

TENNESSEE REGULATORY AUTHORITY

Mary W. Freeman
Director



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January 25, 2010

Director Kenneth C. Hill
Director Eddie Roberson
460 James Robertson Parkway
Nashville, TN 37243

RE: **Docket 09-00104** Petition of Piedmont Natural Gas, Inc. to Implement a Margin Decoupling Tracker (MDT) Rider and Related Energy Efficiency and Conservation Programs, and Appropriateness of Implementation of PURPA Standard 5 (Energy Efficiency) and Standard 6 (Rate Design Modification) for Piedmont Natural Gas Company.

Dear Director Hill and Director Roberson:

Please find the attached motion that I plan to make at our scheduled Authority Conference today in the above-referenced Authority Section 5 agenda item. For your convenience, I am filing this so that you may have an opportunity to review it before deliberations.

Sincerely,

A handwritten signature in black ink, appearing to read "Mary W. Freeman", written in a cursive style.

Mary W. Freeman
Director

/msa

Attachment

c: Docket File 09-00104

MOTION OF DIRECTOR MARY W. FREEMAN

January 25, 2010 Authority Conference

Docket 09-00104, Petition of Piedmont Natural Gas, Inc. to Implement a Margin Decoupling Tracker (MDT) Rider and Related Energy Efficiency and Conservation Programs, and Appropriateness of Implementation of PURPA Standard 5 (Energy Efficiency) and Standard 6 (Rate Design Modification) for Piedmont Natural Gas Company.

INTRODUCTION OF DOCKET:

On July 16, 2009, Piedmont Natural Gas filed a Petition seeking Authority approval to establish appropriate rate mechanisms necessary to implement the active promotion of energy efficiency programs to encourage its residential customers to conserve energy. Piedmont proposes to do this by implementing a Margin Decoupling Tracker, which it asserts breaks the link between profits and sales, so that Piedmont can promote conservation while still earning a just and reasonable rate of return. Piedmont also proposes to implement three energy efficiency programs, which it will fund for the first three years.

This docket also included evaluation of PURPA Standard 5 (Energy Efficiency) and Standard 6 (Rate Design Modification) for Piedmont Natural Gas Company.

FINDINGS AND CONCLUSIONS:

On October 13, 2009, the Hearing Officer issued an order adopting five issues to be considered in this docket.

ISSUES 1 AND 5:

Issue 1: What is the appropriate mechanism, or financial incentive, to insure that Piedmont's financial incentives are aligned with the state's energy conservation policy set out in 2009 Public Act 531, Section 53?

Issue 5: Should Piedmont be required to meet specific, verifiable, measurable energy efficiency goals and/or benchmarks for any approved conservation programs?

I find that Piedmont failed to present sufficient evidence to justify a need for a new financial incentive in order to comply with state and federal law regarding conservation while earning a just and reasonable rate of return. The Authority must be able to determine the benefit to consumers before giving Piedmont an additional financial incentive.

I also find that Piedmont's decoupling mechanism proposal fails to meet the requirements of the Federal American Recovery and Reinvestment Act of 2009 and Public Chapter 531, which sets out Tennessee's policy on energy conservation. These laws require the implementation of cost-effective, measurable and verifiable efficiency savings, in a way that sustains or enhances utility customers' incentives to use energy more efficiently. The conservation programs proposed by Piedmont lack specificity and measurements that would allow a determination as to whether conservation would actually be achieved.

ISSUES 2 AND 3:

Issue 2: If such mechanism or incentive is adopted, what is the appropriate customer usage level and/or margin to be used as the benchmark for Piedmont's proposed decoupling mechanism?

Issue 3: Prior to implementing a decoupling mechanism, should Piedmont's earnings be evaluated?

I find that before the Authority can determine whether this decoupling mechanism should be implemented, it is imperative that Piedmont's earnings be evaluated to insure that the company does not exceed its approved rate of return.

Piedmont's last rate case was filed in 2003 making the information pertaining to Piedmont's revenues stale. Because of the lack of current information, it would be more appropriate for the Authority to consider Piedmont's proposal for a decoupling mechanism in the context of a rate setting proceeding. Evaluating Piedmont's request in a rate case would allow all factors relative to their earnings to be considered, as well as, allow evaluation of the potential impact on consumers before approving the implementation of a decoupling mechanism.

ISSUE 4:

Issue 4: Does the implementation of a decoupling mechanism lower the business risk for Piedmont, thereby justifying an adjustment of its rate of return? If so, what method or evaluation tools should be utilized to quantify an appropriate adjustment to the rate of return?

I find that the Authority is not in a position to examine the impact of a decoupling mechanism on Piedmont's business risk based on information that is 7 years old.

There are many different forms of decoupling and each presents a different impact on revenue and business risk. There is no one size fits all formula for implementing a decoupler. The Authority must conduct a review of all the current, relevant information pertaining to a Company's financial position and take into account many factors before determining the appropriate type of decoupling mechanism, if any, that should be implemented by a company.

PURPA

In order to comply with the 2007 Energy Act and ensure that the State of Tennessee is eligible to receive stimulus funds, the Authority opened Docket Number 09-00065 for the purpose of considering and determining the appropriateness of implementing PURPA standards for Piedmont Natural Gas Company, Chattanooga Gas Company, and Atmos Energy Company. The panel voted to move Evaluation of PURPA Standard 5 (Energy Efficiency) and Standard 6 (Rate Design Modification) for Piedmont Natural Gas Company from Docket Number 09-00065 for consideration in this docket.

I find that the evidence in the record is insufficient to evaluate whether the PURPA standards concerning energy efficiency and rate design should be adopted for Piedmont. However, these standards should be addressed by Piedmont in its next general rate case or other proceeding Piedmont initiates with the Authority.

MOTION:

Based on the preceding findings and conclusions, I move that Piedmont's Petition to implement the margin decoupling tracker and the accompanying tariff be denied and that PURPA standards regarding energy efficiency and rate design not be adopted at this time.

I would also like to state for the record that the decision made by the Authority in this docket is specific to the issues presented in the Petition filed by Piedmont and should not be viewed as the Authority's position on decoupling in general or as taking any position on future dockets before the agency.

I so move.