iv]

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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[i] *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.

[ii] *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;").

[iii] *See:* http://www.aga.org/Legislative/RatesRegulatoryIssues/ratesregpolicy/Issues/EnergyEfficiency/

[iv] *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.

American Gas Association

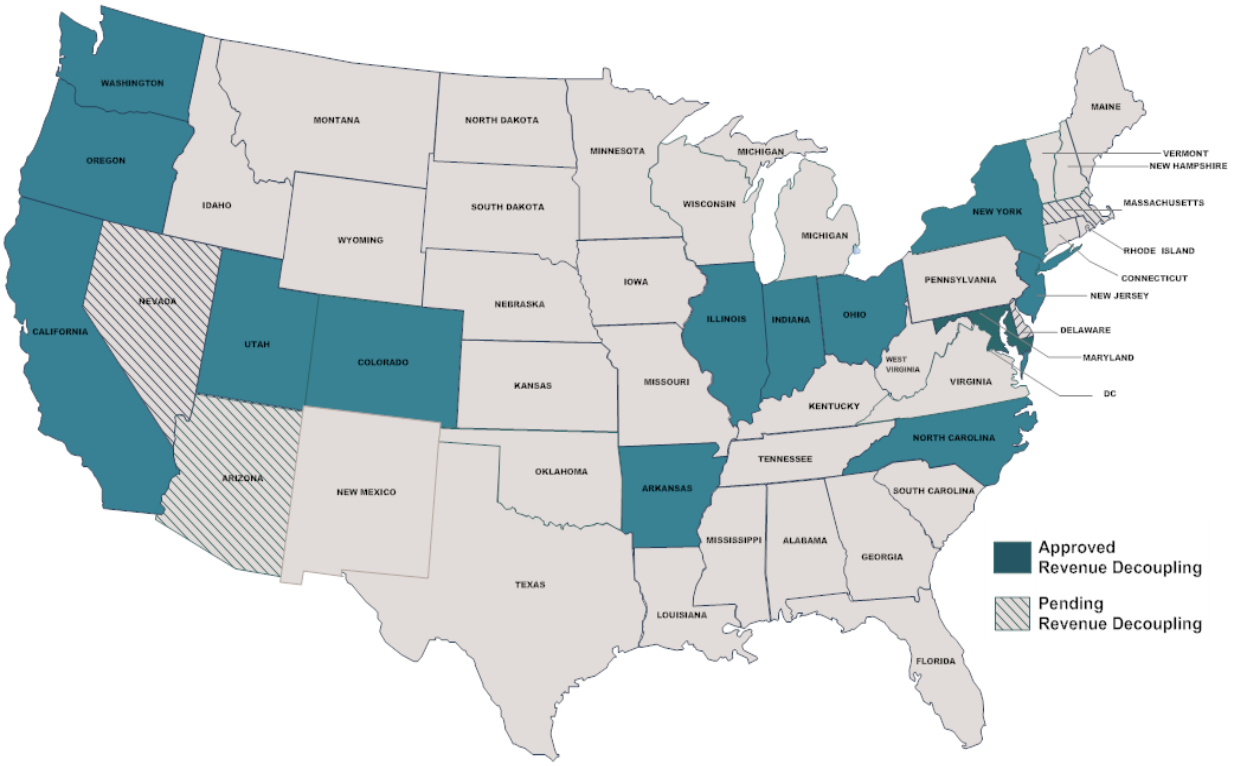
NATURAL GAS Rate Round-Up

A Periodic Update on Innovative Rate Designs

July 2008

2008 Update on Revenue Decoupling Mechanisms

STATES WITH NATURAL GAS REVENUE DECOUPLING TARIFFS



DESCRIPTIONS AND COMPONENTS

Decoupling Rate Design

efficiency and conservation. While utilities' costs for delivering natural gas are relatively fixed

under traditional utility rate design, a utility's earnings and profits will decline if customers

several states have put in place rate mechanisms that separate, or "decouple", the recovery of

Energy Efficiency and Conservation Tariffs

Computing the Adjustment and Accounting for Increases in Customer Count

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

examination of the utility's risk profile. ROE is established at a level that allows the utility to

material change in the company's risk profile cannot be determined without co For example, the utility's peer group that is used for the return

volumetric rates, only two have tied a utility's ROE to

Similar Non-Volumetric Rate Design Mechanisms

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

works by adjusting the utility's monthly revenues up or down to

Conclusions

recovery. Most important, since the biggest portion of a customer's gas utility bill is the cost of

utility's earnings and energy consumption of its customers without adding any

CURRENT REVENUE DECOUPLING PROGRAMS

✦ APPROVED

✦ PENDING

[1]

Arkansas – Arkansas Oklahoma

Arkansas – Arkansas Western

customer gas usage associated with conservation programs on the company's revenues. The

Arkansas – CenterPoint Energy Arkansas Gas

he company supports the Arkansas commission's efforts to implement energy efficiency program guidelines for the state's utilities,

California - Pacific Gas and Electric

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

California - Southwest Gas

California - Southern California Gas and San Diego Gas and Electric

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

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

Indiana – Citizens Gas and Coke Utility

The Indiana commission initially rejected the company's

Indiana – Vectren Indiana Gas

Vectren Energy Delivery's decoupling mechanism consists of two interrelated components: the

company's rate case, authorizing Indiana Gas to implement a slightly modified version of the

Indiana – Vectren Southern Indiana Gas and Electric

Vectren Energy Delivery's decoupling mechanism consists of two interrelated components: th

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"

price elasticity, as well as losses caused by customers' conservation and energy efficiency. The

New Jersey - New Jersey Natural Gas and South Jersey Gas

New York – Consolidated Edison Company of New York

Ed's w

New York – National Fuel Gas Distribution Co.

North Carolina - Piedmont Natural Gas

s Commission in the company's

Ohio - Vectren

company's most recent rate case came 10 months before the filing, which was settled in April of

Oregon - NW Natural

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 N

07, the Oregon PUC adopted a stipulation that extends NW Natural's

commercial customers a "public purpose" surcharge of 1.5 percent of their total monthly bills.

all of Oregon's electric utilities, provides grants to promote energy efficie

Oregon - Cascade Natural Gas

Cascade Natural Gas' decoupling mechanism was approved by the Oregon Public Utility

duction to allowed ROE, Cascade's current earnings sharing mechanism

Utah - Questar Gas

Washington - Avista

Washington - Cascade Natural Gas

outside consultant's assessment of the energy efficiency potential in the company's service

Cascade's program includes paying for customer incentives

PENDING UTILITY CASES

Arizona – Southwest Gas

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

Illinois – Nicor

lement a new “Conservation Partnership Plan,” under which

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

On May 23, 2008, National Grid’s upstate New York operating company, Niagara Mohawk, filed

efficiency program and the company’s lost revenue would be collected through a systems

North Carolina – Public Service Company of North Carolina

Washington – NW Natural Gas

PENDING STATEWIDE INVESTIGATIONS

Delaware

company's recent, "Blueprint the Future" filing, the company did include rebate programs for

Massachusetts

Nevada

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

ADDITIONAL INFORMATION

Fact Sheet
May 2008

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

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 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