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August 8, 2007

VIA HAND DELIVERY
Chairman Eddie Roberson
c/o Ms. Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

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 15 copies of Nashville Gas Company's Comments for filing today.

Please return two "file" stamped copies to me by way of our courier.

Should you have any questions with respect to this filing, please do not hesitate to contact me at the telephone number listed above.

Very truly yours,

R. Dale Grimes

RDG/ms
Enclosures

cc: James H. Jeffries IV, Esq.

6509109.1

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:	)	
	)	
DOCKET FOR THE COLLECTION OF	)	
DATA AND COMMENTS RELATING	)	Docket No. 06-00309
TO HOME ENERGY CONSERVATION	)	
MATTERS IN TENNESSEE	)	

COMMENTS OF NASHVILLE GAS COMPANY

Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. ("Nashville Gas" or the "Company"), through counsel and pursuant to the request of the Tennessee Regulatory Authority (the "Authority" or the "TRA"), issued at its July 9, 2007 Authority Conference upon the Motion of Chairman Roberson, respectfully submits the following comments on the TRA's Pilot Energy Conservation Program proposal.

BACKGROUND

On July 6, 2007, Chairman Roberson filed a Motion with the Authority seeking to establish a Pilot Energy Conservation Program involving each of the natural gas local distributions companies ("LDCs") serving Tennessee customers and subject to the jurisdiction of the TRA. This Motion anticipates the establishment of individual LDC pilot conservation programs to be effective November 30, 2007 and to run for a period of 18 months each. The Motion also established target funding levels for each such program -- $325,000 for Nashville Gas, $255,000 for Atmos Energy, and $125,000 for Chattanooga Gas -- and requested comments from each of the LDCs regarding the details of their respective proposed programs and an indication of what amount of funding they would be willing to voluntarily commit to their respective programs. Chairman Roberson's Motion was approved by the TRA at the Authority Conference held on July 9, 2007.

At the outset, Nashville Gas would like to express its support for Chairman Roberson's Motion as well as the TRA's willingness to proactively address important issues facing the citizens of Tennessee (and all of the United States) regarding how best to promote the efficient use and conservation of energy in general and clean burning, environmentally friendly, natural gas in particular. As the Authority is aware, the wholesale price of natural gas has been volatile in the last few years and the sustained average wholesale price of this valuable commodity has reached record levels due to a close correlation between available supplies and increased demand. In this situation, only a reduction in demand or an increase in supply can alleviate the situation and no near term relief on the supply front appears imminent. On the demand side, the country continues to see a growing number of gas-fired electric generation facilities being constructed to serve incremental electric load growth. This trend is likely to continue until electric generators solidify and implement plans for the construction of new baseload coal or nuclear generation plants – which is generally perceived to be a 10-15 year proposition.

There has been an identified conservation trend among residential and commercial customers as a result of higher wholesale prices for natural gas.[1] This effect has been seen by LDCs throughout the country in the form of lower per customer usage of natural gas in the residential and commercial space and water-heating markets.[2] This conservation effect has not been enough to alleviate the upward pressure on wholesale gas prices created by increased demand for natural gas, primarily from gas-fired electric generation facilities, but it does serve to reduce individual customer usage particularly during the winter heating season when prices are highest.

A number of states are now beginning to address the issue of how to reduce per customer demand for natural gas through the promotion of conservation measures. Many of

[1] AGA Study, *An Economic Analysis of Consumer Response to Natural Gas Prices*, F. Joutz and R. Trost, (March 2007).

[2] Some of the reduction in per customer usage is also attributed to higher efficiency appliances and the construction of newer "tighter" homes and commercial structures.

these programs are in their early stages and no clear consensus has emerged about how best to efficiently promote customer conservation efforts; however, each of the elements identified in Chairman Roberson's Motion – education, energy audits, and individual conservation measures – have been part of the discussion in states where conservation is being pursued. And while no one would argue with the idea that energy conservation, including conservation of natural gas, is a desirable goal, there are obstacles to the achievement of that goal that must be addressed in the effort to promote customer conservation. Some of these are the currently unknown particulars of what mix of conservation measures, education, and incentives will produce the greatest conservation effect among natural gas users. The single largest obstacle to effective conservation measures, however, is the direct and substantial economic disincentive these measures present to LDCs. Any program designed to promote customer conservation must resolve the economic predicament for the serving LDC presented by such programs. The failure to do so will inhibit efforts to sustain long-term conservation efforts.

COMMENTS

I. Margin Decoupling Aligns Customer and Company Interests and Encourages the Promotion of Customer Conservation by Natural Gas Local Distribution Companies.

Nashville Gas collects its margin from residential and commercial customers through rates that are primarily volumetric in nature. These per dekatherm rates are established during rate proceedings before the Authority on the basis of an assumed level of per customer usage during the attrition period. These rates consist of two components – the commodity cost of gas which is passed through to customers with no mark-up and the allocated per dekatherm share of Nashville Gas' margin. Nashville Gas' margin constitutes the revenues used by Nashville Gas to operate its business and primarily consists of revenues designed to compensate the Company for the expense of operating its system. Unlike its revenues, which vary with customer usage, the expenses incurred by Nashville Gas are largely fixed in nature and do not vary with the amount of gas used by its customers. Accordingly, when actual per customer

usage falls below the level of per customer usage assumed in a rate case (either during the attrition period or thereafter), Nashville Gas does not have a reasonable opportunity to recover its cost of providing service to customers. Further, when Nashville Gas customers reduce their gas consumption through conservation, they avoid paying both the wholesale commodity cost for each dekatherm of gas they conserve as well as the allocated share of Nashville Gas' margin allocated to that dekatherm. As a result, every dekatherm of natural gas conserved by Nashville Gas' customers represents the loss of an allocated share of Nashville Gas' approved margin to the Company.

The situation described above, which is the natural and unavoidable result of Nashville Gas' prevailing volumetric rate structure in Tennessee, presents a particularly difficult challenge for the Company when it comes to the promotion of conservation. That problem, stated succinctly, is that every dekatherm of natural gas conserved by its customers represents a corresponding loss of margin for the Company. Promoting conservation, therefore, means promoting a reduction in Nashville Gas' own revenues and in its ability to recover its approved cost of service. Such action is directly inconsistent with the fundamental obligations of Nashville Gas to its shareholders to maximize the revenues and value of the Company; and it is difficult, as a practical matter, for Nashville Gas to aggressively promote a reduction in usage of natural gas by its customers while remaining true to its obligations to its shareholders. This fact makes a voluntary contribution by Nashville Gas to a customer conservation program problematic as a matter of principle unless some measure is taken to mitigate the adverse economic impact that will result.[3]

This problem is not new, however, and has been the subject of much discussion by both conservationists and regulators. In fact, in July of 2004 the American Gas Association ("AGA") and the Natural Resources Defense Council ("NRDC") issued a Joint Statement to the National

[3] The irony in this situation is that Nashville Gas strongly supports and advocates conservation measures as in the public interest.

Association of Regulatory Utility Commissioners ("NARUC") in which both the AGA and the NRDC urged regulators to "decouple" LDC margin recovery from customer usage patterns in order to facilitate the promotion of efficiency and conservation. That Joint Statement sets forth the following discussion of the issue of decoupling:

> NRDC and AGA agree on the importance of state Public Utility Commissions' consideration of innovative programs that encourage increased total energy efficiency and conservation in ways that will align the interests of state regulators, natural gas utility company customers, utility shareholders and other stakeholders. Cost-effective opportunities abound to improve the efficiency of buildings and equipment in ways that promote the interests of both individual customers and entire utility systems, while improving environmental quality. For example, when energy supply and delivery systems are under stress, even relatively modest reductions in use can yield significant additional cost savings for all customers by relieving strong upward pressures on short-term prices. . . .
>
> The vast majority of non-commodity costs of running a gas distribution utility are fixed and do not vary significantly from month to month. However, traditional utility rates do not reflect this reality. Traditional utility rates are designed to capture most of the approved revenue requirements for fixed costs through volumetric retail sales of natural gas, so that a utility can recover these costs fully only if its customers consume a certain minimum amount of natural gas (these amounts are normally calculated in rate cases and generally are based on what customers consumed in the past). Thus, many states' rate structures offer – quite unintentionally – a significant financial disincentive for natural gas utilities to aggressively encourage their customers to use less natural gas, such as by providing financial incentives and education to promote energy-efficiency and conservation techniques.
>
> When customers use less natural gas, utility profitability almost always suffers, because recovery of fixed costs is reduced in proportion to the reduction in sales. Thus, conservation may prevent the utility from recovering its authorized fixed costs and earning its state-allowed rate of return. In this important respect, traditional utility rate practices fail to align the interests of utility shareholders with those of utility customers and society as a whole. This need not be the case. Public utility commissions should consider utility rate proposals and other innovative programs that reward utilities for encouraging conservation and managing customer bills to avoid certain negative impacts associated with colder than normal weather. There are a number of ways to do this, and the NRDC and AGA join in supporting mechanisms that use modest automatic rate true-ups to ensure that a utility's opportunity to recover authorized fixed costs is not held hostage to fluctuations in retail gas sales.

A copy of the Joint Statement is attached to these Comments as Attachment 1. On July 14, 2004, NARUC adopted a *Resolution on Gas and Electric Energy Efficiency* whereby it encouraged State Commissions to review and consider the recommendations set forth in the Joint Statement. A copy of this resolution is attached to these Comments as Attachment 2.

Several decoupling mechanisms have been adopted by a number of state public service commissions in the last few years.[4] The one with which Nashville Gas has the most experience is the decoupling mechanism adopted by the North Carolina Utilities Commission on an experimental basis in Piedmont Natural Gas Company's 2005 rate case proceeding before that Commission. That mechanism adjusts Piedmont's rates semi-annually on the basis of average per customer usage, thereby decoupling Piedmont's margin recovery from variations in customer usage. As part of the order implementing this mechanism, the Commission also directed Piedmont to design and implement conservation spending programs in the amount of $500,000 per year for the three year experimental term of the program. Piedmont later agreed to add up to another $750,000 per year in conservation spending as part of a settlement of an appeal of the rate case order and is currently in the process of implementing those conservation measures.

For all of the reasons stated above, the adoption of a margin decoupling mechanism is a fair and rational mechanism tied to the implementation of an LDC sponsored conservation program. Nashville Gas would enthusiastically agree to implement such conservation programs, as it is in the process of doing in North Carolina, if the Authority would provide the margin protection necessary to avoid direct economic harm to Nashville Gas as a result of its conservation efforts.

II. Nashville Gas Would Support Substantial Contributions to a Pilot Energy Conservation Program If It Were Implemented in Conjunction with an Experimental Margin Decoupling Program.

Nashville Gas would support the funding of a Pilot Energy Conservation Program similar to that proposed by Chairman Roberson, at a level of $325,000 per year for three years, if the Authority would implement a margin decoupling mechanism similar to that approved in North

[4] Decoupling measures have been approved, in various forms, in at least the following states in the last several years: California, Georgia, Indiana, Maryland, Missouri, New Jersey, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Utah, and Washington. Requests are pending in many other states.

Carolina for a matching period. This approach would have several tangible benefits for the Authority, for Nashville Gas, and for Nashville Gas' customers.

First, based on the experience of Piedmont Natural Gas in North Carolina, it is extremely difficult to plan, coordinate, implement and measure the results of even relatively simple conservation initiatives within an 18 month period. Piedmont is almost two years past the effective date of its last rate case in North Carolina and is still in the process of implementing many aspects of its conservation programs. A three year program will provide, in Nashville Gas' view, a more practical period for designing, implementing, and testing the viability of various conservation measures in Tennessee.

Second, a total commitment of $325,000 per year for three years, as suggested by Nashville Gas, would allow for a broader and more comprehensive pilot program which should be a substantial benefit to the effectiveness of such a program.

Finally, adoption of a margin decoupling mechanism on an experimental basis will provide an opportunity for the Authority and Nashville Gas to cooperatively promote customer conservation in a meaningful way. It will also allow the Authority to evaluate such mechanisms for a reasonable period and then to consider whether such mechanisms are desirable as a permanent feature of natural gas regulation in Tennessee on the basis of actual experience with the mechanism.

III. Nashville Gas' Comments on the Discrete Aspects of a Conservation Program.

Assuming that the obstacles to LDC promotions of conservation programs can be overcome, as discussed above, Nashville Gas has a number of thoughts about the process of designing and implementing a pilot conservation program within the state of Tennessee. These thoughts are set forth below and are intended to move the discussion of how to design and implement such a program forward. They include issues regarding what discrete components should be included in a pilot program, how the program should be operated and by whom, how

potential participants should be designated, and the proposed target implementation date. Nashville Gas does not believe that its thoughts on any of these issues are definitive and would welcome an open exchange of ideas about these matters with the Authority, the Consumer Advocate Division, other Tennessee LDCs, and the other stakeholders in conservation and efficiency matters within the State.

Nashville Gas believes that consumer education, energy audits, communication, and specific weatherization/conservation programs are all potentially critical elements of a comprehensive approach to natural gas conservation and efficiency. Unfortunately, there is a lack of definitive information publicly available about which of these elements individually, or in concert with other elements, contribute most effectively to conservation. Further, the choice of programs to be implemented may also be influenced by the goals of the pilot program. For example, a program designed to save individual customers the maximum amount of money on their gas bills would likely focus more heavily on actual weatherization and conservation measures for the target population. If the desire is to promote conservation effect across a broader audience, then more focus might be placed on education and communication. If the desire is to support the development of more efficient technologies, then a strong commitment to GTI may be preferred. Nashville Gas suspects that any pilot program effectuated in Tennessee will have difficulty in analyzing and exploring all of these goals simultaneously, although each of these goals appears to be worthy of exploration. In light of these facts, any pilot conservation program should first define its desired goal and then be structured so as to explore ways to achieve that goal. Nashville Gas would appreciate guidance from the Authority as what goal it hopes to achieve with its pilot program so that Nashville Gas can tailor its efforts accordingly.

In undertaking the task of actually designing a conservation program, it is also important to determine what pre-existing assets already exist in Tennessee capable of contributing to this process. Through its experiences in North Carolina, Piedmont discovered that a substantial

number of public and private entities capable of implementing (or assisting in the implementation of) certain conservation measures were already in existence in that State. This fact influenced Piedmont's choice of conservation programs and allowed Piedmont to leverage its conservation efforts. The same types of opportunities are likely available in Tennessee as well and an exploration of these matters is a crucial part of formulating any pilot conservation plan. Also important is a realistic assessment of what obstacles may exist to the implementation of a particular program. For example, allocating funds to home weatherization may seem like an excellent way to promote conservation but if qualified weatherization contractors do not exist within the geographic area targeted for such a program, then the program may not produce the desired results.

Individual programs should also be considered in the light of whether they promote rational conservation. The primary goal of conservation programs should not be to build load for one energy provider at the expense of another, particularly if the result on an aggregate basis is the increased use of natural gas for gas-fired electric generation. For example, a number of studies in the last decade have demonstrated that natural gas is much more efficiently used for space and water heating purposes through the direct application of that energy source rather than through the incremental production of electricity to serve that need. Given this fact, it would make no sense from a conservation perspective to promote the use of natural gas-fired electricity to serve that load when the direct use of gas would be a more efficient application. As part of analyzing any individual program it is important to determine whether the likely impacts of the program will affect fuel choice and, if so, whether that result is truly desirable from a conservation perspective.

The same sort of scrutiny also needs to be given to which customers receive benefits under individual programs. If LDCs, either in whole or in part, are footing the bill for a pilot conservation program then it would seem appropriate that participants in the program be limited

to the customers of that company. Which customers are eligible should be driven by the underlying goal of the specific program and the benefits its offers.

Nashville Gas also believes that the Authority should at least consider consolidating each of the individual company pilot programs into a single pilot program. This would achieve certain efficiencies of scale, avoid duplicative administrative burdens, and should ultimately allow for a broader and more in-depth program. Based on its experience, Nashville Gas would also highly recommend that the creation and administration of a unified pilot program be delegated to a third-party entity involved in conservation work. These types of entities exist in other states and are frequently associated with local colleges and universities. This approach would benefit the program by bringing in parties with more experience than LDCs in promoting conservation and would permit those parties to use their expertise to craft a comprehensive approach to the pilot program including the analysis needed to measure and determine effectiveness.

Finally, and for many of the reasons identified above, Nashville Gas believes that implementation of a pilot program by November 30, 2007 may be an ambitious goal if the program is to be designed by the LDCs, presented to the Authority for approval and then implemented by the LDCs. And while Nashville Gas understands the Authority's desire to proceed expeditiously with any pilot program, Nashville Gas believes that it is also important to ensure that the program is meaningful and achieves its goals. In Nashville Gas' view, the speed with which such a program (or programs) can be implemented is not known at this point and likely can't be determined until many of the issues discussed above are resolved.

WHEREFORE, Nashville Gas Company, a division of Piedmont Natural Gas Company, Inc., respectfully requests that the Authority accept its comments on the proposed Pilot Energy Conservation Plan as set forth herein.

Respectfully submitted this 8th day of August, 2007.

Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc.

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ATTACHMENT 1

American Gas Association

Joint Statement of the American Gas Association and the Natural Resources Defense Council

Submitted to the National Association of Regulatory Utility Commissioners
July 2004

The American Gas Association (AGA) and the Natural Resources Defense Council (NRDC) recognize the many benefits of using clean-burning natural gas efficiently to provide high quality energy services in all sectors of the economy. This statement identifies ways to promote both economic and environmental progress by removing barriers to natural gas distribution companies' investments in urgently needed and cost-effective resources and infrastructure.

NRDC and AGA agree on the importance of state Public Utility Commissions' consideration of innovative programs that encourage increased total energy efficiency and conservation in ways that will align the interests of state regulators, natural gas utility company customers, utility shareholders, and other stakeholders. Cost-effective opportunities abound to improve the efficiency of buildings and equipment in ways that promote the interests of both individual customers and entire utility systems, while improving environmental quality. For example, when energy supply and delivery systems are under stress, even relatively modest reductions in use can yield significant additional cost savings for all customers by relieving strong upward pressures on short-term prices.

NRDC and AGA also encourage state Commissions to support gas distribution company efforts to manage volatility in energy prices and reduce volatility risks for customers.

The Energy Efficiency Problem: Regulated Natural Gas Utilities are Penalized for Aggressively Promoting Energy Efficiency

Local natural gas distribution companies (gas utilities) have very high fixed costs. These fixed costs include the costs of maintaining system safety and reliability throughout the year, staffing customer service telephone lines 24 hours a day and doing what it takes each day of the year to ensure the safe and reliable delivery of natural gas to homes, schools, hospitals, retailers, factories and other customers.

Natural gas utilities typically purchase natural gas on behalf of their customers, and pass through the cost without markup. This means that natural gas utilities do not profit from their acquisitions of natural gas to serve customer needs. The profit

(authorized level of rate of return) comes from the rates utilities charge for transporting the natural gas to customers' homes and businesses.

The vast majority of the non-commodity costs of running a gas distribution utility are fixed and do not vary significantly from month to month. However, traditional utility rates do not reflect this reality. Traditional utility rates are designed to capture most of approved revenue requirements for fixed costs through volumetric retail sales of natural gas, so that a utility can recover these costs fully only if its customers consume a certain minimum amount of natural gas (these amounts are normally calculated in rate cases and generally are based on what customers consumed in the past). Thus, many states' rate structures offer – quite unintentionally – a significant financial disincentive for natural gas utilities to aggressively encourage their customers to use less natural gas, such as by providing financial incentives and education to promote energy-efficiency and conservation techniques.

When customers use less natural gas, utility profitability almost always suffers, because recovery of fixed costs is reduced in proportion to the reduction in sales. Thus, conservation may prevent the utility from recovering its authorized fixed costs and earning its state-allowed rate of return. In this important respect, traditional utility rate practices fail to align the interests of utility shareholders with those of utility customers and society as a whole. This need not be the case. Public utility commissions should consider utility rate proposals and other innovative programs that reward utilities for encouraging conservation and managing customer bills to avoid certain negative impacts associated with colder-than-normal weather. There are a number of ways to do this, and NRDC and AGA join in supporting mechanisms that use modest automatic rate true-ups to ensure that a utility's opportunity to recover authorized fixed costs is not held hostage to fluctuations in retail gas sales.[1] We also support performance-based incentives designed to allow utilities to share in independently verified savings associated with cost-effective energy efficiency programs.

Many states' rate structures also place utilities at risk for variations in customer usage based on variations in weather from a normal pattern. This variation can be both positive and negative. Utilities' allowed rate of return is premised on the expectation that weather will be normal, on average, and that customer use of gas

[1]For example, in 2003 the Oregon Public Utility Commission approved a "conservation tariff" for Northwest Natural Gas Company (NW Natural) "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 conservation tariff seeks to do that by using modest periodic rate adjustments to "decouple" recovery of the utility's authorized fixed costs from unexpected fluctuations in retail sales. *See* Oregon PUC Order No. 02-634, *Stipulation Adopting Northwest Natural Gas Company Application for Public Purpose Funding and Distribution Margin Normalization* (Sept. 12, 2003). In California, PG&E and other gas utilities have a long tradition of investment in energy efficiency services, including those targeting low-income households, and the PUC is now considering further expansion of these investments along with the creation of performance-based incentives tied to verified net savings. California also pioneered the use of modest periodic true-ups in rates to break the linkage between utilities' financial health and their retail gas sales, and has now restored this policy in the aftermath of an ill-fated industry restructuring experiment. Thus, in March 2004, Southwest Gas Company received an order that authorizes it to establish a margin tracker that will balance actual margin revenues to authorized levels.

will maintain a predictable pattern going forward. Proposals by utilities to decouple revenues from both conservation-induced usage changes and variations in weather from normal have sometimes been characterized as attempts to reduce utilities' risk of earning their authorized return. The result of these rate reforms, in this regulatory view, should be a lowered authorized return. But reducing authorized returns would penalize utilities for socially beneficial advocacy and action, including efforts to create mechanisms that minimize the volatility of customer bills.

Our shared objective is to give utilities real incentives to encourage conservation and energy efficiency. With properly designed programs, the benefits could be significant and widespread:

- Customers could save money by using less natural gas;
- Reduced overall use will help push down short-term prices at times when markets are under stress, reducing costs for all customers (whether or not they participate in the utility programs);
- Utilities would recover their costs and have a fair opportunity to earn their allowed return;
- State policies to encourage economic development could be enhanced by increased energy efficiency and lower business energy costs;
- State PUCs would be able to support larger state policy objectives as well as programs that reflect the public's desire to use energy efficiently and wisely.

In today's climate of rapidly changing natural gas prices, such reforms make good sense for consumers, shareholders, state governments, and the environment.

Natural Gas Consumers, Price Volatility and Resource Portfolio Management. Another area of concern shared by NRDC and AGA is the impact of natural gas price volatility on natural gas consumers, which can be exacerbated by limited diversification of utilities' resource portfolios. Today many of the nation's natural gas utilities find themselves relying on short-term markets for most of their gas needs, with either the encouragement or the acquiescence of their regulators. During much of the 1990's this approach was typically advantageous to consumers, as the market price of natural gas was generally low and did not fluctuate dramatically. As wholesale natural gas prices have risen since 2000 and become more volatile, however, many utilities and commissions are reconsidering this emphasis on short-term market purchases.

While purchasing practices based on short-term supply contracts may offer consumers relatively low-cost natural gas, those consumers are also exposed to more volatile prices and natural gas bills that may rise and fall unpredictably. Public Utility Commissions should favorably consider gas distribution company proposals to manage volatility, such as through hedging, fixed-price contracts of various durations, energy-efficiency improvements in customers' buildings and equipment, and other measures designed to provide greater certainty about both supply adequacy and price stability. Achieving these goals will sometimes require paying a premium over prevailing spot market prices. Like diversified investment portfolios that are designed to mitigate risk, prudent hedging plans should be encouraged as a way to help stabilize gas prices and ensure long-term access to affordable natural gas services.

ATTACHMENT 2

Resolution on Gas and Electric Energy Efficiency

WHEREAS, The National Association of Regulatory Utility Commissioners (NARUC), at its July 2003 Summer Meetings, adopted a *Resolution on State Commission Responses to the Natural Gas Supply Situation* that encouraged State and Federal regulatory commissions to review and reconsider the level of support and incentives for existing gas and electric utility programs designed to promote and aggressively implement cost-effective conservation, energy efficiency, weatherization, and demand response in both gas and electricity markets; *and*

WHEREAS, The National Petroleum Council (NPC), in its September 25, 2003 report on *Balancing Natural Gas Policy – Fueling the Demands of a Growing Economy*, found that greater energy efficiency and conservation are vital near-term and long-term mechanisms for moderating price levels and reducing volatility and recommended all sectors of the economy work toward improving demand flexibility and efficiency; *and*

WHEREAS, The NPC, in its report, identified key elements of the effort to maintain and continue improvements in the efficient use of electricity and natural gas, including (but not limited to):

(i) enhanced and expanded public education programs for energy conservation, efficiency, and weatherization,

(ii) DOE identification of best practices utilized by States for low-income weatherization programs and to encourage nation-wide adoption of these practices,

(iii) a review and upgrade of the energy efficiency standards for buildings and appliances (to reflect current technology and relevant life-cycle cost analyses) to ensure these standards remain valid under potentially higher energy prices

(iv) promote the use of high-efficiency consumer products including advanced building materials, Energy Star appliances, energy "smart" metering and information control devices

(v) on-peak electricity conservation to minimize the use of gas-fired electric generating plants,

(vi) the use of combined-cycle gas-fired electric generating units instead of less-efficient gas-fired boilers, and

(vii) clear natural gas and power price signals; and

(viii) remove regulatory and rate structure incentives to inefficient use of natural gas and electricity; and

WHEREAS, The NARUC, at its November 2003 annual convention, adopted a *Resolution Adopting Natural Gas Information "Toolkit"* which encouraged the NARUC Natural Gas Task Force, to review (among other things) the findings and recommendations in the NPC report that have regulatory implications for State commissions for improving and promoting energy efficiency and conservation initiatives, including consumer outreach and education, review of regulatory throughput incentives; *and*

WHEREAS, The American Council for an Energy-Efficient Economy ("ACEEE"), in its December 2003 report on *Responding to the Natural Gas Crisis: America's Best Natural Gas Energy Efficiency Programs*, (i) identified States and utilities with programs that many would consider best practice or model programs for all types of natural gas customers and all principal natural gas end-use technologies, and (ii) found that these programs are concentrated in relatively few States and regions and could be expanded in other parts of the country to great benefit; *and*

WHEREAS, the Natural Resources Defense Council (NRDC), the American Gas Association (AGA) and the ACEEE have recently adopted a Joint Statement noting that traditional rate structures often act as disincentives for natural gas utilities to aggressively encourage their customers to use less gas. Therefore, the NRDC, AGA, and the ACEEE have urged public utility commissions to align the interests of consumers, utility shareholders, and society as a whole by encouraging conservation. Among the mechanisms supported by these groups are the use of automatic rate true-ups to ensure that a utility's opportunity to recover authorized fixed costs is not held hostage to fluctuations in retail gas sales; *now therefore be it*

RESOLVED, That the Board of Directors of the National Association of Regulatory Utility Commissioners (NARUC), convened in its 2004 Summer Meetings in Salt Lake City, Utah, encourages State commissions and other policy makers to support the expansion of natural gas energy efficiency programs and electric energy efficiency programs, including those designed to promote consumer education, weatherization, and the use of high-efficiency appliances, where economic, and to address regulatory incentives to address inefficient use of gas and electricity; *and be it further*

RESOLVED, That the Board of Directors of the NARUC, encourages State and Federal policy makers to: (i) review and upgrade the energy efficiency standards for buildings and appliances, where economic, to ensure these standards remain valid under potentially higher energy prices, and (ii) promote the use of high-efficiency consumer products, where economic, including advanced building materials, Energy Star appliances, and energy "smart" metering and information control devices; *and be it further*

RESOLVED, That Board of Directors of NARUC encourages State Commissions to review and consider the recommendations contained in the enclosed *Joint Statement of the American Gas Association, the Natural Resources Defense Council, and the American Council for an Energy-Efficient Economy; and be it further*

RESOLVED, That the Board of Directors of the NARUC recognizes that the best approach towards promoting gas energy efficiency programs and electric energy efficiency programs for any single utility, State or region may likely depend on local issues, preferences and conditions.

Sponsored by the NARUC Natural Gas Task Force, Committee on Gas, Committee on Consumer Affairs, Committee on Electricity, and Committee on Energy Resources and the Environment
Adopted by the NARUC Board of Directors July 14, 2004