

BASS, BERRY & SIMS PLC

A PROFESSIONAL LIMITED LIABILITY COMPANY
ATTORNEYS AT LAW

R. DALE GRIMES
TEL: (615) 742-6244
dgrimes@bassberry.com

315 DEADERICK STREET, SUITE 2700
NASHVILLE, TN 37238-3001
(615) 742-6200

www.bassberry.com

OTHER OFFICES

KNOXVILLE
MEMPHIS

August 4, 2009

VIA HAND DELIVERY

Chairman Sara Kyle
c/o Ms. Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

filed electronically in docket office on 08/04/09

**Re: *Appropriateness of Implementation of PURPA Standard 5 (Energy Efficiency)
and Standard 6 (Rate Design Modification) for Piedmont Natural Gas,
Chattanooga Gas Company, and Atmos Energy Corporation***
Docket No. 09--00065

Dear Chairman Kyle:

Enclosed please find an original and seven (7) copies of the Comments of Piedmont Natural Gas, Inc. This document also has been filed by way of email sent today with the Tennessee Regulatory Authority Docket Manager, Sharla Dillon.

Please stamp two copies of this Petition as "filed" and return them to me by way of our courier.

Should you have any questions concerning any of the enclosed, please do not hesitate to contact me.

With kindest regards, I remain

Very truly yours,



R. Dale Grimes

RDG/smb

Enclosures

Chairman Sara Kyle

August 4, 2009

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cc: Hon. Mary Freeman (*w/o enclosure*)
Hon. Eddie Roberson, Ph.D. (*w/o enclosure*)
Hon. Kenneth C. Hill, DRE (*w/o enclosure*)
James H. Jeffries, Esq.
Ms. Patricia Childers
William T. Ramsey, Esq.
A. Scott Ross, Esq.
Douglas C. Walther, Esq.
Mr. Archie Hickerson
J.W. Luna, Esq.
Jennifer L. Brunidge, Esq.
Elizabeth Wade, Esq.
Robert E. Cooper, Jr., Esq.
Ryan L. McGehee, Esq.

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

IN RE:

APPROPRIATENESS OF IMPLEMENTATION OF
PURPA STANDARD 5 (ENERGY EFFICIENCY)
AND STANDARD 6 (RATE DESIGN
MODIFICATION) FOR PIEDMONT NATURAL
GAS, CHATTANOOGA GAS COMPANY, AND
ATMOS ENERGY CORPORATION

DOCKET NO. 09-00065

COMMENTS OF PIEDMONT NATURAL GAS COMPANY, INC.

Piedmont Natural Gas Company, Inc., through counsel and pursuant to the agreed procedural schedule in this matter, respectfully submits the following comments regarding the potential adoption by the Tennessee Regulatory Authority ("Authority") of the federal standards of rate design and energy efficiency for natural gas public utilities set forth in Section 532(b) of the Energy Independence and Security Act of 2007 ("EISA 2007").

BACKGROUND

Section 532(b) of EISA 2007, which amends Sections 303(b)(5) and (b)(6) of the Public Utility Regulatory Policies Act (15 U.S.C. § 3203(b)), requires state public service commissions such as the Authority to consider whether to adopt certain federal energy efficiency and rate design principles relative to the natural gas utilities under their jurisdiction. With respect to energy efficiency principles, EISA 2007 would amend Section 303(b)(5) to require the Authority to determine whether it should require natural gas utilities operating within the State of Tennessee to (a) integrate energy efficiency resources into their plans and planning processes, and (b) adopt policies that establish energy efficiency as a priority resource in their plans and planning. With respect to rate design principles, EISA 2007 would amend Section 303(b)(6) to require the Authority to consider whether to adopt rate designs that align utility incentives with the deployment of cost-effective energy efficiency programs and whether to adopt such specific

rate design mechanisms as (a) the separation of fixed cost recovery from sales or transportation volumes, (b) utility incentives to promote conservation, (c) energy efficiency as a specific goal of retail rate design, and (d) adoption of rate designs that promote energy efficiency for each customer class.

At an Authority Conference conducted on May 18, 2009, the Authority initiated a proceeding for the purpose of determining the appropriateness of the implementation of the federal standards for gas utilities described above. This determination was subsequently reflected in the Authority's June 15, 2009 *Order Opening Docket and Appointing Hearing Officer* in this proceeding.

On June 1, 2009, Petitions to Intervene were filed by Piedmont, Chattanooga Gas Company ("CGC"), and Atmos Energy Corporation ("Atmos"). On June 3, 2009, a Petition to Intervene was filed by the Consumer Advocate and Protection Division of the Office the Attorney General ("Consumer Advocate").

On June 3, 2009, a Status Conference was held for the purposes of reviewing and determining the issues, and setting a procedural schedule. The parties agreed to file comments as to the appropriateness of the federal standards no later than August 4, 2009, and any response to those comments no later than August 18, 2009.

COMMENTS

As a general statement, Piedmont is supportive of several of the rate design and energy efficiency principles set forth in EISA 2007, but does not believe that formal adoption of those standards by the Authority is required or necessarily appropriate in this case. This position is the product of Piedmont's belief that many of the issues raised by the federal standards are best evaluated by the Authority on a case-by-case basis in the context of discrete proceedings for each of the natural gas utilities regulated by the Authority, such as Piedmont's recent request for approval of a margin decoupling tracking mechanism pending in Authority Docket No. 09-00104. This approach allows a more meaningful examination of these important principles in the

context of discrete operational facts for individual natural gas companies and avoids the inherent risks and limitations involved with adopting a “one size fits all” approach with respect to these important matters of public interest. Piedmont’s position on each of the federal standards is set forth in greater detail below.

I. FEDERAL RATE DESIGN PRINCIPLES FOR NATURAL GAS COMPANIES.

Piedmont strongly supports several of the federal rate design principles set forth in the Section 532(b) of EISA 2007, specifically including the adoption of rate designs or equivalent mechanisms that align utility incentives with the deployment of cost-effective energy efficiency programs, including the separation of fixed cost recovery from sales or transportation volumes. Such mechanisms, which include margin decoupling and straight fixed-variable rates, are necessary to align the otherwise conflicting interests of customers and gas utilities around reductions in per customer usage resulting from conservation, energy efficiency, or other causes.¹ Margin decoupling preserves the volumetric nature of existing natural gas utility rate structures – which are preferred by many customers – while also allowing gas utilities to actively promote conservation and energy efficiency programs. Straight fixed-variable rates ensure consistency between the manner in which costs are incurred by a utility and how they are recovered from customers. Without these types of rate design innovations, utilities have an economic disincentive to promote conservation and instead are motivated to promote increased consumption because such consumption patterns leads to an increase in margin recovered by the utility.

~~With respect to this issue, it is noteworthy that the State of Tennessee has recently~~
committed itself to the promotion of such mechanisms twice. In Governor Bredesen’s March 23, 2009 certification to the United States Secretary of Energy, the Governor certified that this Authority would seek to implement a general policy that ensures that utility financial incentives

¹ Piedmont’s pending request for approval of a margin decoupling tracker mechanism in Authority Docket No. 09-00104 is precisely such a mechanism.

are aligned with helping their customers use energy more efficiently. This certification was required as a condition of the receipt of stimulus funds under the American Recovery and Reinvestment Act of 2009. In the recently enacted Senate Bill No. 2357, the General Assembly established as the policy of State of Tennessee that this Authority will seek to implement, in appropriate proceedings for gas utilities over which the Authority has rate making authority, a general policy that ensures that utility financial incentives are aligned with helping their customers use energy more efficiently. Both of these certifications of State policy strongly support the first principle of federal rate design that calls for the alignment of utility and customer interests around reductions in customer usage of natural gas.

With respect to the other principles of federal rate design articulated in EISA 2007, Piedmont believes that they deserve closer scrutiny, but that this scrutiny should take place in the context of discrete company proposals where the benefits and potential detriments of the principles can be examined in a concrete and specific context, rather than as a generic policy matter. Piedmont is confident that in the context of such proceedings, which can be pursued under existing State law, the Authority will be able to discern the public interest inherent in each such principle in the context in which it is sought to be applied.

II. FEDERAL ENERGY EFFICIENCY PRINCIPLES FOR NATURAL GAS COMPANIES.

EISA 2007 requires the Authority to consider whether it should require natural gas utilities to (a) integrate energy efficiency resources into their plans and planning processes, and (b) adopt policies that establish energy efficiency as a priority resource in their plans and planning. Piedmont does not believe that it is necessary or appropriate to expressly adopt these federal principles in this proceeding for the following reason. Piedmont already takes energy efficiency resources into account in its plans and planning processes by adjusting long-term, annual, and seasonal supply and capacity planning for the effects of conservation and energy efficiency. Further, as is evidenced by its recent filing in Docket No. 09-00104,

Piedmont has proposed to implement several conservation programs designed to encourage its customers to conserve energy through several means. Inasmuch as Tennessee law already permits the Authority to consider and rule on such mechanisms and to examine the supply and demand planning processes of the natural gas utilities under its jurisdiction, no additional federal authority is needed to accomplish this goal.

III. STATEMENT OF GENERAL PRINCIPLES.

Piedmont would offer the following statement of general principles relevant to energy efficiency and conservation. First, Piedmont believes that it is important for energy providers and regulators alike to take reasonable proactive measures to promote a decreased carbon footprint for the average American consumer and for our society as a whole. Second, Piedmont believes that the promotion of conservation of valuable energy resources as a whole must be a priority for the Authority and for the public utilities that provide those resources to the public. Third, Piedmont believes that the Authority should encourage alignment of customer and utility interests with respect to energy efficiency and conservation, while promoting and rewarding actions that reduce the need for additional energy consumption, where possible. Finally, Piedmont believes that the Authority should view energy services and consumption on a holistic basis and should actively promote the efficient and effective delivery of energy resources to the public. All of these goals can be achieved under existing State law and adoption of the federal principles set forth in EISA 2007 is not required.

WHEREFORE, Piedmont Natural Gas Company, Inc., respectfully requests that the Authority accept its comments as set forth herein.

Respectfully submitted this 4th day of August, 2009.

Piedmont Natural Gas Company, Inc.

R. D. Grimes

R. Dale Grimes
Bass, Berry & Sims PLC
315 Deaderick Street, Suite 2700
Nashville, Tennessee 37238-3001
Telephone: 615-742-6244

James H. Jeffries IV

James H. Jeffries IV
Moore & Van Allen PLLC
Bank of America
Corporate Center, Suite 4700
100 N. Tryon Street
Charlotte, NC 28202
(704) 331-1000

by RDG
w/permission

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by first class U.S. mail, postage prepaid, this 4 day of August, 2009, upon the following:

For Atmos Energy Corporation

Patricia Childers, Vice President
Rates & Regulatory Affairs
ATMOS ENERGY CORPORATION
810 Crescent Centre Drive, Suite 600
Franklin, TN 37067-6226

William T. Ramsey, Esq.
A. Scott Ross, Esq.
NEAL & HARWELL, PLC
2000 One Nashville Place
150 Fourth Avenue North
Nashville, TN 37219-2498

Douglas C. Walther
Associate General Counsel
ATMOS ENERGY CORPORATION
P. O. Box 650205
Dallas, TX 75265-0205

For Chattanooga Gas Company

Archie Hickerson, Director Regulatory Affairs
AGL RESOURCES INC.
150 W. Main Street, Suite 1510
Norfolk, VA 23510

J.W. Luna, Esq.
Jennifer L. Brundige, Esq.
FARMER & LUNA, PLLC
333 Union Street, Suite 300
Nashville, TN 37201

Elizabeth Wade, Senior Regulatory Counsel
AGL RESOURCES INC.
Ten Peachtree Place NW, 15th Floor
Atlanta, GA 30309

***For the Consumer Advocate and Protection Division
of the Attorney General's Office***

Robert E. Cooper, Jr.
Attorney General and Reporter
OFFICE OF THE ATTORNEY GENERAL
Consumer Advocate and Protection Division
P. O. Box 20207
Nashville, TN 37202-0207

Ryan L. McGehee, Esq.
Associate Attorney General
OFFICE OF THE ATTORNEY GENERAL
Consumer Advocate and
Protection Division
P. O. Box 20207
Nashville, TN 37202-0207


R. Dale Grimes