

# FARMER & LUNA

A PROFESSIONAL LIMITED LIABILITY COMPANY

ATTORNEYS AT LAW

333 UNION STREET  
SUITE 300  
NASHVILLE, TENNESSEE 37201

TELEPHONE (615) 254-9146  
TELECOPIER (615) 254-7123  
www.farmerluna.com

J.W. Luna  
jwluna@farmerluna.com

August 8, 2007

## VIA HAND DELIVERY

Chairman Eddie Roberson  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-00505

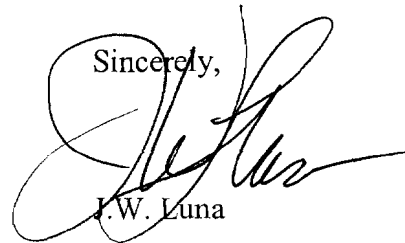
RECEIVED  
2007 AUG - 8 PM 3: 07  
T.R.A. DOCKET ROOM

Re: Docket for the Collection of Data and Comments Relating to Home  
Energy Conservation Matters in Tennessee, Docket No. 06-00309

Dear Chairman Roberson:

Enclosed please find the original and thirteen (13) copies of Chattanooga Gas Company's comments in response to your July 9, 2007 Motion. If you have any questions, please do not hesitate to contact me at 254-9146 or Archie Hickerson at 757-616-7510.

Sincerely,



J.W. Luna

Enclosure

cc: Elizabeth Wade, Esq.  
Archie Hickerson

**BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

**August 8, 2007**

**IN RE:** )  
 )  
**DOCKET FOR THE COLLECTION OF** )  
**DATA AND COMMENTS RELATING** )  
**TO HOME** )  
**ENERGY CONSERVATION MATTERS)**  
**IN TENNESSEE** )  
 )

**Docket No. 06-00309**

**CHATTANOOGA GAS COMPANY'S COMMENTS  
IN RESPONSE TO DIRECTOR ROBERSON'S JULY 9, 2007 MOTION**

At the July 9, 2007 Conference, the Tennessee Regulatory Authority ("TRA" or "Authority") adopted a motion for Pilot Low Income Energy Conservation Programs to be implemented by Nashville Gas, Atmos Energy Corporation, and Chattanooga Gas Company before November 30, 2007. These programs are to target residential customers who qualify for Low Income Home Energy Assistance Program ("LIHEAP"), and are to address: energy conservation education; diagnostics of energy loss and recommendation on how residents can reduce energy bills through conservation; remediation; and funding for energy conservation research. Each of the companies was directed to file comments within 30 days outlining the funding each is willing to contribute and details on the specifics of its plan. Chattanooga Gas Company ("CGC" or "Company") provides the following response as directed.

**Funding**

CGC proposes an annual \$200,000 low income energy conservation program to be funded through its asset management program. The Company currently has an agreement with an asset manager to generate value by completing non-jurisdictional

**RECEIVED**

2007 AUG - 8 PM 3:07

T.R.A. DOCKET ROOM

transactions utilizing CGC's pipeline and supply capacity during periods when the entire capacity is not needed to provide service to CGC's firm customers. As provided in its tariff, the value generated through these non-jurisdictional transactions is shared with CGC's firm customers. The Company proposes that annually \$200,000 of the funds generated through these non-jurisdictional transactions be set aside before sharing to fund the pilot energy conservation education, diagnostics of energy loss, and remediation program. Based on the amounts generated in the past, CGC has sufficient certainty that under the current agreement funds will be available from these non-jurisdictional transactions to fund the program as proposed, and will commit to a minimum of \$200,000 annual funding level while the current asset management agreement is in effect.<sup>1</sup>

The Company proposes that \$50,000 of the \$200,000 be used for education with the remaining \$150,000 utilized for diagnosis, weatherization, and energy equipment repair/replacement.

CGC proposes that a \$0.10 monthly Energy Research Surcharge be applied to each customer's bill to fund energy conservation related research. Since CGC currently serves approximately 61,000 customers, the proposed surcharge would produce approximately \$73,000 annually for research funding, resulting in total \$273,000 to fund the pilot low income energy conservation program proposed at the July 9, 2007 Conference.

---

<sup>1</sup> After the first year, CGC will review its pilot program and may propose improvements or changes that CGC identifies for any additional years of its pilot program.

## **Implementation**

Rather than develop a totally new program for the pilot, CGC proposes to supplement the federal Weatherization Assistance Program (“WAP”) funds currently available to assist LIHEAP-qualified customers in CGC’s Chattanooga and Cleveland – Bradley County service area. In CGC’s service area, the WAP program is administered by the Chattanooga Human Services Department (“CHSD”) and the Bradley-Cleveland Community Services Agency (“BCCSA”). The Company proposes that \$150,000 be allocated to these agencies to allow expenditures for weatherization and the repair and/or replacement of natural gas operated equipment in excess of the level available under the federal program. Funded expenditures in excess of that provided by the federal program would be limited to \$5,000 per household. The supplemental funds provided through the pilot program could be used for any combination of weatherization and equipment repair and/or replacement. However, in order to promote energy efficiency, natural gas equipment that is replaced will be required to be replaced with high efficiency or Energy Star natural gas operated equipment. In order to obtain special pricing on equipment, CGC will attempt to establish a partnership with a manufacturer. Such a partnership has not yet been established.

Qualification of recipients and administration of the program will be handled by CHSD and BCCSA. The agencies will be required to identify the premise and the type of remediation (weatherization, equipment repair, equipment replacement, etc.) to allow before and after gas usage to be reviewed and the impact of the program to be analyzed.

Funds collected through the Energy Conservation Research surcharge will be recorded in a separate account and will be disbursed as directed by the Authority. CGC

recommends that the Authority establish an advisory group that includes members of the TRA Staff and representatives of the utilities to review and provide recommendations to the Authority concerning funding of research projects.

The Company proposes to work with the CHSD and the BCCSA to develop a community outreach and education program that targets LIHEAP eligible natural gas customers. The program will address weatherization and other methods for customers to use to reduce their natural gas consumption. A component of the education initiative will also be included to educate customers, who receive new equipment under the pilot program, about the proper use of the new equipment and conservation of natural gas in general. Although a program has not yet been developed, CGC is investigating partnering with the two other natural gas utilities that will have pilot programs to develop a comprehensive and consistent education message that can be delivered state-wide through a cooperative effort.

### **Evaluation**

During the course of the pilot program, CGC will track the weather normalized natural gas usage of the premises that benefit from the weatherization and equipment/repair program and compare the after weatherization usage with the usage in prior periods. To properly evaluate the effectiveness of the program, the usage before and after weatherization of a sufficient number of homes of different sizes should be collected and analyzed over multiple heating seasons to determine if the program is effective on a long term basis. In order to complete the analysis, specific data should be collected for each home weatherized under the program. For example, at the time that the weatherization work is completed, the scope of the work completed (weather stripping,

insulation, equipment repair, equipment replaced, etc.) and the cost of the project should be documented as should the location, size, type of construction, and age (if available) of the home.

In order to obtain the data necessary to evaluate the impact of the pilot program, CGC recommends that the program be continued for three years instead of eighteen months. If the program is implemented this fall, it is likely that a relative few homes can be weatherized prior to the beginning of the 2007-2008 heating season resulting in very little data that can be used to evaluate the impact of the program. To provide a more reliable analysis, usage from a larger sample of homes before and after weatherization should be collected and analyzed. To properly evaluate the long term impact of the program, actual usage over multiple heating seasons should be analyzed to determine if the program produces sustainable or only temporary reductions in natural gas usage. With an eighteen month pilot, it is likely that usage for more than one complete heating season can be collected and analyzed for only a very few number of homes. CGC proposes to extend the pilot to insure that adequate data is available to evaluate the impact of the program.

In docket 05-00322, the TRA required Chattanooga Gas Company to issue a Request for Proposal (“RFP”) for a new asset management agreement to be effective when the current agreement expires on March 31, 2008. The Company will comply with the Authority’s directive and is committed to issuing the RFP for a new agreement. However, in order to extend the pilot, CGC proposes that the TRA delay the requirement that a new asset management agreement be implemented and continue the pilot and the current asset management agreement for thirty-six months. After collection and analysis

of the usage data and the impact of the pilot is determined, the funding of the weatherization program can be incorporated into the RFP and the resulting new asset management agreement. The current asset manager, Sequent Energy Management, has agreed to the proposed funding for the pilot program under the current agreement if the termination of the agreement is delayed.

### **Long Term Energy Conservation Concerns**

The development and implementation of pilot energy conservation programs is a good beginning and is needed to evaluate the effectiveness of such a program for a targeted customer population. However, to effectively impact the demand and the price of natural gas on a long term basis, the interest of the utilities' customers and the utilities' investors must be better aligned by breaking the link between the recovery of fixed costs and the volume of gas delivered to the customers. Presently, a material portion of the fixed operating costs of natural gas utilities in Tennessee is recovered through volumetric rates. This coupling of fixed cost recovery to delivered volumes results in a natural incentive for the utilities to promote increased usage and a disincentive for the utilities to promote energy conservation. When a utility's ability to recover its costs of operations is tied to the amount of gas delivered, higher delivery volumes increases the likelihood that the utility will recover its costs of service, earn a reasonable return, and attract the necessary capital needed to finance its operations. On the other hand, conservation programs that reduce the volumes delivered increase the risk that the utility will not recover its cost, will not earn a just and reasonable return on its investment devoted to public use, and will put in jeopardy its ability to attract capital. While it is recognized that conservation of natural gas is generally in the long term public interest, the current

cost recovery mechanism is not in alignment with that interest. The linking of fixed costs recovery to the volumes of gas delivered must be broken or “decoupled” to align the interests of the public in general, the utilities’ customers, and the utilities’ investors if effective long term conservation programs are to be developed and implemented by the utilities.

In eleven states, regulators have adopted decoupling tariffs and six have adopted rate stabilization tariffs.<sup>2</sup> The development of such a decoupling mechanism is an appropriate issue to be addressed during the preparation of the comprehensive state energy conservation plan that is to be developed by the Department of Agriculture, the Department of Economic and Community Development, the Authority, and the Department of Environment and Conservation and presented to the General Assembly as provide in Public Chapter No. 33. Unless otherwise addressed, CGC will propose a rate neutral decoupling mechanism before or with its next general rate case that is scheduled to be filed no later than May 28, 2010.

Similarly, if the costs of the conservation programs are to be borne by the utilities, the costs are recoverable and are properly included in the cost of service for ratemaking purposes. Rates or other mechanisms must be developed and implemented that will provide the utility the ability to recover these costs. At this time, CGC is committing to fund the pilot conservation program through gain realized from its current asset management program, but cannot commit to this funding methodology on a long term basis. As explained above, in docket 05-00322, the TRA required CGC to issue an RFP for a new asset management agreement to replace the current agreement when it expires on March 31, 2008. Since the new agreement has not been bid, CGC does not have

---

<sup>2</sup> July 30, 2007 *Platts Gas Daily*, page 8.



assurance that the future asset management agreement will provide sufficient funds for such an energy conservation program. CGC and the current asset manager, Sequent Energy Management, will commit to annually fund the low income energy conservation program at the \$200,000 level until the termination of the existing asset management agreement.

CGC looks forward to continuing to work with the Authority to ensure a successful Pilot Low Energy Conservation Program and to work to develop a comprehensive energy conservation program in the future.

Respectfully submitted,

FARMER & LUNA, PLLC

By: 

J.W. Luna, Esq. (BPR 5780)

Jennifer L. Brundige, Esq. (BPR 20673)

333 Union Street, Suite 300

Nashville, TN 37201

(615) 254-9146

*Attorneys for Chattanooga Gas Company*

CERTIFICATE OF SERVICE

I hereby certify that on this 8th day of August 2007, a true and correct copy of the foregoing was served on the persons below by U.S. Mail:

Carsie Mundy  
Chair of Home Energy Conservation Task Force  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-00505

Cynthia Kinser, Deputy  
Timothy Phillips  
Ryan McGehee  
Consumer Advocate and Protection Division  
Office of Attorney General  
2<sup>nd</sup> Floor  
425 5<sup>th</sup> Avenue North  
Nashville, TN 37243-0491

A handwritten signature in black ink, appearing to be "J. H. McGehee", is written over a horizontal line.