BASS, BERRY & SIMS PLC
A PROFESSIONAL LIMITED LIABILITY COMPANY
ATTORNEYS AT LAW

ERIN M. EVERITT
TEL: (615) 742-7997
eeveritt@bassberry.com

150 THIRD AVENUE, SOUTH, SUITE 2800
NASHVILLE, TN 37201
(615) 742-6200

www.bassberry.com

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December 4, 2009

VIA EMAIL AND 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 12/04/09

Re: Petition of Piedmont Natural Gas, Inc. for Approval of Service Schedule No. 317 and Related Energy Efficiency Programs
Docket No. 09-00104

Dear Chairman Kyle:

Enclosed please find an original and five (5) copies of Piedmont Natural Gas, Inc.'s Pre-Filed Direct Testimony of Russell A. Feingold for filing in Docket No. 09-00104. An electronic copy of the filing has also been transmitted electronically to the Tennessee Regulatory Authority Docket Manager, Sharla Dillon. Please stamp one copy as "filed" and return to me by way of our courier.

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

Sincerely,

Erin M. Everitt

Erin M. Everitt

Enclosures

cc: Hon. Mary Freeman (*w/o enclosure*)
Hon. Eddie Roberson, Ph.D. (*w/o enclosure*)
Hon. Kenneth C. Hill (*w/o enclosure*)
Ryan McGehee, Esq.
James H. Jeffries, Esq.

Before the
Tennessee Regulatory Authority

Docket No. 09-00104

**Petition of Piedmont Natural Gas Company, Inc.
to Implement a Margin Decoupling Tracker (MDT)
and Related Energy Efficiency and Conservation Programs**

Testimony and Exhibits
of
Russell A. Feingold

On Behalf Of
Piedmont Natural Gas Company, Inc.

December 4, 2009

Background and Qualifications

Q. Mr. Feingold, please state your name and business address.

A. My name is Russell A. Feingold. My business address is 2525 Lindenwood Drive, Wexford, Pennsylvania 15090-7914.

Q. By whom and in what capacity are you employed?

A. I am employed by Black & Veatch Corporation as a Vice President and I lead the Rate & Regulatory Advisory Group of its Enterprise Management Solutions ("EMS") Division.

Q. Please describe the firm of Black & Veatch Corporation.

A. Black & Veatch Corporation has provided comprehensive engineering and management services to utility, industrial, and governmental entities since 1915. EMS is the management consulting division of Black & Veatch. EMS delivers management consulting solutions in the energy and water sectors. Our services include broad-based strategic, regulatory, financial, and information systems consulting. In the energy sector, EMS delivers a variety of services for companies involved in the generation, transmission, and distribution of electricity and natural gas. From an industry-wide perspective, Black & Veatch has extensive experience in all aspects of the North American natural gas industry, including utility costing and pricing, gas supply and transportation planning, competitive market analysis and regulatory practices and policies gained through management and operating responsibilities at gas distribution, pipeline and other energy-related companies, and through a wide variety of client assignments. Black &

Veatch has assisted numerous gas distribution companies located in the U.S. and Canada.

Q. Please describe your educational and professional background.

A. I received a Bachelor of Science Degree in Electrical Engineering from Washington University in St. Louis in 1973 and a Master of Science Degree in Financial Management from Polytechnic University - New York in 1977.

Q. Mr. Feingold, have you previously testified before the Tennessee Regulatory Authority (the "Authority") or any other utility regulatory authority?

A. Yes. I have presented expert testimony before the Federal Energy Regulatory Commission ("FERC") and numerous state and provincial regulatory commissions. My expert testimony has dealt with the costing and pricing of energy-related products and services for gas and electric distribution and gas pipeline companies.

In addition to traditional utility costing and rate design concepts and issues, my testimony has addressed gas transportation rates, gas supply planning issues and activities, market-based rates, Performance-Based Ratemaking ("PBR") concepts and plans, competitive market analysis, gas merchant service issues, strategic business alliances, market power assessment, merger and acquisition analyses, multi-jurisdictional utility cost allocation issues, inter-affiliate cost separation and transfer pricing issues, seasonal rates, cogeneration rates, and pipeline ratemaking issues

related to the importation of gas into the United States.

Q. What has been the nature of your work in the utility consulting field?

A. I have over thirty-four (34) years of experience in the utility industry, the last thirty-one (31) years of which have been in the field of utility management and economic consulting. Specializing in the gas industry, I have advised and assisted utility management, industry trade and research organizations and large energy users in matters pertaining to costing and pricing, competitive market analysis, regulatory planning and policy development, gas supply planning issues, strategic business planning, merger and acquisition analysis, corporate restructuring, new product and service development, load research studies and market planning. In addition to my presentation of expert testimony in utility regulatory proceedings that was just discussed, I have spoken widely on issues and activities dealing with the pricing and marketing of gas utility services. Further background information summarizing my work experience, presentation of expert testimony, and other industry-related activities is included in Appendix A to my testimony.

Q. Please summarize your specific experience with revenue decoupling concepts for gas and electric utilities.

A. With the recent growing interest in the application of revenue decoupling concepts to the utility ratemaking process, I have been actively involved with the evaluation and development of revenue decoupling mechanisms for gas and electric utilities. Specifically, over the past five years, I have

worked closely with utilities, regulatory staffs, and other interested parties to evaluate the utility operating and financial conditions that support revenue decoupling (or similar mechanisms) as a viable ratemaking solution, to develop the conceptual underpinnings and specific details of the desired ratemaking mechanism, and to support the utility's specific ratemaking proposal before its regulatory body. In addition, I have been active in the natural gas industry with revenue decoupling concepts and their importance in addressing the critical business challenges facing gas distribution utilities. A summary listing of my recent industry presentations and appearances on the topics of revenue decoupling mechanisms and energy efficiency initiatives is provided in Exhibit ____(RAF-1).

Purpose of Testimony

Q. What is the purpose of your direct testimony in this proceeding?

A. The purpose of my direct testimony is to present and discuss, from an industry-wide and utility-specific perspective, the reasons that support the approval of the Margin Decoupling Tracker ("MDT") mechanism proposed by Piedmont Natural Gas Company ("Piedmont" or the "Company") in this proceeding.

Q. How does the utility industry refer to ratemaking mechanisms such as Piedmont's proposed MDT mechanism?

A. The utility industry commonly refers to such ratemaking mechanisms as "revenue decoupling" mechanisms. They are referred to in this manner in

recognition of their underlying conceptual basis which is to "decouple" a utility's sales from its revenues so that the utility no longer must rely upon customer sales levels to enable the recovery of its approved margin. I will further explain the conceptual basis for such ratemaking mechanisms later in my testimony.

Changes to the Traditional Ratemaking Process

Q. As a backdrop for a discussion of Piedmont's MDT proposal, please describe the factors faced by gas distribution utilities in recent times that have prompted the need for changes to the traditional ratemaking and regulatory process.

A. The major factors currently faced by gas distribution utilities operating in North America include:

- Weather variability;
- Declining use per customer;
- Rising and volatile wholesale natural gas prices;
- Increases and volatility in customers' bills as a result of gas price fluctuation;
- Increased impact and promotion of energy efficiency and conservation measures;
- Rising costs of labor and materials for expansion and growth;
- Rising and uncontrollable bad debt expenses caused primarily by the level of wholesale natural gas prices; and

- Increasing requirements applicable to maintenance and improvement of aging infrastructure and system reliability.

Q. Please explain whether these are new factors or if they have been traditionally faced by natural gas distribution companies.

A. Variations in weather are a traditional factor that has been offset in some jurisdictions through weather normalization adjustment mechanisms, but the rest of these factors are relatively recent phenomena.

Q. How do these factors impact a gas utility's delivery service costs and its ability to recover these costs through base rates?

A. The business challenges I have described pertaining to weather, customer use, wholesale gas prices, bad debt expenses, energy efficiency and conservation, labor and materials costs, and infrastructure initiatives have a combined effect of introducing elements of considerable and recurring variability, unpredictability and uncontrollability related to a gas utility's costs of delivery service and the gas usage factors used to set its base rates to recover such costs.

Q. Please explain this phenomenon.

A. Very simply, these elements of variability cannot be accommodated within the context of the traditional utility ratemaking process. First, the traditional volumetric structure of a utility's base rates does not allow for the full recovery of a utility's non-gas cost of service approved by its utility regulator whenever a decline is experienced in the level of its billing determinants (*i.e.*, customers' gas consumption levels) used to

establish base rates. Second, the static nature of how a utility's revenue requirement is determined precludes the recognition and timely recovery of additional costs incurred by the utility in providing delivery service that is necessitated by unpredictable or uncontrollable business conditions that the utility has to accommodate.

Q. Have these factors and associated challenges caused utilities, regulators, and stakeholders to "rethink" natural gas rate design?

A. Yes. In my experience, it is widely recognized by industry participants that these business conditions represent serious challenges to gas distribution utilities and to the ability of their customers to manage their energy needs. In addition, the fixed cost nature of the gas distribution business warrants new approaches to the traditional ratemaking process in order that utilities be given a reasonable opportunity to recover its fixed costs of providing gas delivery service, and that its customers pay for that service in an appropriate and equitable manner. With the associated changes to key industry drivers - such as the gas supply/demand balance, marketplace price dynamics, and customer usage characteristics - the policy objectives of stakeholders pertaining to utility ratemaking also are changing. At the same time, there is a growing recognition that the current rate design approaches may not be working as intended as evidenced by stakeholder impacts and original rate design objectives not being satisfied.

Q. Are there other factors at work which influence these matters?

A. Yes. There is a growing national consensus that greater efficiencies must be found in the delivery and consumption of energy by U.S. citizens in order to conserve valuable resources, minimize dependence on foreign energy sources, and curb the emission of greenhouse gases.

Q. How do these additional factors impact the risk analysis around traditional utility ratemaking structures for natural gas distribution companies?

A. These additional factors run completely counter to the incentives created by traditional distribution company rate structures because they call for a reduction in natural gas consumption (and associated utility revenues) at a time when natural gas distribution companies are under pressure to stabilize revenues through the promotion of increased consumption of natural gas.

Q. Can you cite to any example of the relevance of these additional factors?

A. Yes. In this very proceeding, the Natural Resources Defense Council ("NRDC"), an environmental advocacy group, has filed comments promoting these very factors.

Q. Please describe the nature of the "rethinking" that is occurring with rate design for gas distribution utilities.

A. The above-described conditions and challenges have led to a trend toward fundamental changes in the ratemaking approaches traditionally relied

upon by gas distribution utilities, and approved by utility regulators. These changes are reflected in the implementation of various innovative ratemaking approaches by gas distribution utilities. These approaches can be characterized in broad terms as follows:

1. Revenue decoupling mechanisms,
2. Rate design utilizing a single, fixed monthly charge.
3. Automatic adjustment rate mechanisms or rate trackers (that address items such as the recovery of bad debt expenses, infrastructure replacement costs, energy efficiency program costs, and margin revenue losses due to warmer-than-normal weather).
4. Revenue (return) stabilization mechanisms.

Q. How is the gas distribution utility industry addressing the problem of variability in the recovery of fixed costs discussed above?

A. These issues have received much attention from state regulators over the last five years. To effectively mitigate the variability in revenues caused by the change in regulatory circumstances I have discussed, regulators have implemented a number of ratemaking solutions, including:

1. Revenue decoupling mechanisms that adjust rates for changes in usage caused primarily by weather and energy conservation;
2. Straight-Fixed Variable ("SFV") rate structures;
3. To the extent not already in place, Weather Normalization Adjustment ("WNA") mechanisms that adjust rates for changes in usage caused by

weather;

4. Monthly customer charges that more fully reflect the gas utility's fixed costs of providing delivery service; and

5. A measure of "normal weather" (other than the 30-year measure of normal weather) that is an accurate predictor of the weather expected by the utility in future years and a reasonable basis for deriving the gas utility's normalized sales volume in its rate case.

Q. Please summarize your conclusions regarding the changes to the traditional ratemaking process in the gas distribution utility segment of the energy industry.

A. It is my view that the utility ratemaking paradigm is fundamentally shifting. First, there is an increased recognition of the uncontrollability, variability, and unpredictability of a utility's costs and its customers' usage levels. Next, there is an increased awareness that a much more dynamic process is needed to ensure a utility's rates will actually recover the regulator-approved cost of service, and the static nature of a "test year" is being challenged. In addition, there is an increased recognition that the majority of a utility's costs are fixed, yet they are still recovered, in large part, through the volumetric component of its rate structure – which creates financial instability and increased variability in customers' bills and creates pressure for more frequent general rate proceedings. Finally, I believe there is a growing and strong desire to facilitate the promotion of

energy efficiency by utilities as I discuss in more detail later in my testimony.

Industry-Wide Activities Related to Revenue Decoupling

Q. Please discuss the nationwide ratemaking trends related to revenue decoupling mechanisms for gas distribution utilities.

A. Overall, there is a growing recognition and endorsement of revenue decoupling mechanisms throughout the utility industry. In my opinion, such a ratemaking approach is becoming more widespread as its conceptual underpinnings gain acceptance by a greater number of utility regulators as the challenges in the utility industry become more evident and pronounced.

As of 2002, there were only three (3) states that had approved revenue decoupling mechanisms for gas utilities – and currently there are eighteen (18) states that have approved revenue decoupling, and four (4) additional states that have approved SFV rate design (another form of decoupling), with a number of other states currently addressing revenue decoupling issues. Exhibit ____(RAF-2) presents a map of the U.S. which depicts the extent to which revenue decoupling has been approved, or is currently being addressed, in the various states. This data reflects states where revenue decoupling mechanisms or SFV rate structures has been approved since both "decouple" a utility's sales from its revenues.

Q. How many gas customers are served under approved revenue decoupling mechanism tariffs?

A. Approximately 20 million gas customers are currently served under approved revenue decoupling mechanism tariffs, with an additional 6 million gas customers to be served under pending revenue decoupling mechanisms, as reported at the AGA Rate Committee Meeting and Regulatory Issues Seminar, April 7, 2009.

Q. What is the overall structure of revenue decoupling mechanisms approved by utility regulators in the U.S.?

A. The vast majority of approved revenue decoupling mechanisms in the U.S. are designed on a "full" decoupled basis. This means that the ratemaking mechanism addresses all factors (including variations in weather) that impact use per customer. In the few situations where this is not the case (Colorado, Oregon, Utah, Washington, and Wyoming), the utility regulators in three of those five states also have approved WNA mechanisms for the utilities to specifically address the impact of weather upon their gas volumes and non-gas cost revenues. Within this context, the WNA mechanism serves as a companion ratemaking method to the utility's revenue decoupling mechanism since together they effectively provide a "full" revenue decoupling solution for the utility and its customers.

Q. In what manner will Piedmont's proposed MDT mechanism impact the Company and its customers?

A. Piedmont's proposed MDT mechanism will align the interests of the Company with the interests of policymakers, conservation advocates, and others with respect to energy conservation and efficiency programs for Piedmont's customers. It will place the Company in a much stronger position to offer to its customers various energy conservation and efficiency programs to help offset the volatility and unpredictability of high gas prices.

The appropriateness of this type of ratemaking solution has been recognized by the Oregon Public Utility Commission ("OPUC") in its approval in 2002 of a revenue decoupling mechanism for Northwest Natural Gas Company ("NW Natural"). There, the OPUC affirmed the severance of the connection between profits and sales and acknowledged the conflict between the motivation to sell energy and the motivation to promote reduction in energy consumption. From that time, many other utility regulators have followed the lead of Oregon in approving similar ratemaking mechanisms for other gas utilities.

Q. Please explain the importance of "breaking the link" between Piedmont's revenues and sales to achieve enhanced energy efficiency and conservation goals.

A. Breaking this link is important because it eliminates Piedmont's "throughput incentive" that is inherent in the way its gas rates have been

historically designed. The "throughput incentive" financially motivates a utility such as Piedmont to increase sales of natural gas (relative to historical levels which underlie base rates) and to maximize the "throughput" of natural gas across its utility system. Under the traditional utility ratemaking structure, a utility is financially motivated to increase its sales levels in a future period above that established in its previous rate case because its rates are designed to recover most fixed costs on a volumetric basis – causing the utility's revenues to increase as its sales increase. Under traditional utility ratemaking, an increase in the recovery of fixed costs will occur (compared to the level approved in the utility's most recently completed rate case) when sales are higher than assumed in the design of the utility's rates. Conversely, a decrease in the recovery of fixed costs will occur when sales are low relative to assumed levels. This situation creates an automatic disincentive for utilities to promote conservation or energy efficiency initiatives because such actions will reduce the utility's revenues and resulting earnings. Piedmont's proposed MDT mechanism will adjust its rates on a periodic basis to offset the revenue impact of increases or decreases in sales. By doing so, its proposed revenue decoupling mechanism will effectively eliminate the link between sales and revenues. Hence, it would encourage Piedmont to be supportive of measures which would promote decreased energy usage, conservation, or other energy efficiency initiatives.

Q. What recent activities have occurred in Tennessee with regard to revenue decoupling mechanisms?

A. The American Recovery and Reinvestment Act of 2009 signed by President Obama on February 17, 2009 required, as a condition of receipt of stimulus funds, that the Governor of each state receiving such funds certify to the Secretary of the Department of Energy that the applicable state regulatory authority will seek to:

> *Implement, in appropriate proceedings for each electric and gas utility, with respect to which the State regulatory authority has ratemaking authority, a general policy that ensures that utility financial incentives are aligned with helping customers use energy more efficiently and that provide timely cost recovery and a timely earnings opportunity for utilities associated with cost-effective measurable and verifiable efficiency savings, in a way that sustains or enhances utility customers' incentives to use energy more efficiently.*

Governor Bredesen provided that certification for Tennessee to the Secretary of the Department of Energy by letter dated March 20, 2009. Consistent with the foregoing, Governor Bredesen signed into law on June 25, 2009 Public Chapter No. 631 (Senate Bill No. 2357). Section 53 of that Act establishes new Section 65-4-126 of the Tennessee Code Annotated ("T.C.A.") which provides as follows:

> *The general assembly declares that the policy of this state is that the Tennessee regulatory authority will seek to implement in appropriate proceedings for each electric and gas utility, with respect to 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 and that provides timely earnings opportunity for utilities associated with cost-effective measurable and verifiable efficiency savings, in a way that sustains or enhances utility customers' incentives to use energy more efficiently.*

In conformance with these federal and state policies, Piedmont filed for approval by the Authority: (1) a revenue decoupling mechanism (designated as its MDT mechanism) designed to align the interests of Piedmont's customers and shareholders with respect to the conservation and efficient use of natural gas by Piedmont's residential customers; and (2) its initial energy efficiency programs designed to promote efficiency in natural gas usage and conservation of energy by Piedmont's customers. In addition to Piedmont's current filing, Chattanooga Gas Company (a division of AGL Resources) more recently filed with the Authority a proposal to implement a revenue decoupling mechanism (Docket No.09-00183).

Q. In your opinion, does Section 65-4-126 of the T.C.A. envision the adoption of "full" revenue decoupling for gas utilities?

A. Yes. I believe this Section envisions the adoption of "full" revenue decoupling based on the language requiring the Authority to adopt a general policy that ensures that utility financial incentives are aligned with helping their customers use energy more efficiently. To implement such a policy, it is my opinion that the utility's "throughput incentive" must be completely eliminated.

Q. In your opinion, what is the real purpose of this general policy?

A. I believe this policy was adopted to ensure that a utility's ratemaking structure would not serve as a financial barrier to the utility's aggressive pursuit of energy conservation initiatives. This financial barrier refers directly to the utility's "throughput incentive." Every utility that has its rates structured with volumetric rate components, in whole or in part, has a "throughput incentive" to maximize its sales volumes because that action maximizes its sales revenues. Section 65-4-126 of the T.C.A. declares the legislature's purpose in enacting this law, and does so in very broad terms.

Q. Besides the above-described revenue decoupling activities occurring in Tennessee, are there any other recent regulatory or legislative activities occurring in the utility industry that are addressing revenue decoupling concepts?

A. Yes. In the regulatory area, on November 19, 2009, the Nevada Public Utilities Commission adopted permanent regulations to establish methods

and programs for gas utilities that remove financial disincentives which discourage the utility from supporting energy conservation and other related utility matters in accordance with Senate Bill 437.[1] The regulations resulting from a formal investigation and rulemaking initiated in June 2007 provide the method by which a gas utility may obtain authorization from the Nevada Public Utilities Commission to decouple general revenue and provide the accounting method by which a gas utility must implement general revenue decoupling. In response to the adoption of temporary regulations for revenue decoupling by the Nevada Public Utilities Commission, Southwest Gas Corporation filed for approval of a revenue decoupling mechanism. Its ratemaking proposal was approved on October 28, 2009 in Docket No. 09-04003.

In the legislative area, the General Assembly of Virginia approved on March 13, 2008, the Natural Gas Conservation and Ratemaking Efficiency Act.[2] The Act states that, "it is in the public interest to authorize and encourage the adoption of natural gas conservation and ratemaking efficiency plans that promote the wise use of natural gas and natural gas infrastructure through the development of alternative rate designs and other mechanisms that more closely align the interests of natural gas utilities, their customers, and the Commonwealth generally, and improve the efficiency of ratemaking to more closely reflect the dynamic nature of

[1] Nevada Public Utilities Commission, Docket No. 07-06046.

[2] 2008 Virginia Acts of Assembly, Chapter 639 – added new Chapter 24, Sections 56-597, 56-598, and 56-599.

the natural gas market, the economy, and public policy regarding conservation and energy efficiency." On July 3, 2008, Virginia Natural Gas, Inc. (a division of AGL Resources) filed with the Virginia State Corporation Commission a revenue decoupling proposal (Case No.PUE-2008-00060. The utility's proposal was approved on December 23, 2008. Michigan recently approved Public Act No. 295 that allows for revenue decoupling and gas conservation measures.[3] Act 295 allows a gas utility to implement a symmetrical revenue decoupling mechanism that adjusts for sales volumes that are above or below the forecasted levels that were used to determine the revenue requirement authorized in the natural gas provider's most recent rate case. The Act indicates that the regulatory commission shall give deference to the proposed mechanism submitted by the provider. Similarly, the Act also requires that by October of this year the Michigan Public Service Commission shall submit a report to the standing committee of the Michigan House of Representatives and Senate relative to electric revenue decoupling.

In addition, I understand that Governor Granholm emphasized the importance of revenue decoupling in her February 3, 2009 State of the State Address. In that Address, she asked that the Michigan Public Service Commission put Michigan utility companies in the energy efficiency business by changing how their rates are set. She noted that today these

[3] Public Act 295 of 2008 was signed into law on October 6, 2008 by Governor Granholm. Section 89, part (6) addresses the regulatory authorization of revenue decoupling mechanisms.

companies make money selling electricity and natural gas to Michigan consumers, but that tomorrow, they will make money by helping Michigan consumers use less of both.

In recognition of these actions, Detroit Edison, Consumers Energy, and Michigan Consolidated Gas each filed with the Michigan Public Service Commission a proposal to implement a revenue decoupling mechanism. Detroit Edison filed a revenue decoupling proposal in its current rate case (Case No. U-15768), Consumers Energy filed separate revenue decoupling mechanisms for its electric and gas operations in its current Energy Optimization filing (Case No. U-15805) and its current gas rate case (Case No. U-15986), and Michigan Consolidated Gas filed a revenue decoupling proposal in its current rate case (Case No. U-15985).

Q, In your opinion, what are the factors driving this level of interest in revenue decoupling?

A. I believe there are two key factors driving this interest in revenue decoupling, with one recognizing the customer's perspective and the other recognizing the utility's perspective. First, it is widely acknowledged by utilities, regulators, legislators, and other stakeholders that utilities have an inherent disincentive to promote energy efficiency. This is caused by the prevalence of volumetric-based rate structures for gas utilities that creates a decline in margin revenues with a decline in customers' gas usage. Revenue decoupling removes this inherent disincentive as a necessary prerequisite to utilities offering energy efficiency and conservation

programs to their customers.

Second, as a result of the ongoing decline in use per customer, most gas utilities have experienced an under-recovery of margin revenues as I discussed previously. This serious financial problem can be mitigated with revenue decoupling.

Q. Have other participants in the gas industry endorsed the concept of revenue decoupling to address the inherent disincentive that a utility has to promote energy efficiency?

A. Yes. With the increased volatility in energy prices and the resultant unprecedented upward pressure being placed on customers' utility bills, as well as the recognition of the need to reduce overall greenhouse gas emissions, many energy industry groups are now publicly advocating a renewed focus on promoting cost-effective energy efficiency measures to help relieve these consumer burdens. These groups include the American Gas Association ("AGA"), the Edison Electric Institute ("EEI"), the NRDC, the Alliance to Save Energy, and the American Council for an Energy Efficient Economy ("ACEEE"). These groups realize that a fundamental change must be made to the utility ratemaking process in order to achieve these consumer benefits. They have endorsed the concept of revenue decoupling as their solution to the problem.[4]

[4] Joint Statement of the American Gas Association and the Natural Resources Defense Council submitted to the National Association of Regulatory Utility Commissioners ("NARUC"), July 2004 (see Exhibit ____(RAF-3).

Q. Please continue.

A. The NRDC and the Edison Electric Institute issued a particularly pointed statement. It noted that:

> *To eliminate a powerful disincentive for energy efficiency and distributed-resource investment, we both support the use of modest, regular true-ups in rates to ensure that any fixed costs recovered in kilowatt-hour charges are not held hostage to sales volumes.*[5]

Q. Has any other industry organization recognized revenue decoupling as a viable ratemaking concept to address this issue?

A. Yes. NARUC has recognized that revenue decoupling as a ratemaking concept provides earnings stability for utilities and removes the disincentives for promoting energy conservation. In particular, NARUC made reference to the above-mentioned groups and stated that:

> *Among the mechanisms supported by these groups are the use of automatic rate true-ups to ensure the utility's opportunity to recover authorized fixed costs is not held hostage to fluctuations on (sic) retail sales.*[6]

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[5] Joint recommendation submitted in November 2003 to the NARUC by the NRDC and the Edison Electric Institute (see Exhibit ____(RAF-3).

[6] NARUC Resolution on Gas and Electric Efficiency, Sponsored by NARUC Natural Gas Task Force, Committee on Gas, Committee on Consumer Affairs, Committee on Electricity, Committee on Energy Resources and the Environment, adopted by the NARUC Board of Directors on July 14, 2004 (see Exhibit ____(RAF-3).

In its 2005 Fall Meeting, NARUC's Board of Directors adopted the "Resolution on Energy Efficiency and Innovative Rate Design," dated November 16, 2005. As set forth in this second resolution:

> *[NARUC]...encourages State commissions and other policy makers to review the rate designs they have previously approved to determine whether they should be reconsidered in order to implement innovative rate designs that will encourage energy conservation and energy efficiency that will assist in moderating natural gas demand and reducing upward pressure on natural gas prices...* [7]

The NARUC resolution recognized that the traditional volume driven state approach to regulating the rates that utilities charge to deliver natural gas might tend to misalign the interests of natural gas utilities and the goals of energy efficiency and energy conservation.[8] As part of this review, NARUC further encouraged state utility regulators and other policy makers to consider in their review innovative rate designs including "energy efficiency tariffs" and "decoupling tariffs."[9] The resolution recognized several utilities that have received approval of revenue

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[7] NARUC Resolution on Energy Efficiency and Innovative Rate Design, Sponsored by the Committee on Gas, recommended by the NARUC Board of Directors on November 15, 2005, adopted by the NARUC on November 16, 2005 (see Exhibit ____(RAF-3).

[8] Ibid.

[9] Ibid.

decoupling mechanisms, fixed-variable rates and other innovative rate design approaches.

Q. Have any national policy initiatives been undertaken to address the deficiencies in traditional utility ratemaking?

A. Yes. The National Action Plan for Energy Efficiency[10] ("Action Plan") emphasizes the need to eliminate ratemaking and regulatory disincentives or barriers through its recommendation that utility regulators "modify policies to align utility incentives with the delivery of cost-effective energy efficiency and modify ratemaking practices to promote energy efficiency investments." Specifically, the Action Plan states that, "removing the throughput incentive is one way to remove a disincentive to invest in efficiency." It is widely recognized that a revenue decoupling mechanism is a ratemaking approach that can address the "Throughput Incentive" utilities have when their rates are designed so that fixed costs are recovered through volumetrically-based energy charges.

Q. Would you like to make another observation?

A. Yes. I also would note that in NARUC's "Resolution Supporting the National Action Plan on Energy Efficiency" ("NARUC Resolution"), it endorsed "the principal objectives and recommendations of the Action Plan, and commends to its member commissions a state-specific, or

[10] Issued in July 2005, the "Action Plan" was facilitated by the U.S. Department of Energy and U.S. Environmental Protection Agency with the participation of over 50 utilities, public utility commissions, energy consumers, and non-governmental groups to set a broad course for encouraging greater energy efficiency investment in the United States.

where appropriate, regional review of the elements and potential applicability of energy efficiency policy recommendations outlined in the Action Plan, in an effort to identify potential improvements in energy efficiency policy nationwide." [11] The NARUC Resolution cites five key elements of the Action Plan, including, the modification of ratemaking practices to align utility incentives with the delivery of cost effective energy efficiency and to promote energy efficiency investments.

Q. Does the Energy Independence and Security Act of 2007 address revenue decoupling in conjunction with the Act's directives on utility energy efficiency programs?

A. Yes. Section 532(b)(6)(A) of the Act states that "(t)he rates allowed to be charged by a natural gas utility shall align utility incentives with the deployment of cost-effective energy efficiency." Further, from a policy perspective, the Act directs each state regulatory authority to consider, "separating fixed-cost revenue recovery from the volume of transportation or sales service provided to the customer. Clearly, revenue decoupling mechanisms and SFV rate design are two ratemaking approaches that do achieve this policy objective.

[11] NARUC Resolution Supporting the National Action Plan for Energy Efficiency, Sponsored by the Executive Committee and the Committees on Consumer Affairs, Electricity, Energy Resources and the Environment, and Gas, adopted by the NARUC Board of Directors August 2, 2006 (see Exhibit ____(RAF-3).

Q. Does the American Recovery and Reinvestment Act of 2009 address the concept of revenue decoupling within the context of the energy efficiency initiatives delineated in the Act?

A. Yes. Section 410 (a) (1) of the Act specifically states that the applicable State regulatory authority will seek to implement a general policy that ensures that utility financial incentives are aligned with helping their customers use energy more efficiently. As I discussed earlier, this alignment can be achieved by a utility and its stakeholders through the implementation of a revenue decoupling mechanism.

Q. Please summarize your conclusions regarding the status of revenue decoupling in the natural gas industry.

A. It is my view that the concept of revenue decoupling in the natural gas industry is being embraced more broadly across the country than it was in the recent past. The growing number of utility proposals and regulatory initiatives that I discussed above underscores the recognized importance of this ratemaking concept with the increased offering of energy efficiency and conservation programs to utility customers. In my opinion, the Company's MDT proposal is consistent with, and supportive of, these industry-wide initiatives. In my opinion, the Company's MDT proposal is also consistent with Section 65-4-126 of the T.C.A.

Review of Piedmont's MDT Proposal

Q. What are the key design elements of a revenue decoupling mechanism for a gas distribution utility?

A. A revenue decoupling mechanism for a gas distribution utility should be designed to periodically adjust its base rates to reflect changes in distribution non-gas revenue due to variances in gas volumes. The key design elements for a such a ratemaking mechanism are as follows:

1. It should be structured so that the mechanism adjusts the utility's rates for changes in its customers' gas use, and the resulting change in non-gas revenues, caused by all relevant factors.
2. It should be applicable to the utility's rate classes that are most affected by the factors that cause changes in gas use per customer.
3. It should adjust rates in a manner to reflect the change in actual non-gas revenues generated from customers and the non-gas revenues approved by the utility regulator for each rate class in the gas utility's most recently completed rate case.
4. The frequency of rate adjustments under the utility's revenue decoupling mechanism should be set so that adjustments can be made as soon as feasible after the actions that gave rise to the need for the rate adjustment (e.g., energy efficiency measures initiated by the customer, change in weather from normal levels).

Q. Have you reviewed Piedmont's MDT proposal?

A. Yes. I have reviewed the overall structure, design elements, and

computational details of Piedmont's MDT proposal. It is presented and explained in the direct testimony of Mr. David Carpenter.

Q. Based on your review of Piedmont's MDT proposal, does it comport with the conceptual underpinnings and key design elements of the revenue decoupling mechanisms approved for other gas distribution utilities?

A. Yes, the overall structure of Piedmont's MDT proposal and the specific design elements of its proposal as discussed by Mr. Carpenter are conceptually consistent with the revenue decoupling mechanisms of other gas distribution utilities that are currently in effect. Piedmont's MDT proposal incorporates many of the key design elements I would expect to see in this type of ratemaking mechanism. It will effectively decouple the Company's sales from revenues and remove the disincentive a utility has to pursue energy efficiency and conservation initiatives for its customers. Computationally, the Company's proposed MDT mechanism enables it to reflect in rates the level of margin revenue approved in its most recently completed rate case. This method preserves the margin revenue assumptions established in the rate case.

Q, Are the tariff provisions of Piedmont's proposed MDT mechanism similar to the tariff provisions of other revenue decoupling mechanisms?

A. Yes. The basic approach to designing a revenue decoupling mechanism is to define for the utility a revenue target and a "baseline" use per customer

level. The revenue target is based upon either the utility's approved level of margin revenues or its approved unit rates. The "baseline" use per customer is based on the utility's approved sales and customer count. With these two elements defined, the operation of the rate mechanism places any over- or under-collections into a deferred account for recovery from customers in a subsequent period. This is how Piedmont's proposed MDT mechanism is generally designed and structured.

Q. Is Piedmont's MDT proposal an appropriate mechanism to align Piedmont's financial incentives with helping their customers use energy more efficiently?

A. Yes. Piedmont's proposed MDT mechanism is fair, symmetrical, and beneficial to the utility and its customers for the following reasons:

1. It will enable Piedmont to promote energy conservation and efficiency programs for its customers without the continual threat of non-gas revenue losses due to declining gas sales per customer.
2. It will result in the use of far more representative gas volume levels for computing Piedmont's unit rates ultimately charged to customers.

Conclusions and Recommendations

Q. Please summarize your conclusions and recommendations pertaining to Piedmont's proposed MDT mechanism.

A. Based on my review of the reasons why Piedmont proposed its margin decoupling mechanism and the industry-wide changes and trends occurring with regard to utility ratemaking approaches, I conclude that:

1. There is a demonstrated and important need for this Commission to approve the operation of Piedmont's MDT proposal when viewed against the stated public policy of the State of Tennessee and the factors otherwise establishing an incentive for Piedmont to promote increased natural gas usage by its customers;

2. The Company's MDT proposal is appropriate for, consistent with, and supportive of, the goals of T.C.A. 65-4-126 and the regulatory trends and principles in today's business environment that are associated with the establishment of a utility's revenue requirement and the rates that are designed to recover its approved level of margin revenues;

3. The Company's MDT proposal is conceptually sound and based upon widely accepted utility ratemaking approaches; and

4. The Company's MDT proposal is balanced and designed to provide significant benefits to the Company and its customers.

It is my strong recommendation that the Authority approve Piedmont's MDT proposal since it is consistent with the public policy of the State of

Tennessee and in the best interest of the Company and its customers for the reasons I stated above.

Q. Does this conclude your direct testimony?

A. Yes it does.

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

PETITION OF PIEDMONT NATURAL GAS COMPANY, INC. TO IMPLEMENT A MARGIN DECOUPLING TRACKER (MDT) AND RELATED ENERGY EFFICIENCY AND CONSERVATION PROGRAMS	)	Docket No. 09-00104

AFFIDAVIT

STATE OF PENNSYLVANIA)
)
COUNTY OF ALLEGHENY)

Russell A. Feingold, being duly sworn, deposes and says that he is the Russell A. Feingold whose Testimony accompanies this affidavit; that such testimony was prepared by him; that he is familiar with the contents thereof; that the facts set forth therein are true and correct to the best of his knowledge, information and belief; and that he does adopt the same as his sworn testimony in this proceeding.

Russell A. Feingold

Allegheny County, Pennsylvania
Signed and sworn to before me this day by Russell A. Feingold

Date: 12/02/2009

Phillip L. Morrison Jr.; Notary Public

NOTARIAL SEAL
PHILLIP L MORRISON JR
Notary Public
FRANKLIN PARK BOR, ALLEGHENY COUNTY
My Commission Expires Dec 1, 2010

(Official Seal)

My commission expires: Dec 1, 2010

APPENDIX A

EDUCATIONAL BACKGROUND, WORK EXPERIENCE AND REGULATORY EXPERIENCE
RUSSELL A. FEINGOLD

EDUCATIONAL BACKGROUND

- Bachelor of Science degree in Electrical Engineering from Washington University in St. Louis
- Master of Science degree in Financial Management from Polytechnic University of New York

WORK EXPERIENCE

2007 – Present	**Black & Veatch Corporation** Vice President, Enterprise Management Solutions Division and Rate & Regulatory Advisory Lead
1996 – 2007	**Navigant Consulting, Inc.** Managing Director, Energy Practice – Litigation Regulatory & Markets Group
1990 – 1996	**R.J. Rudden Associates, Inc.** Vice President and Director
1985 – 1990	**Price Waterhouse** Director, Gas Regulatory Services Public Utilities Industry Services Group
1978 – 1985	**Stone & Webster Management Consultants, Inc.** Executive Consultant Regulatory Services Division
1973 – 1978	**Port Authority of New York and New Jersey** Staff Engineer and Utility Rate Specialist

PRESENTATION OF EXPERT TESTIMONY

- Federal Energy Regulatory Commission
- Arkansas Public Service Commission
- British Columbia Utilities Commission (Canada)
- California Public Utilities Commission
- Connecticut Department of Public Utility Control
- Delaware Public Service Commission
- Georgia Public Service Commission
- Illinois Commerce Commission
- Indiana Utility Regulatory Commission
- Iowa Utilities Board
- Kentucky Public Service Commission
- Manitoba Public Utilities Board (Canada)
- Massachusetts Department of Public Utilities
- Michigan Public Service Commission
- Minnesota Public Utilities Commission
- Missouri Public Service Commission
- Montana Public Service Commission
- Nebraska Public Service Commission
- New Hampshire Public Utilities Commission
- New Jersey Board of Public Utilities
- New Mexico Public Regulation Commission
- New York Public Service Commission
- North Carolina Utilities Commission
- North Dakota Public Service Commission
- Ohio Public Utilities Commission
- Oklahoma Corporation Commission

- Ontario Energy Board (Canada)
- Pennsylvania Public Utility Commission
- Philadelphia Gas Commission
- Quebec Natural Gas Board (Canada)
- South Dakota Public Service Commission
- Utah Public Service Commission
- Vermont Public Service Board
- Virginia State Corporation Commission
- Washington Utilities and Transportation Commission
- Public Service Commission of Wyoming

EDUCATIONAL AND TRAINING ACTIVITIES

- Past Chairman, Rate Training Subcommittee, Rate and Strategic Issues Committee of the American Gas Association.
- Seminar organizer and co-moderator at the American Gas Association, "Workshop on Unbundling and LDC Restructuring," July 1995.
- Course organizer and speaker at the annual industry course, American Gas Association – Gas Rate Fundamentals Course, University of Wisconsin – Madison, 1985 – 2009.
- Course organizer and speaker at the annual industry course, American Gas Association – Advanced Regulatory Seminar, University of Maryland - College Park, 1987 –1992.
- Co-founder, course director and instructor in the annual course, "Principles of Gas Utility Rate Regulation" sponsored by The Center for Professional Advancement 1982-1987.
- Contributing Author of the Fourth Edition of "Gas Rate Fundamentals," American Gas Association, 1987 edition.
- Organizer, Editor, and Contributing Author of the upcoming Fifth Edition of "Gas Rate Fundamentals," American Gas Association (in progress).

PUBLICATIONS AND PRESENTATIONS

- "Managing Regulatory Risk Workshop", Rocky Mountain Electric League, October 8, 2009.
- "State Regulatory and Legislative Issues Affecting Utilities," American Gas Association, 2009 Financial Forum, May 3, 2009.
- "Financial Incentives for Energy Efficiency: Lessons Learned to Date," American Gas Association, Rate Committee Meeting and Regulatory Issues Seminar, April 7, 2009.
- "Breaking the Link Between Sales and Profits: Current Status and Trends," Energy Bar Association, Electricity Regulation and Compliance Committee, February 17, 2009.
- "State Ratemaking Issues for Gas Distribution Utilities," Energy Law Journal, Volume 29, No. 2, 2008 (Report of the Natural Gas Regulation Committee).
- "Current Issues in Cost Allocation and Rate Design for Utilities," SNL Energy, Utility Rate Cases Today: The Issues and Innovations, November 6, 2008.
- "Current Issues in Revenue Decoupling for Gas Utilities," American Gas Association, Financial and Investor Relations Webcast, October 16, 2008.
- "Addressing Utility Business Challenges Through the State Regulatory Process," American Gas Association, 2008 Legal Forum, July 20-22, 2008.
- "Earning on Natural Gas Energy Efficiency Programs," American Gas Association Rate and Regulatory Issues Conference Webcast, May 23, 2008.
- "State Regulatory Directions: Utility Challenges and Solutions," American Gas Association Financial Forum, May 4, 2008.
- "Ratemaking and Financial Incentives to Facilitate Energy Efficiency and Conservation," The Institute for Regulatory Policy Studies, Illinois State University, May 1, 2008.
- "Update on Revenue Decoupling and Innovative Rates," American Gas Association, Rate Committee Meeting and Regulatory Issues Seminar, March 10, 2008.

- "Update on Revenue Decoupling and Utility Based Energy Conservation Efforts," American Gas Association, Rate and Regulatory Issues Conference Webcast, May 30, 2007.
- "A Renewed Focus on Energy Efficiency by Utility Regulators," American Gas Association, Rate and Regulatory Issues Seminar and Committee Meetings, March 26, 2007.
- "The Continuing Ratemaking Challenge of Declining Use Per Customer," American Public Gas Association, Gas Utility Management Conference, October 31, 2006.
- "Understanding and Managing the New Reality of Utility Costs in the Natural Gas Industry," Financial Research Institute, Public Utility Symposium, University of Missouri – Columbia, September 27, 2006.
- "Ratemaking and Energy Efficiency Initiatives: Key Issues and Perspectives," American Gas Association, Ratemaking Webcast, September 14, 2006.
- "Ratemaking Solutions in an Era of Declining Gas Usage and Price Volatility," Northeast Gas Association, 2006 Executive Conference, September 10-12, 2006.
- "Rethinking Natural Gas Utility Rate Design," American Gas Foundation and The NARUC Foundation, Executive Forum, Ohio State University, May 2006.
- "Rate Design, Trackers, and Energy Efficiency – Has the Paradigm Shifted?" Energy Bar Association, Midwest Energy Conference, March 2006.
- "Key Regulatory Issues Affecting Energy Utilities," American Gas Association, Lunch 'n Learn Session, November 2005.
- "Decoupling, Conservation, and Margin Tracking Mechanisms," American Gas Association, Rate & Regulatory Issues – Audio Conference Series, October 2005.
- "In Search of Harmony, [Utilities and Regulators] Respondents Weigh in with Needed Actions", Public Utilities Fortnightly, November 2005
- "The Use of Trackers as a Regulatory Tool," Midwest Energy Association – Legal, Regulatory, and Government Relations Roundtable, October 9-11, 2005.
- "Rate Design and the Regulatory Environment," American Gas Association Finance Committee Meeting, October 2005.

- "Creative Utility Regulatory Strategies in a High Price Environment," American Gas Association Executive Conference, September 2005.
- "Revenue Decoupling Programs: Aligning Diverse Interests," The Institute for Regulatory Policy Studies, Illinois State University, May 2005.
- "Key Regulatory Issues Affecting Energy Utilities" American Gas Association Financial Forum, May 2005.
- "Energy Efficiency and Revenue Decoupling: A True Alignment of Customer and Shareholder Interests," American Gas Association Rate and Regulatory Issues Seminar and Committee Meetings, April 2005.
- "Rate Case Techniques: Strategies and Pitfalls" American Gas Association, Rate & Regulatory Issues – Audio Conference Series, March 2005.
- "Regulatory Uncertainty: The Ratemaking Challenge Continues" Public Utilities Fortnightly, Volume 142, No. 11, November 2004.
- "Current Trends in Utility Rate Cases and Pricing: Surveying the Landscape," Platts Rate Case & Pricing Symposium, October 25-26, 2004.
- "State Regulatory Oversight of the Gas Procurement Function" Energy Bar Association, Natural Gas Regulation Committee, Energy Law Journal, Volume 25, No. 1, 2004.
- "Cost Allocation Across Corporate Divisions", American Gas Association, Rate and Strategic Issues Committee Meeting, April 2003.
- "Unbundling Initiatives – How Far Can We Go?" American Gas Association Restructuring Seminar: Service and Revenue Enhancements for the Energy Distribution Business, December 2002.
- "Utility Regulation and Performance-Based Ratemaking (PBR)," PBR Briefing Session sponsored by BC Gas Utility Ltd., April 2002.
- "LDC Perspectives on Managing Price Volatility" American Gas Association, Rate and Strategic Issues Committee Meeting, March 2002.
- "Can a California Energy Crisis Occur Elsewhere?" American Gas Association, Rate and Strategic Issues Committee Meeting, March 2001.
- "Downstream Unbundling: Opportunities and Risks," American Gas Association, Rate and Strategic Issues Committee Meeting, April 2000.

- "Form Follows Function: Which Corporate Strategy Will Predominate in the New Millennium?" American Gas Association 1999 Workshop on Regulation and Business Strategy for Utilities in the New Millennium, August 1999
- "Total Energy Providers: Key Structural and Regulatory Issues," American Gas Association, Rate and Strategic Issues Committee Meeting, April 1999.
- "The Gas Industry: A View of the Next Decade," National Association of Regulatory Utility Commissioners (NARUC) Staff Subcommittee on Accounts, 1998 Fall Meeting, September 1998.
- "Regulatory Responses to the Changing Gas Industry," Canadian Gas Association, 1998 Corporate Challenges Conference, September 1998
- "Trends in Performance-Based Pricing," American Gas Association Financial Analysts Conference, May 1998.
- "Unbundling – An Opportunity or Threat for Customer Care?" presented at the American Gas Association/Edison Electric Institute Customer Services Conference and Exposition, May 1998.
- "Experiences in Electric and Gas Unbundling," presented at the 1997 Indiana Energy Conference, December 1997.
- "Asset and Resource Migration Strategies," presented at the Strategic Marketing For The New Marketplace Conference sponsored by Electric Utility Consultants, Inc. and Metzler & Associates, November 1997.
- "The Status of Unbundling in the Gas Industry," presented at the American Gas Association Finance Committee, March 1997.
- Seminar organizer and co-moderator at the American Gas Association, "Workshop on Unbundling and LDC Restructuring," July 1995.
- "State Regulatory Update," presented at the American Gas Association - Financial Forum, May 1995.
- "Gas Pricing Strategies and Related Rate Considerations," presented before the Rate Committee of the American Gas Association, April 1995.
- "Avoided Cost Concepts and Management Considerations," presented before the Workshop on Avoided Costs in a Post-636 Industry, sponsored by the Gas Research Institute and Wisconsin Center for Demand-Side Research, June 1994.

- "DSM Program Selection Under Order No. 636: Effect of Changing Gas Avoided Costs," presented before the NARUC-DOE Fifth National Integrated Resource Planning Conference, Kalispell, MT, May 1994.
- "A Review of Recent Gas IRP Activities," presented before the Rate Committee of the American Gas Association, March 1994.
- Seminar organizer and co-moderator at the American Gas Association seminar, "The Statue of Integrated Resource Planning," December 1993.
- "Industry Restructuring Issues for LDCs, presented before the American Gas Association–Advanced Regulatory Seminar, University of Maryland, 1993-1996.
- "Acquiring and Using Gas Storage Services," presented before the 8th Cogeneration and Independent Power Congress and Natural Gas Purchasing '93, June 1993.
- "Capitalizing on the New Relationships Arising Between the Various Industry Segments: Understanding How You Can Play in Today's Market," presented before the Institute of Gas Technology's Natural Gas Markets and Marketing Conference, February 1993.
- "The Level Playing Field for Fuel Substitution (or, the Quest for the Holy Grail)," presented before the 4th Natural Gas Industry Forum - Integrated Resource Planning: The Contribution of Natural Gas, October 1992.
- "Key Methodological Considerations in Developing Gas Long-Run Avoided Costs," presented before the NARUC-DOE Fourth National Integrated Resource Planning Conference, September 1992.
- "Mega-NOPR Impacts on Transportation Arrangements for IPPs," co-presented before the 7th Cogeneration and Independent Power Congress and Natural Gas Purchasing '92, June 1992.
- "Cost Allocation in Utility Rate Proceedings," presented before the Ohio State Bar Association - Annual Convention, May 1992.
- "The Long and the Short of LRACs," presented before the Natural Gas Least-Cost Planning Conference April 1992, sponsored by Washington Gas Company and the District of Columbia Energy office.
- Seminar organizer and moderator at the American Gas Association seminar, "Integrated Resource Planning: A Primer," December 1991.
- Session organizer and moderator on integrated resource planning issues at the American Gas Association Annual Conference, October 1991.

- "Strategic Perspectives on the Rate Design Process," presented before the Executive Enterprises, Inc. conference, "Natural Gas Pricing and Rate Design in the 1990s," September 1990.

- "Distribution Company Transportation Rates," presented before the American Gas Association–Advanced Regulatory Seminar, University of Maryland 1987-1992.

- "Design of Distribution Company Gas Rates," presented before the American Gas Association - Gas Rate Fundamentals Course, University of Wisconsin, 1985-1998.

- Seminar organizer, speaker and panel moderator at the American Gas Association seminar, "Natural Gas Strategies: Integrating Supply Planning, Marketing and Pricing," 1988-1990.

- "Local Distribution Company Bypass - Issues and Industry Responses," (Co-author) June 1989.

- "So You Think You Know Your Customers!," presented before the American Gas Association–Annual Marketing Conference, April 1990.

- "Gas Transportation Rate Considerations - A Review of Gas Transportation Practices Based on the Results of the A.G.A. Annual Pricing Strategies Survey," presented before the Rate Committee of the American Gas Association, April 1985-1991.

- "Market-Based Pricing Strategies - Targeted Rates to Meet Competition," presented before the American Gas Association Annual Marketing Conference, March 1989.

- "Gas Rate Restructuring Issues - Targeted Prices to Meet Competition," presented before the Fifteenth Annual Rate Symposium, University of Missouri, February 1989.

- "Gas Transportation Rates - An Integral Part of a Competitive Marketplace," *American Gas Association, Financial Quarterly Review*, Summer 1987.

- "Gas Distributor Rate Design Responses to the Competitive Fuel Situation," *American Gas Association, Financial Quarterly Review*, October 1983.

- "Demand-Commodity Rates: A Second Best Response to the Competitive Fuel Situation," presented before the American Gas Association, Ratemaking Options Forum, September 1983.

- Cofounder, course director and instructor in the annual course, "Principles of Gas Utility Rate Regulation" sponsored by The Center for Professional Advancement 1982-1987.
- "Current Rate and Regulatory Issues," presented before the National Fuel Gas Regulatory Seminar, July 1986.

AFFILIATIONS AND HONORS

- Financial Associate Member, American Gas Association
- Member, Rate Committee of the American Gas Association
- Member, Energy Bar Association
- Member, Institute of Electrical and Electronic Engineers
- Listed in Who's Who of Emerging Leaders in America, 1989-1992

(Current as of October 2009)

EXHIBIT____(RAF-1)

RECENT REVENUE DECOUPLING PRESENTATIONS

RUSSELL A. FEINGOLD

- "State Regulatory and Legislative Issues Affecting Utilities," American Gas Association, 2009 Financial Forum, May 3, 2009.
- "Breaking the Link Between Sales and Profits: Current Status and Trends," Energy Bar Association, Electricity Regulation and Compliance Committee, February 17, 2009.
- "State Ratemaking Issues for Gas Distribution Utilities," Energy Law Journal, Volume 29, No. 2, 2008 (Report of the Natural Gas Regulation Committee).
- "Current Issues in Revenue Decoupling for Gas Utilities," American Gas Association, Financial and Investor Relations Webcast, October 16, 2008.
- "Addressing Utility Business Challenges Through the State Regulatory Process," American Gas Association, 2008 Legal Forum, July 20-22, 2008.
- "Earning on Natural Gas Energy Efficiency Programs," American Gas Association Rate and Regulatory Issues Conference Webcast, May 23, 2008.
- "State Regulatory Directions: Utility Challenges and Solutions," American Gas Association Financial Forum, May 4, 2008.
- "Facilitating Incentive-Based Pricing in Natural Gas and Electric Markets," The Institute for Regulatory Policy Studies, Illinois State University, May 2008 (Upcoming).
- "Update on Revenue Decoupling and Innovative Rates," American Gas Association, Rate Committee Meeting and Regulatory Issues Seminar, March 10, 2008.
- "Update on Revenue Decoupling and Utility Based Energy Conservation Efforts," American Gas Association, Rate and Regulatory Issues Conference Webcast, May 30, 2007.
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- "Ratemaking and Energy Efficiency Initiatives: Key Issues and Perspectives," American Gas Association, Ratemaking Webcast, September 14, 2006.
- "Ratemaking Solutions in an Era of Declining Gas Usage and Price Volatility," Northeast Gas Association, 2006 Executive Conference, September 10-12, 2006.
- "Rethinking Natural Gas Utility Rate Design," American Gas Foundation and The NARUC Foundation, Executive Forum, Ohio State University, May 2006.
- "Rate Design, Trackers, and Energy Efficiency – Has the Paradigm Shifted?" Energy Bar Assocation, Midwest Energy Conference, March 2006.
- "Key Regulatory Issues Affecting Energy Utilities," American Gas Association, Lunch 'n Learn Session, November 2005.
- "Decoupling, Conservation, and Margin Tracking Mechanisms," American Gas Association, Rate & Regulatory Issues – Audio Conference Series, October 2005.
- "In Search of Harmony, [Utilities and Regulators] Respondents Weigh in with Needed Actions", Public Utilities Fortnightly, November 2005
- "The Use of Trackers as a Regulatory Tool," Midwest Energy Association – Legal, Regulatory, and Government Relations Roundtable, October 9-11, 2005.
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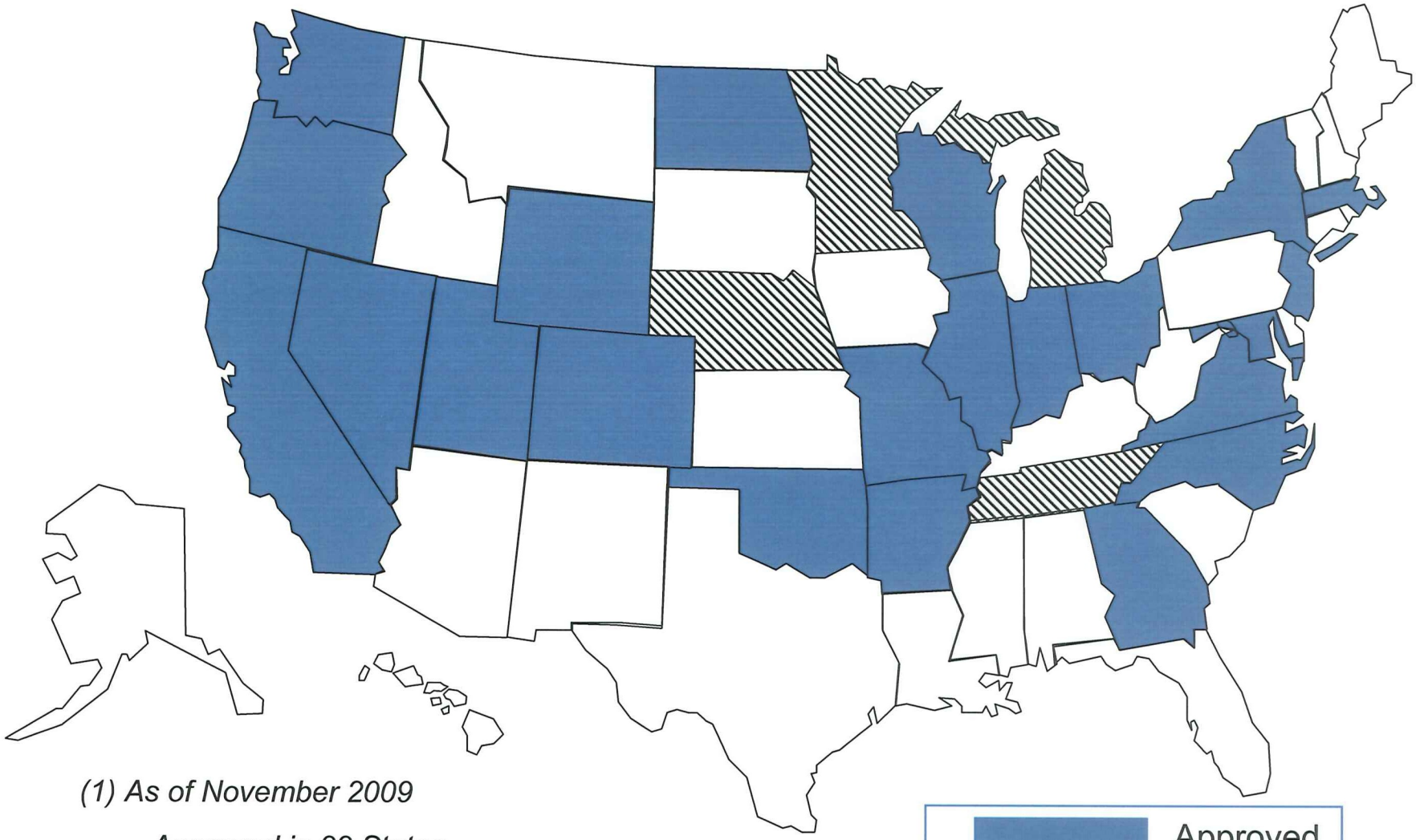
- "Revenue Decoupling Programs: Aligning Diverse Interests," The Institute for Regulatory Policy Studies, Illinois State University, May 2005.
- "Key Regulatory Issues Affecting Energy Utilities" American Gas Association Financial Forum, May 2005.
- "Energy Efficiency and Revenue Decoupling: A True Alignment of Customer and Shareholder Interests," American Gas Association Rate and Regulatory Issues Seminar and Committee Meetings, April 2005.

EXHIBIT____(RAF-2)

Exhibit ____(RAF-2)

Piedmont Natural Gas Company
Approved and Pending Revenue Decoupling – Gas Utilities [1]



(1) As of November 2009

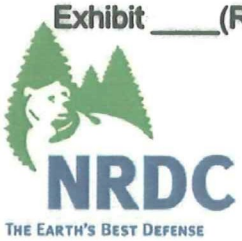
Approved in 22 States

Pending in 4 States

EXHIBIT____(RAF-3)

Exhibit ____(RAF-3)

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

[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.

expectation that weather will be normal, on average, and that customer use of gas 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.

This Joint Statement also has been reviewed and endorsed by:

ALLIANCE TO SAVE ENERGY
Creating an Energy-Efficient World

Alliance to Save Energy

ACE3

American Council for an Energy-Efficient Economy

Exhibit ____(RAF-3)

EDISON ELECTRIC INSTITUTE

NRDC
THE EARTH'S BEST DEFENSE

November 18, 2003

Dear NARUC Commissioners

At your invitation, we conducted a lively debate at the 2002 Annual Meeting on utilities' future role in "electric resource portfolio management." Many of you encouraged us to return with joint recommendations on the formidable challenges associated with choosing and managing balanced portfolios of electricity and grid resources for customers unable or unwilling to do this themselves. Here we are again.

While details vary among states, EEI and NRDC agree that among most distribution companies' most crucial and challenging responsibilities is meeting their systems' long-term needs for grid enhancement, generation and demand-side resources. Distribution companies need not own the resources involved, and an active portfolio management role for distribution companies is entirely consistent with efforts to promote competitive wholesale generation markets. Indeed, as NARUC's members know well, many participants in such markets increasingly are calling for more long-term distribution company investments to help overcome a capital availability crisis that affects all elements of the power system, from grids to generators to end-use efficiencies.

We are deeply concerned, however, about an increasingly obvious mismatch between these important societal needs and the tools available to utilities, other market participants and regulators. We also believe we need clear workable frameworks for resource portfolio procurement, and we are committed to working together with NARUC's members to secure them.

THE CHALLENGES

Utility-based resource portfolio management faces a host of challenges, including but not limited to the following:

1. Misaligned incentives.
   a. Traditional regulation does not create any clear performance-based incentive to manage comprehensive electric resource portfolios effectively; at best, utilities can hope to recover the costs of long-term contracts with generation and demand-side service providers, with no opportunity to earn a reward for addressing risks in minimizing the long-term cost of reliable service.
   b. For energy efficiency and distributed generation options specifically, today's rate regulation typically penalizes any such utility investments - however cost-

effective - by linking much or all of utilities' fixed cost recovery to their retail electricity sales volumes.

c. Traditional rates of return from a cost-of-service framework do not reflect significant new risks (outlined in part below).

d. It is difficult to negotiate symmetrical incentives that reward long-term performance and will not be revisited or withdrawn when utilities do well.

2. Major new risks in honoring service obligations in restructured markets:
   a. Volume Risk: in states with retail competition loads are far more variable because of customer switching; and,
   b. Price Risk: wholesale prices are increasingly volatile, most customers don't like being exposed to such volatility, and many utilities have divested their own generation in response to market forces and/or direction from regulators and legislatures.

3. Illiquidity in wholesale markets: lack of long-term deals impedes temporal diversity, and lack of derivative products obstructs some kinds of risk hedging.

4. Uncertainty regarding the duration of the supply obligation: some states have reframed portfolio management as "Provider Of Last Resort" (POLR) service, which was originally intended to be part of a transitional strategy but now is being recast as a renewed and extended obligation.

5. Analytical challenges in developing sound portfolios: portfolio managers must find new tools and methods to evaluate regulated and unregulated resources with significantly different asset lives and non-price attributes; Commissions need to gain greater familiarity with new risk management concepts, methods and tools (e.g., Value-at-Risk, Cash Flow-at-Risk, measures of gas price volatility)

6. Expediting decisions: traditional trial-type adversarial planning proceedings take too long to identify and exploit opportunities.

7. Addressing the role of affiliates: no consensus yet exists on whether and how to accommodate affiliate participation in resource portfolios.

NEXT STEPS

This daunting list of concerns is not an invitation to despair or for paralysis; solutions must be found in the public interest. We offer these initial recommendations and remain committed to timely solutions:

1. Get the incentives right: performance-based incentives tied to objective benchmarks have been tested for both demand- and supply-side resources; it's time to put them to widespread use. Procurement plans filed by utilities with their regulators can be used to establish these benchmarks, which should address cost-effective short- and long-

term investments in generation, demand-side resources and grid enhancements. Also, to eliminate a powerful disincentive for energy efficiency and distributed-resource investment, we both support the use of modest, regular true-ups in rates to ensure that any fixed costs recovered in kilowatt-hour charges are not held hostage to sales volumes. EEI believes regulators should explore new rate designs for collection of the fixed costs of investments.

2. Provide reasonable assurance of cost recovery: uncertainty of cost recovery constrains adaptive rate design, and discourages investment in new infrastructure needed for security, reliability and environmentally sustainable service for all customers. Moreover, extended rate freezes make impossible any true-ups to remove energy efficiency disincentives (see item 1 above).

3. Provide opportunities for utilities to seek advanced regulatory approval for resource portfolios under standards and criteria defined upfront, with assurances that approved commitments will not be revisited and disapproved after-the-fact.

4. Add objective risk management goals to the traditional utility resource procurement mission of minimizing costs subject to reliability and other constraints.

5. Establish frequent communications with Commissioners and staff, to keep up with dynamic market changes and avoid surprising regulators.

6. Develop RFP processes that are unbiased and fair for all parties, including utility affiliates and independent suppliers. One illustration is the joint NRDC/PacificCorp/Calpine proposal *Defining Electricity-Resource Portfolio Management Responsibilities* submitted to NARUC in July 2003.

Through these recommendations, we hope to help NARUC members achieve the best possible long-term results for all of their constituents, in both economic and environmental terms.

Yours sincerely,

David K. Owens

David K. Owens

Ralph Cavanagh

Ralph Cavanagh

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

Resolution on Energy Efficiency and Innovative Rate Design

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 the incentives for existing gas and electric utility programs designed to promote and aggressively implement cost-effective conservation, energy efficiency, weatherization, and demand response; *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 the findings and recommendations of the September 23, 2003 report by the National Petroleum Council on *Balancing Natural Gas Policy – Fueling the Demands of a Growing Economy* and its recommendations for improving and promoting energy efficiency and conservation initiatives; *and*

WHEREAS, The NARUC at its 2004 Summer Meetings, adopted a *Resolution on Gas and Electric Energy Efficiency* encouraging State commissions and other policy makers to support expansion of energy efficiency programs, including consumer education, weatherization, and energy efficiency and to address regulatory incentives to inefficient use of gas and electricity; *and*

WHEREAS, These NARUC initiatives were prompted by the substantial increases in the price of natural gas in wholesale markets during the 2000-2003 period when compared to the more moderate prices that prevailed throughout the 1990s; *and*

WHEREAS, The wholesale natural gas prices of the last five years largely reflect the fact that the demand by consumers for natural gas has been growing steadily while, for a variety of reasons, the supply of natural gas has had difficulty keeping pace, leading to a situation where natural gas demand and supply are narrowly in balance and where even modest increases in demand produce sharp increases in price; *and*

WHEREAS, Hurricanes Katrina and Rita, in addition to damaging the States of Alabama, Mississippi, Louisiana, and Texas, significantly damaged the nation's onshore and offshore energy infrastructure, resulting in significant interruption in the production and delivery of both oil and natural gas in the Gulf Coast area; *and*

WHEREAS, The confluence of a tight balance of natural gas supply and demand and these natural disasters has driven natural gas prices in wholesale markets to unprecedented levels; *and*

WHEREAS, The present high and unprecedented level of natural gas prices are imposing significant burdens on the nation's natural gas consumers, whether residential, commercial, or industrial, and will likely be injurious to the nation's economy as a whole; *and*

WHEREAS, The recently enacted Energy Policy Act of 2005 contains a number of provisions aimed at encouraging further natural gas production in order to bring down prices for consumers,

but these actions, together with any further action on energy issues by Congress, are unlikely to bring forth additional supplies of natural gas in the short term; *and*

WHEREAS, Energy conservation and energy efficiency are, in the short term, the actions most likely to reduce upward pressure on natural gas prices and to assist in bringing energy prices down, to the benefit of all natural gas consumers; *and*

WHEREAS, Innovative rate designs including "energy efficient tariffs" and "decoupling tariffs" (such as those employed by Northwest Natural Gas in Oregon, Baltimore Gas & Electric and Washington Gas in Maryland, Southwest Gas in California, and Piedmont Natural Gas in North Carolina), "fixed-variable" rates (such as that employed by Northern States Power in North Dakota, and Atlanta Gas Light in Georgia), other options (such as that approved in Oklahoma for Oklahoma Natural Gas), and other innovative proposals and programs may assist, especially in the short term, in promoting energy efficiency and energy conservation and slowing the rate of demand growth of natural gas; *and*

WHEREAS, Current forms of rate design may tend to create a misalignment between the interests of natural gas utilities and their customers; *now therefore be it*

RESOLVED, That the National Association of Regulatory Utility Commissioners (NARUC), convened in its November 2005 Annual Convention in Indian Wells, California, encourages State commissions and other policy makers to review the rate designs they have previously approved to determine whether they should be reconsidered in order to implement innovative rate designs that will encourage energy conservation and energy efficiency that will assist in moderating natural gas demand and reducing upward pressure on natural gas prices; *and be it further*

RESOLVED, That NARUC recognizes that the best approach toward promoting energy efficiency programs for any utility, State, or region may likely depend on local issues, preferences, and conditions.

Sponsored by the Committee on Gas
Recommended by the NARUC Board of Directors November 15, 2005
Adopted by the NARUC November 16, 2005

Resolution Supporting the National Action Plan on Energy Efficiency

WHEREAS, The United States is in an increasing energy cost environment, both for the cost of energy commodities and new energy infrastructure, such that there is uniform recognition at every level of government and industry that concerted efforts and attention must be focused on ways to conserve energy and utilize it more efficiently in order to reduce the corresponding costs to both consumers and our economy; *and*

WHEREAS, The Department of Energy (DOE), the Environmental Protection Agency (EPA), and other government and non-profit agencies are working with a number of public and private entities in numerous States to identify, implement and improve public policy and planning efforts related to the achievement of energy efficiency objectives; *and*

WHEREAS, The Board of Directors of the National Association of Regulatory Utility Commissioners adopted a "Resolution on Gas and Electric Energy Efficiency" at its July 2004 meeting that encouraged State policy makers to: (1) support the expansion of energy efficiency programs; (2) review and upgrade energy efficiency standards for buildings and appliances and promote the use of high-efficiency consumer products, including smart metering and information control devices; and (3) recognize that the best approach for promoting such programs may depend on local issues, preferences, and conditions; *and*

WHEREAS, The National Action Plan on Energy Efficiency was released on July 31, 2006, recommending key action items for public policymakers and private industry to consider in each region, with the goal of saving consumers billions of dollars in energy costs over the next 15 years; *and*

WHEREAS, The following five recommendation areas comprise the key elements of the 2006 National Action Plan on Energy Efficiency: (1) Recognize energy efficiency as a high priority energy resource; (2) Make a strong, long-term commitment to cost-effective energy efficiency as a resource; (3) Broadly communicate the benefits of and opportunities for energy efficiency; (4) Promote sufficient, timely, and stable program funding to deliver energy efficiency where cost-effective; and (5) Modify policies to align utility incentives with the delivery of cost-effective energy efficiency and modify ratemaking practices to promote energy efficiency investments; *now therefore be it*

RESOLVED, That the Board of Directors of the National Association of Regulatory Utility Commissioners (NARUC), convened in its 2006 Summer Meeting in San Francisco, California, reaffirms its support for the Association's July 2004 "Resolution on Gas and Electric Energy Efficiency"; *and be it further*

RESOLVED, That the Board of Directors commends the commitments made on July 31, 2006 at the opening session of these meetings by a number of State commissions and other stakeholders to take specific actions to move their States aggressively toward increased energy efficiency; *and be it further*

RESOLVED, That the Board of Directors endorses the principal objectives and recommendations of the National Action Plan on Energy Efficiency, and commends to its member commissions a State-specific, and where appropriate, regional review of the elements and potential applicability of the energy efficiency policy recommendations outlined in the Plan, in an effort to identify potential improvements in energy efficiency policy nationwide.

Sponsored by the Executive Committee and the Committees on Consumer Affairs, Electricity, Energy Resources and the Environment, and Gas
Adopted by the NARUC Board of Directors August 2, 2006

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Pre-Filed Direct Testimony was served via U.S. Mail upon:

Ryan L. McGehee
Assistant Attorney General
Office of the Attorney General
Consumer Advocate and Protection Division
PO Box 20207
Nashville, Tennessee 37202-0207

C. Scott Jackson
Senior Counsel
Office of the Attorney General
Consumer Advocate and Protection Division
PO Box 20207
Nashville, Tennessee 37202-0207

This 4th day of December, 2009.

Erin M. Everett