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Chairman Sara Kyle
Director Eddie Roberson
Director Kenneth C. Hill
Director Mary W. Freeman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

filed electronically in docket office on 04/14/10

Re: Docket No. 09-00183 In the Matter of the Petition of Chattanooga Gas Company, Inc. for a General Rate Increase, Implementation of the Energy SMART Conservation Programs and Implementation of a Revenue Decoupling Mechanism

Dear Madam Chairman and Directors:

I am writing on behalf of AARP in opposition to the proposals made by Chattanooga Gas Company ("CGC"), first for adoption of a "revenue decoupling mechanism" and subsequently for a "straight-fixed variable" ("SFV") rate design. AARP has nearly 700,000 members in Tennessee, and a number of them are customers of CGC who would be directly affected by the outcome of this case. Further, to the extent this case establishes a precedent at the TRA, all AARP members and all Tennesseans who are customers of a natural gas utility are potentially impacted.

At the time it filed this rate case CGC requested approval of an "Alignment and Usage Adjustment" mechanism (or "AUA"), which it claims will align the interests of consumers and the company with respect to energy conservation and efficiency programs. The AUA is a form of "revenue decoupling" which guarantees the company a certain revenue stream, even as consumers reduce their usage due to energy efficiency measures, or for other reasons, such as economic conditions. AARP does not support the proposed AUA.

AARP does not agree that energy efficiency programs are dependent on the adoption of revenue decoupling, nor that decoupling is always in the interest of ratepayers. Several states have implemented successful efficiency programs by creating non-utility entities whose sole mission is to administer energy efficiency programs. In addition, while some states have adopted "revenue decoupling" others have rejected or terminated decoupling mechanisms, determining that they were not working effectively, and/or were overly compensating the utility for decreased usage due to outside factors, such as the economic downturn. The status of revenue decoupling and its relationship to energy efficiency

programs is well documented in the testimony filed by Dr. David Dismukes in this docket on behalf of the Tennessee Attorney General Consumer Advocate and Protection Division ("Consumer Advocate"). AARP also calls to the TRA's attention the recent controversy in Ohio over a decoupling mechanism that would have cost ratepayers \$21.45 for each compact fluorescent light bulb distributed by one of the state's utilities. The Ohio case is a good example of a misguided approach to cost recovery and lost revenue adjustments related to utility-based energy efficiency programs.¹ Such controversies also serve to erode consumer support for energy efficiency programs that could be designed to be cost effective and benefit both the consumer and the utility.

AARP has reviewed the testimony filed in this proceeding on behalf of the Consumer Advocate. AARP agrees with the Consumer Advocate that the AUA should be rejected for the following reasons:

- An AUA is not necessary in order for regulatory policy to be consistent with state or federal law.
- An AUA would result in disincentives for the company to operate efficiently and manage risk prudently.
- An AUA shifts a large amount of risk from shareholders to ratepayers.
- The energy efficiency programs proposed by CGC are limited and would pose minimal financial risk to CGC.
- No adjustment is made to the company's return on equity to reflect the reduced risk due to the revenue guarantees provided by the AUA, further disadvantaging consumers.

AARP believes the AUA will increase costs to consumers, while having little if any influence on the company's energy efficiency programs. Rather than aligning the interests of consumer and the utility revenue decoupling places an additional burden on consumers at a time when they continue to feel the effects of the economic recession.

Even more costly and unfair to ratepayers are the SFV rate design proposals included in CGC's rebuttal testimony. The rebuttal testimony of Dan Yardley includes proposals for SFV rate designs that would yield fixed monthly charges of as much as \$43 per month in January.² What is even more astonishing than that outrageous sum is that CGC claims that this enormous rate increase "aligns" the interest of consumers and the utility. Such a statement defies the reality of economic circumstances faced by most consumers,

¹ See for example, PUCO to hear arguments in light-bulb controversy, Oct 15 - McClatchy-Tribune Regional News - Betty Lin-Fisher The Akron Beacon Journal, Ohio

² According to Mr. Yardley's rebuttal testimony at pages 29-31, CGC proposes two SFV options. The first raises the customer charge to \$13 during the winter and \$12 during the summer, and adds a "sculpted" demand charge, which varies by month and is higher in the winter than in the summer. According to the company's response to Staff Request 29-1, the sculpted rate in January would be \$30.63 per month for residential customers, resulting in total fixed charges in January of \$43.63 (\$13 + \$30.63). The second option includes the same customer charge, and a monthly \$7.75 demand charge. Under the second option the January fixed charge for residential customers would be \$20.75 (\$13 + \$7.75).

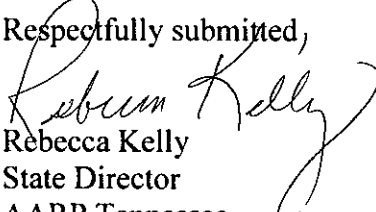
especially those on low and fixed incomes, who already struggle to pay winter heating bills. An SFV rate design disproportionately impacts low-use customers and shifts all risk of under-recovery to ratepayers, with no recognition of the reduced risk through a reduction in return on equity. The sculpted SFV is even worse because it would charge the highest fixed charge during months when heating bills are already high.

Imposing a hefty customer charge while reducing volumetric rates, is contrary to the goals energy affordability and energy conservation. Indeed, such a rate design discourages conservation, as additional usage becomes less expensive on a per unit basis. Shifting costs currently recovered on a usage basis to the fixed charge is especially harmful to low usage customers, who are often older households and low income households. Cost recovery through volumetric rates, including tiered rates, ensures that those high usage customers, who are also most able to take advantage of energy efficiency programs, pay their fair share of the system costs.

AARP is very concerned that the adoption of a rate design that could result in a \$43 customer charge will cause some customers to lose service altogether. For low-use customers a rate design with a high customer charge will increase their bills significantly before any energy is consumed. At lower usage levels, the average cost per Mcf is then much higher than at the higher usage levels. For ratepayers on a tight budget, both alternative SFV options will reduce the amount of usage the household can afford, resulting in one of two outcomes: The household will incur bills larger than it can afford to pay and face disconnection of service after falling behind on payments, or the household will not use sufficient heat to maintain healthy indoor temperatures, putting health and safety at risk. Both outcomes are tragic and not in the customer interest and both outcomes could be avoided by rejecting the SFV rate designs.

AARP supports the development of affordable, cost effective energy efficiency programs where cost recovery and utility incentives associated with such programs are reasonable, fair to both the company and ratepayers, and linked to the utility's actual performance in reducing energy use. The proposals made in this proceeding do not achieve these goals and could not be farther from serving the consumer interest in maintaining affordable energy service. The TRA should reject the AUA and both SFV proposals.

Respectfully submitted,


Rebecca Kelly
State Director
AARP Tennessee

Cc: Sharla Dillon, TRA
Attorney General Robert E. Cooper, Jr.
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