

**Technical Conference
ARRA Section 410(a) Compliance
Docket No. I-2009-2099881**

**Columbia Gas of Pennsylvania Presentation
Mark R. Kempic, Director of Rates and Regulatory Policy**

- According to the October 19 and October 27 notices issued in this matter, the focus of this technical conference is the impact of energy conservation efforts on revenue recovery by electric and gas utilities. Consistent with its Reply Comments, and with comments offered in this proceeding by other natural gas utilities (NFG, TW Phillips and EQ), Columbia stresses that, under gas utility rate structures in Pennsylvania, conservation efforts have a negative impact on revenue recovery. If our customers reduce their consumption, our earnings suffer. By the same token, if our customers increase their consumption, our earnings benefit. Thus, current rate structures do not provide gas utilities with an incentive to promote energy efficiency. Quite the contrary, current rate structures incentivize gas utilities to promote greater energy usage.

- Section 410 (a) of ARRA requires that the PUC seek to implement “a general policy that ensures utility financial incentives are aligned with helping their customers use energy more efficiently and provide timely cost recovery and timely earnings opportunity for utilities associated with cost-effective measureable and verifiable energy savings, in a way that sustains or enhances utility customers’ incentives to use energy more efficiently[.]” ARRA also provides that the Commission must give due consideration to **individual utility company proposals to decouple revenues from sales volumes** “in appropriate proceedings”. Columbia respectfully submits that the appropriate proceedings for such determinations would be stand-alone proceedings that involve individual companies, and the policy statement that issues from this proceeding should allow for flexibility in the creation of programs that decouple revenues from sales volumes and promote conservation. Indeed, ARRA envisions general

policies rather than specific rules that apply across the board to all utilities.

- OSBA, OCA and ICG have suggested that Pennsylvania, by virtue of its past and current regulatory policies, is already in compliance with Section 401(a) of the recovery act. Columbia submits that, while Pennsylvania may be ahead of the curve when it comes to promoting the development of conservation and load management measures, the fact remains that all gas companies in the Commonwealth currently employ rate structures whereby revenue opportunities are undermined by conservation efforts. Thus, the ARRA objective to ensure "that utility financial incentives are aligned with helping their 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" has not been achieved. Where will Pennsylvania stand in the queue for federal ARRA dollars - which includes tax revenues that have been collected from Pennsylvanians - if the Commission issues a policy statement that suggests that the Commonwealth is in a position to stand pat on its past efforts?
- How can the current conflict between gas utility rate structures and the goals of conservation be resolved? Columbia submits that the time has come for serious consideration of alternative rate structures, such as straight fixed variable rate design. Whether a customer uses 1 Mcf or 100 Mcf per month, Columbia's costs to serve that customer remain the same. It simply does not make sense to recover those costs by way of rates that are designed around volumetric projections that may already be stale by the time such rates are implemented. If you accept the premise that cost recovery should follow cost causation, then SFV is more equitable than traditional ratemaking in Pennsylvania, where high use customers subsidize low use customers. For those who will inevitably assail Columbia for suggesting that the Company should be furnished with a Commission-blessed guaranteed return, it must be noted that, even

under SFV rate design, a utility must control its costs in order to sustain financial health. Moreover, uncontrollable events such as customers leaving the system, increases in operating and maintenance costs, or increases in the cost of capital belie the suggestion that SFV shields utilities from risk. For those who will suggest that SFV is a disincentive to customer conservation, it must be noted that under SFV gas costs will still vary with usage. On Columbia's system, on average gas costs typically make up approximately 70% of its customers' bills. Under SFV, in cold weather, the gas cost portion of the bill would tend to increase in proportion to a customer's fixed charge, and that disparity would be much more readily apparent to customers on their bills.

- SFV is not the lone alternative rate design that the Commission should consider for gas utilities. Consistent with the Section 410(a) of ARRA, Columbia submits that the Commission should consider proposals to decouple revenues from sales volumes. While Act 129 may have affected the legality of decoupling for Pennsylvania's electric utilities, the Commission is not prohibited from approving decoupling mechanisms for gas companies, despite comments in this matter to the contrary.
- In conclusion, I will summarize by stating that, under current gas utility rate structures in Pennsylvania, energy conservation will negatively impact revenue recovery. The Commission's policy statement should recognize the need for flexibility so that individual utilities can implement utility-specific rate designs to harmonize the current conflict between earnings potential and conservation.