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TENNESSEE HOME ENERGY CONSERVATION TASK FORCE REPORT

To: Chairman Eddie Roberson
Director Sara Kyle
Director Ron Jones

From: Carsie Mundy, Chairman-Tennessee Home Energy Conservation Task Force

Date: January 17, 2008

Re: January 28, 2008 TRA Conference

Docket for the Collection of Data and Comments Relating to Home Energy Relating to Home Energy Conservation Matters in Tennessee
Docket # 06-00309

On July 9, 2007, during the Authority Conference, the Directors voted: (1) to create an autonomous pilot energy conservation program for Nashville Gas Company, Atmos Energy Corporation, and Chattanooga Gas Company; (2) for the pilot program to target energy conservation, education, diagnostics of energy loss and recommendations on how residents can reduce energy bills through the use of conservation in their homes and remediation; (3) for the program to also designate a contribution to GTI for research; (4) that consumers eligible for program benefits will be those who qualify for LIHEAP; (5) the program size per company will be $325,000 for Nashville Gas, $255,000 for Atmos Energy, and $125,000 for Chattanooga Gas based on the number of customers served; (6) for each company to file comments with the Authority within 30 days outlining the amount of funding each company is willing to contribute and detailing the specifics of its plan; (7) that implementation of the program shall begin before November the 30th, 2007; and (8) at the end of 18 months from implementation of the pilot program, each company shall submit an evaluation report, as designed by the Authority's Economic Analysis and Policy Division, to the Authority detailing how the funds were spent and the program benefits.[1]

On August 8, 2007, Nashville Gas, Chattanooga Gas and Atmos Energy filed comments as directed by the Authority. On October 8, 2007 the Consumer Advocate and Protection Division ("CAD") filed comments. The comments filed differed in several respects. In order to discuss those differences, a meeting of the Home Energy Conservation Task Force was held on October 12, 2007. The purpose of the meeting was to discuss: 1) The feasibility of one uniform pilot vs. different pilots for each company; (2) The appropriate duration of a pilot; (3) The role asset managers should play in the pilot; (4) The best method to fund conservation research; (5) Whether the TRA has the authority to establish a funding mechanism for the pilot; and (6) Procedurally, how the Authority might best adopt and/or approve the pilot (i.e. rulemaking, tariffs, etc.).

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[1] Transcript of Authority Conference, pp. 8-13 (July 9, 2007).

THE FEASIBILITY OF ONE UNIFORM PILOT VS. A DIFFERENT PILOT FOR EACH COMPANY

In its comments filed on August 8, 2007, Nashville Gas suggested that the Authority should consider consolidating the individual company programs into a single pilot, thereby achieving efficiencies of scale, avoiding duplicative administrative efforts and providing for a broader and more in-depth program.[2] Additionally, Nashville Gas believes that the creation and administration of a unified pilot program should be delegated to a third party entity involved in conservation work.[3] This course of action would local distribution companies to utilize parties with more experience and expertise to develop a comprehensive approach to a pilot program and to measure and track the effectiveness of the pilot.[4]

Atmos Energy also believes that the most optimal use of resources and exploitation of economies of scale can be realized through a partnership with the other companies involved with the pilot. Such an approach would provide the best opportunity to develop an effective education program.[5] Cooperation in this manner, states Atmos Energy, would combine the existing educational efforts already in place and provide consistency to the statewide conservation message.[6] Chattanooga Gas concurred with Atmos Energy in this regard.[7]

The comments of the CAD indicate that it also believes that uniformity of design and purpose of the pilot is crucial, and it supports Nashville Gas in this issue.[8] The CAD states that some uniformity in the design, scope, intent, tools and goals of the pilot programs is needed in the form of a blueprint to aid the companies in the implementation of a pilot and then measuring the benefits of the program.[9] The CAD also supports Chattanooga Gas and Atmos Energy in the belief that partnering with non-profits that administer LIHEAP funds and that also have the experience of overseeing weatherization of homes may significantly reduce the burden upon the industry as well as be more efficient.[10] The CAD also maintains that the pilot program must include the ability to measure the benefit gained by participants, and that the burden of compiling and comparing such data might be lessened by partnering with one or more universities and colleges.[11]

This issue was discussed in detail at the October 12, 2007 Task Force meeting. The discussion focused on how the measured results of each individual pilot might be more meaningful if all three companies were funding similar programs that are implemented in a coordinated manner, including education.[12] This course of action would allow weatherization measures: (1) to be consistent across the state; (2) to be evaluated in a similar manner yielding more meaningful results; and (3) still be conducted in each of

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[2] *Comments of Nashville Gas*, p.10 (August 8, 2007).
[3] *Id.*
[4] *Id.*
[5] *Comments of Atmos Energy Corporation in Response to Chairman Roberson's July 9, 2007 Motion (Comments of Atmos Energy)*, p. 3 (August 8, 2007).
[6] *Id.*
[7] *Chattanooga Gas Company's Comments in Response to Director Roberson's July 9, 2007 Motion (Comments* of *Chattanooga Gas)*, p.4 (August 8, 2007).
[8] *Comments of the Consumer Advocate & Protection Division of the Office of the Attorney General (Comments of the CAD)*, p.2 (October 8, 2007).
[9] *Id.*
[10] *Id.*, p.3.
[11] *Id.*, pp. 3-4.
[12] Transcript of Workshop, p. 27 (October 12, 2007).

the companies' respective territories.[13] Additionally, conservation consumer education and awareness programs can be more effectively and efficiently administered through such a coordinated effort and prevent duplication of work.[14] One company proposed a pilot that includes equipment upgrade and replacement, including rebates, in addition to weatherization. Nevertheless, differences of this type between the pilots are not considered to be significant to the extent that the evaluation of the effectiveness of a pilot program would be impacted.

One issue that is very important in designing a pilot is prioritization of which houses or living units are evaluated for inclusion in the pilot and how that will be determined. For instance, should inclusion in the pilot be determined by highest energy use or does it become an issue of affordability, or a combination of both.[15] There is also the issue of usage patterns that may change as occupants of a particular address change and the effect this type of variable might have on the results of a pilot.[16]

The evaluation of a pilot's effectiveness is a vital part of a meaningful conservation program. Without proper evaluation, after a pilot has ended, the benefits realized cannot be accurately identified and measured. As a result, there will be no way to determine what adjustments, if any, should be made in the event a permanent conservation program is undertaken. Nevertheless, because it is not a part of their core business, the companies do not have the internal resources to accomplish the kind of evaluation that will be required.[17] Therefore, a coordinated effort is preferred when evaluation of the pilot is undertaken. This can be accomplished through the use of a third party, such as a university or other institution, that has the necessary expertise to design and perform the pilot evaluation as well as analyze the results.[18] While there will be a cost associated with this approach, it will provide consistency in specifying the data to be collected, the manner in which it is collected, and in analyzing the data at the end of the evaluation period. An opportunity exists to save money in this area rather than each company embarking on a pilot evaluation effort on its own.[19] The Authority could also participate with a third party in this effort.[20]

THE APPROPRIATE DURATION OF A PILOT

In its comments filed on August 8, 2007, Chattanooga Gas expressed concern that the eighteen (18) month pilot duration proposed by the Authority would not allow time to obtain the necessary data to properly evaluate the long term impact of a pilot program.[21] Chattanooga Gas believes that in order to properly evaluate the long term impact of the pilot, actual usage over multiple heating seasons should be analyzed to determine if sustainable or only temporary reductions in natural gas usage is realized.[22] As a result, Chattanooga Gas is concerned that an eighteen (18) month pilot will allow for the collection of data for only a very few number of homes to be collected and analyzed for more than one complete heating season.[23]

[13] Id.
[14] Id., pp.27-29.
[15] Id., pp. 32-33.
[16] Id., pp. 35-37.
[17] Id., p. 30.
[18] Id.
[19] Id., p. 31.
[20] Id., pp. 30-31.
[21] *Comments* of *Chattanooga Gas*, p.5 (August 8, 2007).
[22] *Id.*
[23] *Id.*

Nashville Gas also expressed concern over the eighteen (18) month pilot duration in its comments filed on August 8, 2007. Nashville Gas cites the experience of its parent company, Piedmont Gas in North Carolina, and states that it is extremely difficult to plan, coordinate, implement and measure the results of even simple conservation initiatives within an 18 month period.[24] Nashville Gas also states that Piedmont Gas is still in the process of implementing many aspects of its conservation program in North Carolina after almost two years into the program, and that a three year pilot would provide a more practical time period in which to design, implement and test various conservation measures in Tennessee.[25]

Atmos Energy's comments did not specifically address whether it believed that the proposed 18 month pilot duration was satisfactory or not. Atmos' comments could however be interpreted as affirmation of the 18 months suggested by the Directors.[26] However, Atmos believes that measurement over several winters would provide better data.

The comments filed by the Consumer Advocate on October 8, 2007, did not specifically address the pilot duration.

During the October 12th Task Force meeting, it was the consensus of the Task Force that a three (3) year pilot was preferable to an eighteen (18) month pilot for the reasons cited in the comments filed by the members on August 8, 2007.[27]

THE ROLE ASSET MANAGERS SHOULD PLAY IN THE PILOT

Chattanooga Gas proposed to fund its pilot from funds set aside before sharing, generated through the non-jurisdictional transactions of its asset manager.[28] Chattanooga Gas stated that based on amounts generated from the past, it believes that funds will be available from transactions managed by the current asset manager at an annual level of $200,000 with $150,000 used for diagnostics, weatherization and equipment repair/replacement and $50,000 for education.[29] However, Chattanooga added that it cannot commit to such funding long term since it is required to issue an RFP to replace the existing agreement which expires on March 31, 2008, and it does not have assurance that a future agreement will provide the same level of funding.[30]

In its comments, Atmos Energy allowed that ratepayer funding might come from either incentive plan revenues or asset management fees, and while it currently credits ratepayers the entire amount of asset management fees, one mechanism for cost sharing would be to lower the refund.[31] Atmos' current asset management plan expires April 1, 2008 and therefore future funding can not be certain at this time.

The CAD stated that it is continuing to study such asset management programs; however, it appears premature to propose mechanisms designed to recover the costs of a pilot from consumers when the industry incurs such costs voluntarily.[32]

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[24] *Comments of Nashville Gas*, p.7 (August 8, 2007).
[25] *Id.*
[26] *Comments of Atmos Energy*, p. 3 (August 8, 2007).
[27] Transcript of Workshop, pp. 9-10 (October 12, 2007).
[28] *Comments* of *Chattanooga Gas*, p.2 (August 8, 2007)
[29] *Id.*
[30] Id., pp. 7-8.
[31] *Comments of Atmos Energy*, p. 4 (August 8, 2007).
[32] *Comments of the CAD*, p.12 (October 8, 2007).

Nashville Gas was silent on this issue in its comments filed August 8, 2007.

There are divided opinions on the role an asset manager, or any other type of incentive plan, might play in the pilots. During the October 12th meeting, Chattanooga Gas voiced the possibility of funding a major portion of its pilot through funds generated by transactions managed by its asset manager based upon performance of its existing asset manager. This approach, however, met with resistance from the CAD as long as any funds that are to be shared with consumers are earmarked to fund a conservation program that the CAD asserts will benefit only a select few customers. The Company's share of funds generated by an asset manager does not generate the same concerns for the CAD since this would be seen as no different from the stockholders funding a pilot.

The underling problem continues to be the concerns of the CAD relative to statutory authority for any type of mandatory consumer funding.[33] Although the CAD shares the feeling that a home energy conservation pilot of this type is a worthwhile effort, if the funding is obtained from consumers, whether from an asset manager or as a surcharge, the CAD considers it beyond the authority of the TRA to approve.[34]

THE BEST METHOD TO FUND CONSERVATION RESEARCH

The comments of Chattanooga Gas proposed that a $0.10 Monthly Energy Research Surcharge be added each customer's bill to fund energy conservation research. Chattanooga Gas estimates this will provide approximately $73,000 annually for research funding.[35] Additionally, Chattanooga Gas proposed that funds collected through this Surcharge be administered through a separate account and disbursed as directed by the Authority based upon recommendations of an advisory group the Authority establishes.[36] The advisory group would consist of TRA Staff members and members of the utilities.[37]

Atmos Energy's comments state that it is a member of Gas Technologies Institute ("GTI"), supports GTI and is confident GTI can make important contributions to future technological advances.[38] Atmos Energy is in favor of an increase in its volumetric rates to fund research.[39]
In its comments, the CAD took the position that it does not oppose the industry volunteering to contribute to research and development but would object if such funding were to be recovered from or contributed by rate-payers.[40] The CAD's objection is based upon the fact that the latter form of recovery has not been approved by the Authority and the proper format for that approval is within a contested case that includes all interested parties.[41]

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[33] Transcript of Workshop, p. 12 (October 12, 2007).
[34] Id., pp. 15-16.
[35] *Comments* of *Chattanooga Gas*, p.2 (August 8, 2007)
[36] *Id.*, pp. 3-4.
[37] *Id.*
[38] *Comments of Atmos Energy*, p. 3 (August 8, 2007).
[39] *Id.* At the time Atmos Energy filed its comments in this Docket, it had a rate case pending before the Authority in Docket No. 07-00105. In Docket No. 07-00105, Atmos proposed a volumetric amount be included in its proposed rate increase in order to continue to support GTI and stated in its comments filed in this Docket that, if approved, Atmos would be willing to earmark a portion of this support for research purposes. Atmos subsequently withdrew this portion of its volumetric increase as part of its settlement agreement with the CAD which was approved by the Authority.
[40] *Comments of the CAD*, p.12 (October 8, 2007).
[41] *Id.*, pp. 12-13.

Nashville Gas did not specifically address the best method to fund conservation research in its comments filed on August 8, 2007.

During the October 12th meeting, funding for research generated by a surcharge as well as through volumetric rates was discussed. The companies favor such methods to generate research funding.[42] Additionally, some in the industry recommend that a group consisting of TRA Staff and other interested parties evaluate any R&D proposal funded from a pilot program.[43]

Concerns still remain that it may not be within the TRA's authority to mandate funding from consumers unless it can be shown that the merits of the research benefit all consumers and in order to do so a generic contested case will be needed. When asked if the CAD's position on conservation research was the same as for a general weatherization program (i.e., whether the TRA has the authority to approve a surcharge), the CAD responded with a two-part answer.[44] The first part dealt with the merits of the research itself, how much of a benefit it provides to all gas consumers. If there is no benefit, then there may not be authority. The second part is the need procedurally to proceed with a generic contested case, and that the TRA could decide that GTI or whoever else is entitled to a surcharge on consumers. The contested case should involve GTI as well as other R&D entities in the industry and, if the Authority determines a surcharge is warranted, it should be applied equally and fairly to all consumers rather than just one company at a time through individual rate cases.[45] This procedure was followed in Michigan and New York, and those commissions ruled in favor of approving R&D.[46] Notwithstanding the foregoing, there remains a need for an open dialog between the those who may be involved in a contested case concerning the TRA's statutory authority in this area prior to a decision by the Authority to proceed with a contested case.[47] The CAD indicated that as far as the GTI R&D was concerned, there is a difference between that and the conservation program.[48] The CAD also indicated it is still taking measure of the merits of conservation R&D and the authority to implement mandatory funding for it while remaining open to discussions of proposals on this issue.[49]

GTI is willing to submit recommended specific projects to the companies for full review and benefit cost analysis and believes it can show that the benefits outweigh the cost to all consumers who pay for the research.[50] GTI also indicated that if it were designing an R&D program to benefit all consumers, it would be broader than a program to benefit just low-income customers. The broader program would probably include pipeline and distribution system integrity, plastic pipe locators, increased efficiency equipment for industrial customers, as well as the low-income R&D.[51]

WHETHER THE TRA HAS THE AUTHORITY TO ESTABLISH A FUNDING MECHANISM FOR THE PILOT

In its comments filed on August 8, 2007, Nashville Gas maintains that the adoption of a margin decoupling mechanism should be used to provide for the implementation of a company sponsored conservation program because it aligns customer and company interests and encourages the promotion

[42] Transcript of Workshop, pp. 39-40 (October 12, 2007).
[43] Id., p. 44.
[44] Id., p.40.
[45] Id., p.41.
[46] Id., p.46.
[47] Id., p. 48.
[48] Id, p. 47.
[49] Id., p. 41-42, 48-49, 51-52.
[50] Id., P. 43.
[51] Id. pp. 57-58.

of customer conservation by local distribution companies.[52] Additionally, Nashville Gas stated that it would support substantial company contributions to a pilot if implemented in conjunction with an experimental margin decoupling program.[53]

Atmos Energy also has stated that it believes it would be appropriate to share the cost of the pilot with rate payers who would contribute one-hundred twenty-seven thousand ($127,000), while Atmos would provide the remainder less the fifty thousand ($50,000) it has already invested in its existing voluntary program.[54] Atmos Energy also stated that this ratepayer funding could come from either an incentive plan or from asset manager fees.[55] Atmos goes on to say that in order to develop a truly comprehensive conservation strategy that will provide long term success, the disconnect that it claims currently exists between ratepayer and utility interests resulting from current rate design must be addressed.[56] Like Nashville Gas, Atmos Energy believes this can be accomplished by decoupling Atmos Energy revenues from the quantities of gas its customers use.[57]

As stated earlier, Chattanooga Gas proposed to fund its pilot from the funds, set aside before sharing, generated through the non-jurisdictional transactions of its asset manager.[58] Like Atmos Energy, Chattanooga Gas also believes that only by breaking the link between the recovery of fixed costs and the volume of gas delivered to it customers can the demand for, and ultimately the price of gas be impacted.[59]

The CAD notes that the motion establishing the pilot requested voluntary contributions from the industry and it appears premature to propose or speculate on methods designed to recover the cost of a pilot from consumers when the industry incurs such costs voluntarily.[60] Notwithstanding the foregoing, the CAD has expressed concerns regarding the statutory authority requiring mandatory funding contributed by consumers.[61]

The CAD expressed concern surrounding the decoupling issue and does not believe such mechanisms are just and reasonable and, as such, are not in the public interest.[62] The comments of the CAD, filed on October 8, 2007, state that: (1) the need for a decoupling mechanism in Tennessee is in doubt and in dispute; (2) consumers will reap no benefit from decoupling; and (3) decoupling mechanisms ignore offsetting revenue from customer growth and other factors.[63]

As previously stated, if the funding for a pilot is obtained from consumers, whether from an asset manager or as a surcharge, the CAD considers it beyond the authority of the TRA to approve or implement.[64] It appears that similar conservation programs in other states have either a legislative

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[52] *Comments of Nashville Gas*, pp. 3-6 (August 8, 2007).
[53] Id., pp. 6-7.
[54] *Comments of Atmos Energy*, p. 4 (August 8, 2007).
[55] Id.
[56] *Comments of Atmos Energy*, p. 4 (August 8, 2007).
[57] Id., p. 5.
[58] *Comments* of *Chattanooga Gas*, p.2 (August 8, 2007)
[59] *Id.,* p.6 (August 8, 2007)
[60] *Comments of the CAD*, p. 12 (October 8, 2007).
[61] Id.
[62] *Id.*, pp. 5-6 (October 8, 2007).
[63] Id., pp. 6-11.
[64] Transcript of Workshop, pp. 15-16 (October 12, 2007).

component or were established using some other method.[65] This question will probably best be handled through a generic contested case which will allow legal arguments to be presented from whoever wishes to participate.[66] Such a proceeding could result in an appeal of the final decision and result in an extended time frame for resolution. A more efficient approach might be to seek legislation that specifically bestows authority for funding a conservation program in the TRA.[67]

PROCEDURALLY, HOW THE AUTHORITY MIGHT BEST ADOPT AND/OR APPROVE THE PILOT (I.E. RULEMAKING, TARIFFS, ETC.).

None of the members filing comments in response to the Authority's July 9, 2007 directive specifically addressed this issue.

If legislation is enacted giving the TRA the authority to approve and implement a funding mechanism, the pilot approval process could be included in such legislation including either a rulemaking or requiring the companies to submit tariffs.[68] However, the rulemaking process can be a long and arduous one.

OTHER ISSUES

One of the first concerns expressed by the Task Force members was the November 30, 2007 pilot program implementation date. After some discussion surrounding this issue, it was the consensus of the Task Force that implementation would not be possible by November 30th and would not be possible for about three (3) months following a decision on how the pilot would be funded. Since the date proposed by the Directors was close at hand, and a funding mechanism had not been established, the Task Force requested that the Authority allow more time for the pilot to be implemented. At the November 6, 2007 regularly scheduled Authority Conference, the Authority unanimously approved this request and granted a later implementation date of no sooner than three (3) months following a decision on how the pilot will be funded.[69]

A brief oral summary of this report will be presented to the Directors during the January 28, 2008 Authority Conference.

Cc: Richard Collier, Darlene Standley, Jerry Kettles and Docket File

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65 Id., p.17.
66 Id. P. 18.
67 Id., pp.21-25 & p. 66.
68 Id., pp.23-24.
69 Transcript of Authority Conference, pp. 5-9 (November 6, 2007).