

Natural Gas Conservation and Ratemaking Efficiency Act (CARE)

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Natural Gas CARE Act

- HB 543, Del. Sam Nixon
- Product of months of discussion and dialogue
- Many stakeholders
- Consensus effort
- Comments today not necessarily those of my company but reflective of the stakeholder group

Natural Gas Distribution



Provide a service, not a product

Service is provided 24/7/365

Cannot use more or less of the service

Traditionally, utility earnings are driven by consumption of product, not delivery of service

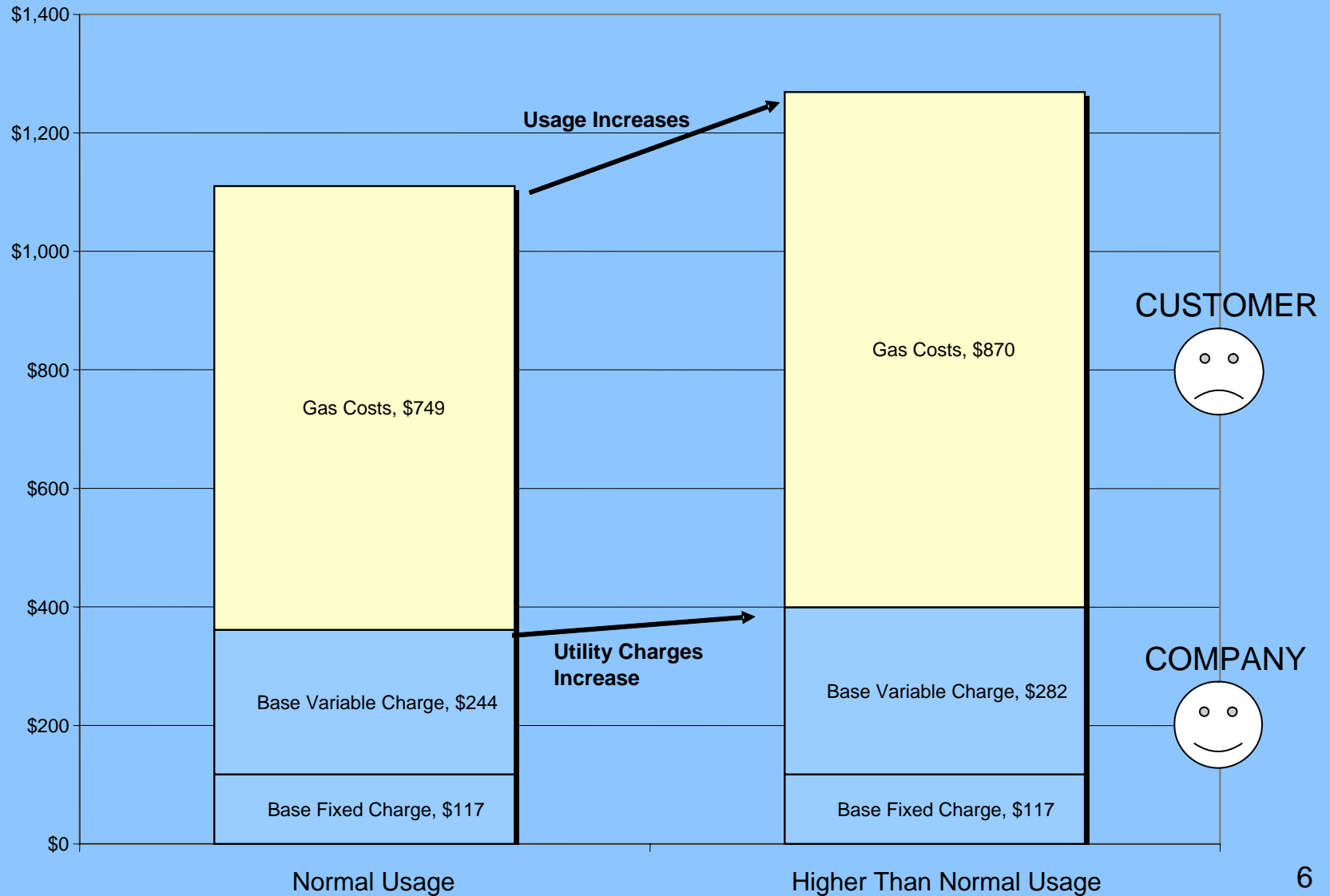
Decoupling in a Nutshell

- A regulatory and ratemaking tool that is designed to break the link between a utility's earnings and the energy consumption of its customers
- Removes inherent disincentive that a utility has under traditional ratemaking to promote energy conservation

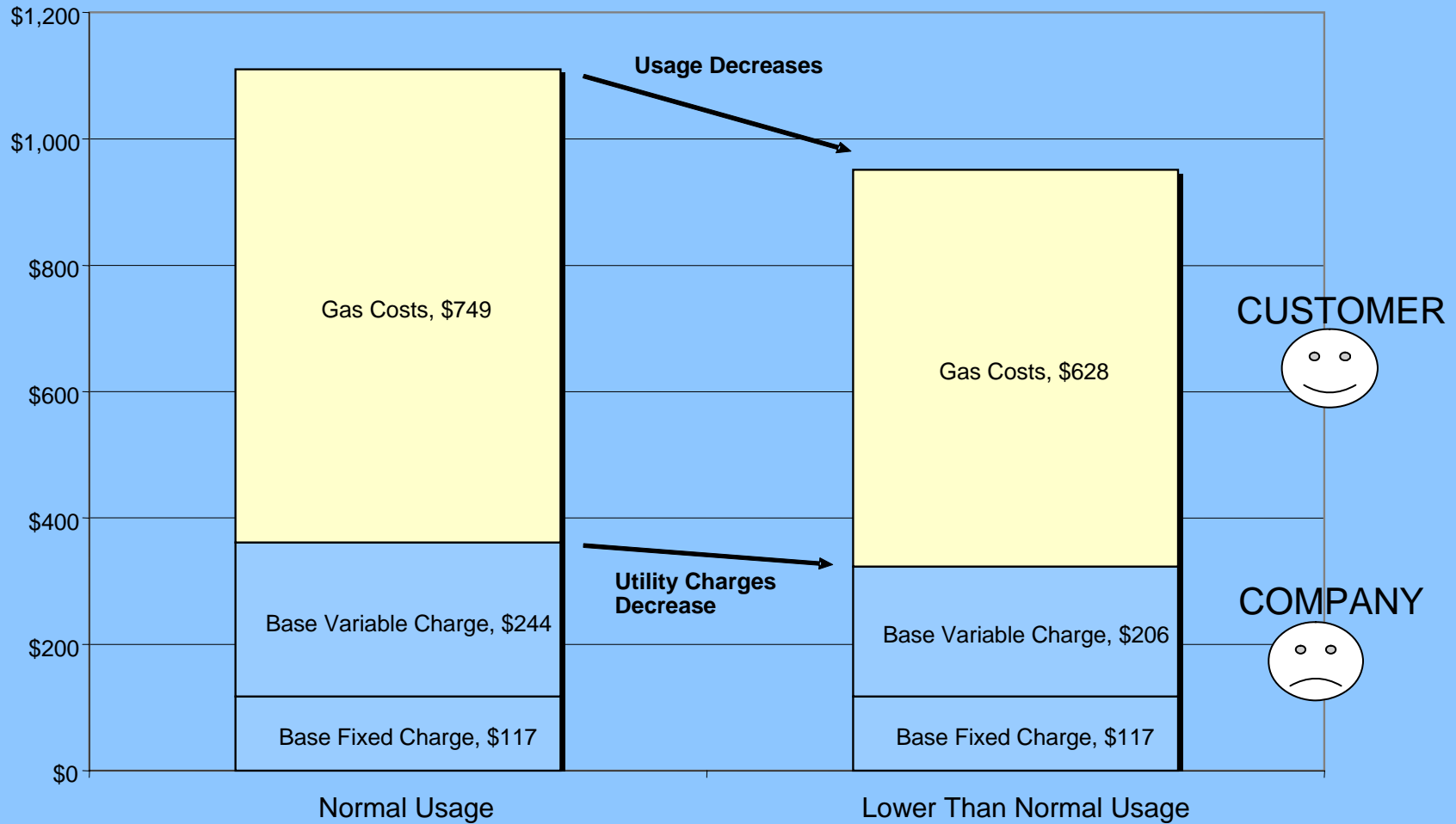
Benefits of Decoupling

- Environmental Benefit
 - Energy efficiency competes directly with supply
 - Reduced consumption = reduced environmental impact
- Consumer Benefit
 - More predictable bills, more customer control
 - Utilities more likely to help customers reduce demand, lower bills
 - Reduced commodity prices for all due to lower demand (American Council for an Energy Efficient Economy study)
 - **Efficiency gains are permanent benefits for the customer**
- Utility Benefit
 - More predictable fixed cost recovery
 - Incentives/rewards for conservation
 - Happy customers = better business

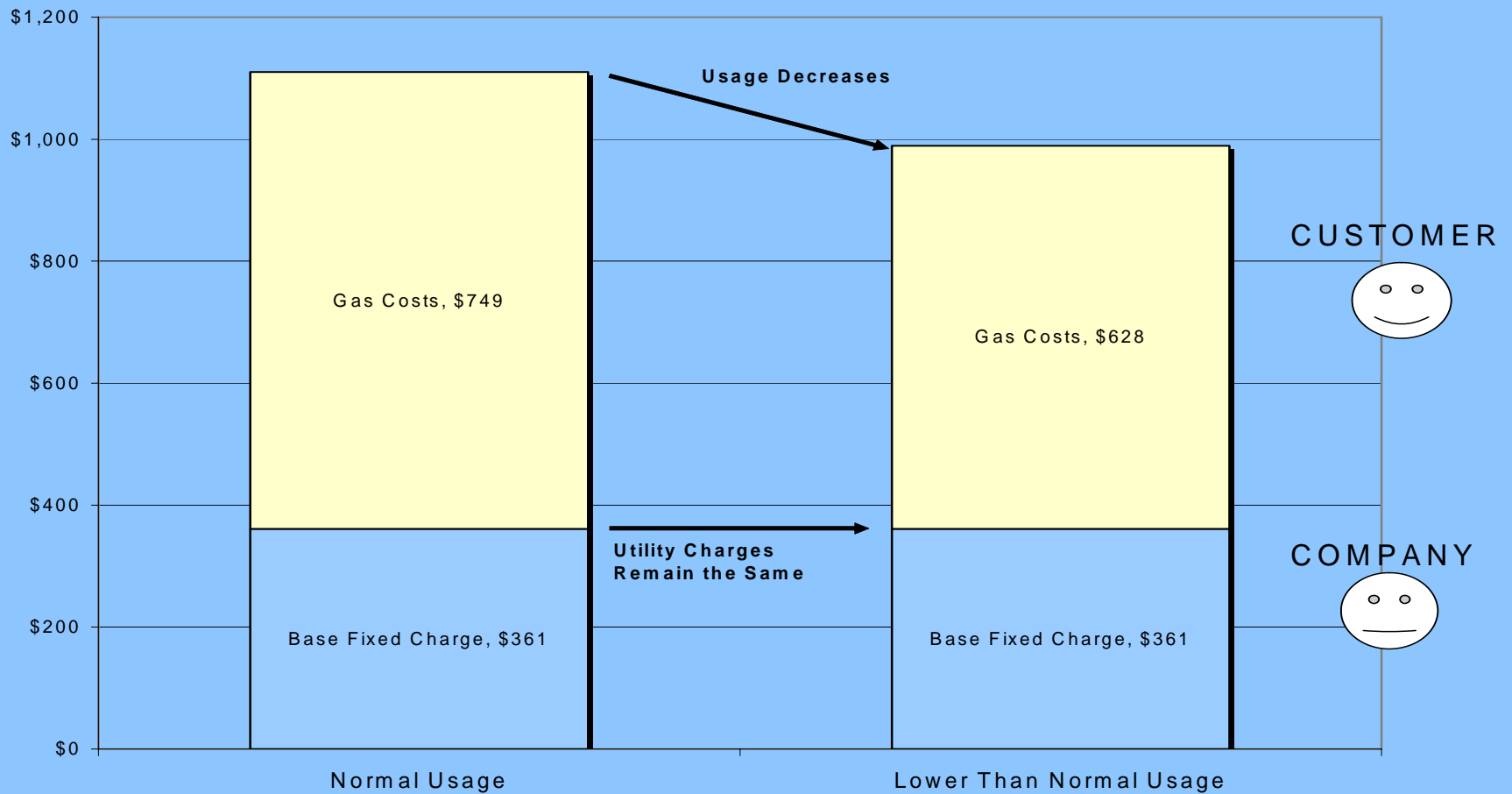
Utility Charges Coupled to Usage



Utility Charges Coupled to Usage



Utility Charges Decoupled From Usage



CARE Act Provisions

- Utilities may opt in to a decoupling mechanism
- Must adopt conservation programs
 - Cost-effectiveness required
- Ensure decoupling is no less profitable
- Incentive to produce conservation gains
- Simplify regulatory approval process
- Independent verification/regular evaluation

Types of Decoupling Mechanisms

- Partial Decoupling
 - Increase customer charge
 - Combination demand and volumetric charges
 - Decoupling Tariff
- Full Decoupling
 - Fixed Variable Rate Design
 - Flat Fee
 - Customer Charge and Demand Charge only
 - Decoupling Tariff
- Return Stabilization

Fixed Variable Rate Design

- A rate design that bills fixed charges to recover fixed costs and variable charges to recover variable charges
- Adopted by pipeline companies
- In use in Georgia for 1.7 million distribution customers

Decoupling Tariff

- A mechanism that adjusts volumetric rates to “normalize” either volumes or margin per customer
 - Similar to a weather normalization adjustment in use in VA and many other states
- Different types of recovery
 - Annual true-up
 - Define the utility’s target margin
 - Place over- or under-recovery in deferred account
 - Calculate annual rate to credit/surcharge customer’s usage
 - Real-time recovery
 - Define the utility’s target margin or usage
 - For each billing cycle, calculate rate adjustment to credit/surcharge difference

Return Stabilization

- Overall Rate of Return is evaluated periodically (annually) and rates are adjusted up or down
 - Adjustments protect customer and company
 - Reduces frequency of rate cases
 - Takes into account margins and expenses
- Methodology
 - Define the utility's target return
 - Evaluate actual return on a periodic basis
 - Adjust rates to produce target return

Conservation Programs

- Required if a utility decouples
- Must address needs of low-income and low-usage customers
- Must be cost-effective
 - 5 tests employed
- Efficiency/conservation gains must be independently verified

Examples of Efficiency and Conservation Programs (ECPs)

- **Seasonal Check-up** – subsidized home energy checkup, including filter change-outs for heating and cooling system and the installation of a modern set-back thermostat. Dirty filters and inefficiently operating equipment can lead to a 10% increase in energy consumption.
- **Weatherization Kit** - subsidized weatherization kit available to any customer who requests it, contains several common-sense items to improve energy efficiency in the home, including "earth massage" showerhead, a swivel aerator for the kitchen sink and a screw-in aerator for the bathroom sink. Each helps control the amount of water coming from faucets and the shower head while maintaining consistent water pressure. Cut the water flow and you reduce the cost of operating your hot water heater. Also, includes foam weather-stripping and polyethylene tape for sealing windows and doors that help cut down on heating bills by eliminating drafts. Contains two conservation wheels that provide cost estimators and energy-saving tips to help identify additional ways to save.
- **Low Income Weatherization** – direct installation of cost-effective energy efficiency measures in the home (determined on a home-specific basis) which can include: efficient lighting products; hot water conservation measures (water heater insulation, water heater pipe insulation and energy-saving showerheads and aerators); replacement of inefficient refrigerators; thermostats; insulation upgrades (attic, wall, etc.); blower-door guided air sealing; duct sealing and repair; heating/cooling equipment maintenance and other dwelling-specific measures, personalized customer energy education and counseling. Besides weatherization measures, equipment and appliance repair or aid with appliance replacement could be part of the program. Participants are asked to partner with the program to develop and carry out a household energy savings Action Plan. All efficiency measures and energy education services are provided free of charge. Customers with an income at or below 175% of the federal poverty guidelines would be eligible.

Examples of Efficiency and Conservation Programs (ECPs)

- **Energy Smart Residential New Construction Program** – A series of incentives designed to encourage the installation of highly energy efficient energy star rated equipment in residential new construction rather than the standard less costly and less efficient equipment. This way new home owners start out as energy efficient as possible. Some programs employ LEED/green building (EarthCraft) standards.
- **Water Heater Replacement Rebates** – A set of rebates designed to encourage customers to move towards more efficient water heaters. Rebates would be provided to encourage customers to convert to either units with an efficiency of 0.62 or greater or a tankless water heater. The water heater is typically the second largest use of natural gas in most homes, as such this program has the potential to have a the second greatest effect on reducing natural gas consumption.
- **Furnace Replacement Rebates** - A set of rebates to encourage customers when they need to replace their furnace to do so with an energy star rated 90% or better efficiency furnace. This program has the potential to have the greatest effect on reducing natural gas consumption.
- **Customer Education** – targeted marketing and outreach to educate customers about the programs and other opportunities/benefits of conserving and using their energy more efficiently
- ❖ Conservation Programs usually have provisions for cost recovery through a rider for the cost of education programs, weatherization, appliance repair/replacement

Ensure Conservation Is No Less Profitable

- New tariff/rate designs must be revenue-neutral
 - Compared to utility's authorized revenue
 - No shift between customer classes
- Utility profit margins may not be reduced because it opts to decouple

Incentive to Encourage Conservation

- Provide the opportunity to make conservation/efficiency more profitable
- Utility incentive can be 15% of customer's near-term savings
- Savings must be independently-verified
- Utilities can partner with existing organizations and programs to reduce cost of implementation

Simplify approval process

- 180 days for a new plan, not filed with a rate case
- 270 days for a new plan, if filed with a rate case
- Similar deadlines for amendment/additions to programs
- Provide opportunity to “sculpt” and phase in conservation programs

Independent verification/regular evaluation

- Utility conservation program performance is to be adjusted for weather and independently verified
- State Corporation Commission to provide annual reports to Governor and General Assembly

Wrap Up and Questions