Exhibit No.:	
Issues:	Rate Design
Witness:	Anne Ross
Sponsoring Party:	MO PSC Staff
Type of Exhibit:	Direct Testimony
Case No.:	GR-2006-0387
Date Testimony Prepared:	September 26, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

ANNE ROSS

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Jefferson City, Missouri
September 2006

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Atmos Energy Corporation's Tariff Revision Designed to Consolidate Rates and Implement a General Rate Increase for Natural Gas Service in the Missouri Service Area of the Company.	))))))	Case No. GR-2006-0387

AFFIDAVIT OF ANNE ROSS

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Anne Ross, of lawful age, on her oath states: that she has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 18 pages of Direct Testimony to be presented in the above case, that the answers in the following Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true to the best of her knowledge and belief.

Anne Ross

Anne Ross

Subscribed and sworn to before me this 25th day of September, 2006.

Rosemary R. Robinson

Notary Public

My commission expires 9-23-2008

ROSEMARY R. ROBINSON
Notary Public - Notary Seal
State of Missouri
County of Callaway
My Commission Exp. 09/23/2008

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Q. Please state your name and business address.

A. Anne E. Ross, P.O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same Anne Ross who has previously filed Direct Testimony in this case?

A. Yes.

EXECUTIVE SUMMARY

Staff will discuss its proposal to combine seven current Atmos districts into three service territories: the northeast, southeast and Midwest, and to standardize the requirements for taking service under each rate schedule. Staff also intends to discuss the development of the customer classes used in its Class Cost-of-Service study, as well as the Tariff classes used in the proposed rate design. Finally, Staff is proposing Atmos' Residential and Small General Service rate design structures from one using a fixed customer charge and variable commodity charge to one consisting of a fixed delivery charge only.

STAFF PROPOSAL TO COMBINE SEVEN ATMOS DISTRICTS INTO THREE SERVICE TERRITORIES

Q. Where in Missouri does Atmos serve customers?

A. Atmos' Missouri operations are located in the northeast, southeast, and west-central areas of Missouri, and are the result of the following acquisitions:

- Greeley Gas Company (Greeley) was purchased in 1993. This area consists of the Missouri communities of Rich Hill and Hume, and surrounding areas, in Bates County. Bates County is in west-central Missouri, on the Missouri-Kansas border.
- United Cities Gas Company (UCG) was purchased in 1997. The service areas purchased in this acquisition are located in two separate areas of the state. The largest district includes the communities (and surrounding areas) of Hannibal, Canton, and Bowling Green, in the northeast corner of Missouri. This area borders the states of Iowa and Illinois, and is located in the counties of Scotland, Clark, Knox, Marion, and Lewis. Prior to its acquisition by Atmos, United Cities acquired the Palmyra district, in Marion County, from the company which is now Missouri Gas Energy. United Cities also served a few customers in the Neelyville area (Neelyville), in Butler and Ripley Counties. These counties are on the Missouri-Arkansas border.
- Associated Natural Gas Company (ANG) was purchased in 2000. The ANG Missouri properties were also geographically separated. One operating division was the Butler district (Butler), serving customers on the Missouri-Kansas border in the counties of Bates, Henry and St. Clair. ANG had a large district in the Missouri bootheel area, called the Southeast Missouri (SEMO) District. These operations were spread over the counties of Wayne, Iron, Butler, Stoddard, Scott, Cape Girardeau, New Madrid, Pemiscot, and Dunklin. Finally, ANG served communities in the Kirksville (Kirksville) area, in Adair, Macon, Schuyler counties, on the Missouri-Iowa border.

Schedule 1 is a map provided by the Company which shows the location of Atmos' Missouri service districts.

Q. Does Staff believe that the current division of Atmos customers into seven operating districts presents any problems?

A. Yes. Each of Atmos' distinct geographical areas (Northeast, Midwest, and Southeast) contain customers from two different previous companies, which results in every geographical area having at least two separate sets of tariffed rates. This set-up is not only administratively complex, but it is also unfair to customers, because it results in a large disparity in the amount customers in adjoining cities or counties pay for their margin, or non-gas costs.

Q. Why is there such a disparity in the rates that similarly situated customers might pay?

A. Atmos has not come in for a rate case since acquiring these Missouri service areas, so the rates for each district were set when the preceding LDC had its last rate case. In the case of United Cities Gas Company, that was 1995, for Associated Natural Gas, 1997, and Greeley has never had rates set in a rate case. In all three cases, the rates were determined years ago, based on the cost characteristics of three different LDCs, none of which own these service areas today.

Q. You make the statement that, given the current Atmos rate districts, a customer in one town might be paying a different non-gas rate than someone in a neighboring town. Can you provide an example using Atmos rates?

A. Yes. As an example, look at a hypothetical industrial Sales customer located in the northeast corner of the state, and assume a flat usage of 15,499 Ccf per month, or 185,988 Ccf per year. Depending on the district in which the customer is located, it could

take service under the following rate codes, and would pay roughly the annual non-gas cost shown in this table:

Current Atmos District	Rate Class	Annual Margin (Non-Gas) Bill
Palmyra	Large Volume Service	$10,032
Palmyra	Large General Service	$13,253
Kirksville	Small General Service	$15,394
UCG	Large Volume Gas Service	$14,255
UCG	General Gas Service	$29,658

As you can see from this table, a customer in one town could be paying three times as much as a customer in an adjacent town for the same distribution service from the same company.

Q. Does Staff propose to continue this separation?

A. No. Staff proposes to combine Atmos' current rate districts into three service territories based on location, and to set a single rate for all customers in a particular class in a particular geographical area. This will insure that a customer will not pay a completely different non-gas rate as his neighbor in the next town.

Q. How will Atmos' current districts be combined into the three service territories?

A. The service territories we proposed will be a combination of the following current Atmos districts:

Northeast Service Territory – Current Kirksville, UCG(Hannibal, Canton, Bowling Green), and Palmyra districts.

Midwest Service Territory – Current Butler and Greeley districts.

Southeast Service Territory – Current SEMO and UCG(Neelyville) districts.

These are the same groupings that were proposed by Company witness Patricia J. Childers in her direct testimony.

Q. Does Staff believe that there are any other problems with Atmos' current rate structures?

A. Yes. The eligibility requirements for the Company's tariff classes also differ according to the rate structure of the company from which they were acquired; therefore, a customer classified as Small General Service (SGS) in Hannibal might be defined differently from a customer in the Small General Service class in Palmyra..

Q. What is Staff's proposal to make Atmos' tariff class requirements more consistent?

A. Staff proposes the following tariff classes, with consistent, state-wide requirements for each class.

Residential

Small General Service - non-residential customer using 0 - 2,000 Ccf per year.

Medium General Service – non-residential customer using from 2,000 – 75,00 Ccf per year.

Large General Service – non-residential customer using from 75,000 – 200,000 Ccf annually.

Large Volume Service – non-residential customer using over 200,000 Ccf annually.

Q. Does the Company currently have a Medium General Service tariff?

A. No, it does not. The customers that will be classified as Medium General Service are currently taking service under the Small General Service and Large General Service tariffs.

Q. How was 2,000 Ccf/year chosen as the breakpoint between Small General Service and Medium General Service customers in Staff's proposal?

A. In conversations with Company personnel, it was conveyed that customers using less than 2,000 Ccf/year were served with the same meter/regulator and service line as a Residential customer. If a customer was expected to use more than 2,000 Ccf/year, the meter/regulator and service line installed on the customer's premise would most likely have to be larger.

Q. What percentage of the Company's current Small General Service customers use less than 2,000 Ccf per year?

A. Using information provided by the Company, I determined that approximately 80% of the Company's current Small General Service customers are in that usage range.

Q. Do you recommend state-wide rates for these customer classes?

A. No. I recommend that the rates in each of the service territories be the same for all customers in a tariff class, but tariff classes in service territories might pay a different non-gas rate.

CLASS COST OF SERVICE CUSTOMER CLASSES .

Q. What customer classes is Staff using in its Class COS?

A. Staff is using the following customer classes:

Residential

Small General Service

Large General Service

Large Volume Service

Schedule 2 shows each district's current customer classes, the class in which they are included in the Staff COS study, the number of annual bills for the class, annual usage, and average annual usage per customer. As noted before, the many of the customers that will be designated as Medium General Service under the Staff proposal are currently taking service in the Small General Service class, and they have been included in this class for the COS.

Q. Atmos has some customers classified as Interruptible Sales, rather than Firm Sales, and all of Atmos' Transportation customers are classified as Interruptible. Do you propose that these Interruptible customers pay a different non-gas rate than similar Firm customers?

A. No. If an LDC faces capacity constraints, then having customers that can, and will, decrease their usage upon a request from the company is beneficial to all other customers on the LDC's system. In this environment, it would be appropriate that the Interruptible customer be served under a lower margin rate, and that difference between Firm and Interruptible margin rates be picked up by customers receiving Firm service.

It does not appear that Atmos faces this type of capacity constraint. In their response to Staff Data Request No. 109, the Company indicated that the only customers interrupted due to capacity constraints – specifically a problem with system pressure - on the Atmos distribution system in the past 5 years were six Residential customers, and their service was restored within three hours.

Q. Does this mean that customers designated as Interruptible will pay the same total bill for their gas service as customers designated as Firm Sales?

A. No. An Interruptible Sales customer pays a lower PGA rate than a Firm Sales customer. Atmos' current tariffs show a differential of up to 17¢ per Ccf. An Interruptible Transportation customer pays a lower rate to the pipeline/supplier for this designation. I do not have information on the capacity constraints of the pipelines from which Atmos Interruptible customers are served; that is a cost that is flowed through the PGA, and is not an issue being examined in this case, so I have no comments regarding the appropriateness of these customers receiving a lower PGA rate.

STAFF RATE DESIGN PROPOSAL

Q. What service territories did Staff use in its rate design?

A. As I discussed earlier in my testimony, Atmos' Missouri operations are located in three discrete areas of the state, and Staff has proposed proposed three service territories – Northeast, Midwest, and Southeast.

Q. What customer classes did Staff use in rate design?

A. For each separate service territory, I designed rates for the following classes:

Residential

Small General Service

Medium General Service

Large General Service

Large Volume Service.

Q. What is the source of class revenue requirements used for your rate design?

A. For each service territory, I used the class revenue requirements determined in the class cost-of-service studies performed by Staff witness Thomas M. Imhoff.

Q. What is Atmos' current Residential class rate design?

A. Atmos currently has a "traditional" Residential rate design consisting of a customer charge and a volumetric, or commodity rate. The customer charge is a fixed monthly charge which does not vary with usage. In general, this charge is designed to approximately recover the direct costs of the equipment required to allow a specific customer to take service, such as their meter, regulator, and service line, as well as cover ongoing expenses related to meter-reading and customer service functions. The remainder of the class' non-gas revenue requirement is collected on a per-unit rate based on weather-normalized class Ccf usage.

Q. What is Staff's proposal for the Residential class non-gas rate?

A. For the Residential customers, Staff recommends recovering the entire amount of the non-gas, or margin, costs of in a fixed monthly charge (Delivery charge.)

Q. How did Staff calculate the Residential Delivery charges that it is recommending in this case?

A. The proposed Delivery charge for each service territory was determined by taking the Residential class revenue requirement, and dividing by the number of annual bills.

Q. Why is Staff recommending that Atmos collect all margin costs in a single monthly charge?

A. We believe that this rate structure will address two significant current issues affecting the natural gas distribution market. Specifically, it will:

- Remove disincentives for utilities to encourage and assist customers in making conservation and efficiency investments.
- Reduce the effects of weather on utility revenues and customer bills. This will provide utilities the opportunity to earn their Commission-ordered non-gas revenue requirement – no more, and no less – in a rapidly changing environment.

Q. What have been some of the changes affecting the natural gas market?

A. The deregulation of the wholesale gas market means that the price of the commodity is now set by the forces of supply and demand. Nationwide, the Industrial sector's demand for natural gas has increased as a result of economic growth; in addition, electric utilties have come to rely more heavily on gas for their summer generation. Not only have these two factors led to an overall increase in demand for natural gas, but they have altered the seasonality of natural gas prices. The increased demand in the summer means that there is less of a decrease in the commodity's price in the summer. Since summer is traditionally when LDC's replenish their level of storage gas for use in the winter, the higher prices are eventually passed on to Residential customers.

Q. What can consumers and regulators do to influence the wholesale price of natural gas?

A. There is little that consumers can do to affect the wholesale price of natural gas. State regulators try to insure that LDC's are making strong efforts to procure their gas supply at the lowest price by conducting prudency reviews; outside of this, there are few actions that can be taken.

Q. Is there *anything* that consumers and regulators can do?

A. Yes. While the supply of natural gas is outside the control of these stakeholders, there are actions that can be taken to reduce demand – namely weatherization and other energy efficiency investments, which I will group under the umbrella term of conservation measures or simply conservation.

Q. How do conservation measures affect natural gas prices?

A. Conservation affects gas prices on both a micro and macro level. On the micro level, while conservation does not lower the per-unit price that one household is paying vis-à-vis another household, the household that has implemented conservation measures pays less in total to meet its requirements. On the macro level, a decrease in natural gas usage will exert downward pressure on the wholesale price of natural gas. In November, 2005, the National Association of Regulatory Utility Commissions adopted a *Resolution on Energy Efficiency and Innovative Rate Design*, which stated that "Energy conservation and energy efficiency are, in the short term, the actions most likely to reduce upward pressure on natural gas pries and to assist in bringing energy prices down to the benefit of all natural gas consumers." The 2 page Resolution is attached as Schedule 3 .

Q. Why do utilities have a disincentive to encourage customers to lower their natural gas usage?

A. While utilities do not earn a profit on the actual cost of the gas they procure for their customers, traditional rate design directly ties LDC profits to the amount of gas they deliver to customers. The utility's cost to serve customers is largely fixed; once these fixed costs are recovered, each additional unit of gas delivered to customers increases the profit to the utility. This results in the gas utility acting contrary to its shareholders' interests by encouraging its customers to use less gas.

Q. How does a Delivery charge remove that disincentive?

A. By breaking the link between sales and profits, the utility does not increase profit when its customers use more gas, nor does it lose revenue when customers use less. This is often called revenue *decoupling*.

Q. Under traditional rate design, how does weather affect customer bills and utility profits?

A. In the short-term, this rate structure means that every year there is a "winner" and a "loser." In winters that are warmer (ie, contain less Heating Degree Days than the weather used to set rates), the customer "wins" by paying less than the utility's actual cost of serving them. Under this weather scenario, the utility "loses" by undercollecting their cost of service.

In a winter that is colder than the statistically normal winter used to set rates in the last rate case, the customer "loses" by paying more than the true non-gas cost to serve them. The utility "wins" by overcollecting non-gas costs.

Q. What happens in the long-term?

A. Everybody loses. If usage is less than expected, the utility does not recover the Commission-approved cost of serving their customers, leading to earning erosion. As a result, the financial health of the company suffers. The utility's rating or stock price could decrease, making it more expensive to attract capital. Since the cost of a utility's capital is an expense that is paid for in rates, this ends up being an issue in a succeeding rate case, and could result in higher rates for future customers.

If usage is greater than expected, the customer pays an excessive amount for the service they are receiving from the utility. The company over-collects its cost of service, exposing it to the threat of Commission action.

Q. If customers use less natural gas, either in response to a warm winter, or because of the customer's conservation efforts, won't the utility be able to lower its investment in plant and equipment?

A. Not necessarily. As plant and equipment is replaced, it is conceivable that the utility could downsize its investment – put in a distribution main with a smaller diameter, replace a meter with a lower-capacity meter, and so on. There are formidable obstacles to this process, though.

First, a vast majority of the utility's investment in plant used to serve its customers consists of assets with an expected life of 18 to 65 years. Schedule 3 is a summary of the imputed service life of Atmos' Distribution Plant accounts, which provides some indication of the assets' expected average useful service life. I have been informed by Staff experts on depreciation that the imputed service lives shown on this schedule are not unusual for Missouri LDC's. From the schedule, one can see that it is possible that replacement of a piece of plant or equipment might not be necessary for many years; in the meantime, the original equipment is in rate base and its cost included in customer rates.

Second, given current technology, there is a lower bound as to how small this equipment can be sized and still be cost-effective. An average customer who is using natural gas only for cooking will require the same meter as one who is heating their home with natural gas, because both are served with the Company's smallest meter. As long as a customer uses gas for any purpose, the company must invest in meters, regulators and service

lines to serve that customer. Even though the direct link between the customer and the need for a meter is very straightforward, the utility must make investments to otherr components of its rate base regardless of the customer's usage. The utility will still need mains, measuring and regulating equipment, rights of way, etc.

Q. Won't the utility's expenses drop if their customers are using less gas?

A. No. Bills must be mailed, meters must be read, and customers require assistance, regardless of the amount of gas used. Many of the utilites' other expense items, such as Operation and Maintenance expense, are tied to the plant investment, so these expenses will suffer from the same delayed reaction to usage changes as the plant discussed above.

Q. Are other states looking at ways to address the issues that you have described?

A. Yes. The NARUC Resolution that I referenced earlier calls for "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." A May 2006 forum entitled "Rethinking Natural Gas Utility Rate Design," and sponsored by the American Gas Foundation and NARUC Education and Research Foundation brought together representatives of the major stakeholders – state commissioners, utilities, financial analysts, utility consultants, and consumer advocates – to discuss ways in which the stakeholders' interests can be more closely aligned.

Q. What are the specific monthly Delivery charges that you are recommending for Amos' three service territories?

A The specific Residential Delivery charges that Staff is proposing are

Northeast Service Territory	$21.79
Midwest	$19.43
Southeast	$14.77

Q. Do you believe that customers will object to paying a fixed amount each month, rather than the variable amount that they are used to paying?

A. As with any change, there will be some resistance. Intensive consumer education will need to be conducted. At the current time, customers often do not understand that they are paying the LDC for the delivery of their gas, rather than the gas itself, and the current practice of collecting margin rates in a volumetric charge increases that confusion. Customers may, therefore, believe that it is unfair that part of their bill does not decrease when their usage decreases, whether it's due to conservation or warm weather. It should be remembered, though, that customers are used to this type of payment structure for other goods and services. Cable TV, local phone service, and trash pickup have a similar type of charge, and most consumers appear to accept this.

A major advantage of this form of rate is that it is easy to explain to customers. Unlike other revenue decoupling rate designs, the rate being charged to customers will not change on a monthly basis, nor will the consumer see his rate increase due to conservation steps he has taken.

Q. Do you have any additional comments on the Staff's Delivery charge proposal?

A. Yes. Along with education, the utility and the Commission should actively promote and support customer conservation efforts – with access to funds, information, and advocacy. Lower income households will benefit from weatherization assistance. Moderate

income households could benefit from programs that enable them to afford the up-front costs of cost-effective conservation investments. Once the utility's concern regarding revenue loss due to lowered sales has been addressed, I would hope that the utility would be a creative, active and knowledgeable leader in this effort. They are in a unique position to identify customers who could benefit from conservation efforts, for example, households that are having trouble paying their utility bills, and in doing so, would most likely benefit their entire customer base.

Q. What is the rate design proposal for the Staff's Small General Service tariff class?

A. Staff proposes that the customers classified as Small General Service pay the same Delivery charge as the Residential customers.

Q. Why does Staff believe it is appropriate for a small non-Residential customer to pay the same Delivery charge as a Residential customer?

A. Atmos provided individual customer information on those customers taking service in its current Small General Service classes. For each customer, Atmos calculated the customer's annual usage for the past three years, as well as an average over the three years. I sorted the information according to the 3-year average usage of each customer, and analyzed the customers grouped into the service territories that the Staff is advocating, as well as all of the Company's SGS customers combined into one grouping.

This information showed that most of Atmos' current SGS customers are very small; in fact, around 80% use 2,000 Ccf per year or less. This usage is not much more than an average Residential customer uses, and is smaller than some of the larger Residential customers that Atmos serves. A customer in the range of 0 – 2,000 Ccf annually can be

served using the same meter, regulator and service line that is used for a majority of Residential customers. In addition, the smaller SGS customers tend to be weather-sensitive, similar to a Residential customer. For these reasons, I believe that the cost characteristics of the customers in Staff's proposed SGS class are not appreciably different than those of the Company's Residential customers, and that the Company's cost to serve an SGS customer is very similar to residential customers on a per-customer basis. I therefore propose that these customers pay the same amount as the Residential customers.

Q. What rate structure is Staff proposing for the Medium General Service class?

A. It is difficult to propose a specific rate, because a more detailed analysis will need to be done on Atmos' larger SGS customers and smaller Large General Service customers to see which of these customers will qualify for the proposed MGS class. Although I cannot calculate an exact rate, I do believe that the following should be considered when designing the rate:

- The rate should collect the remainder of costs allocated to the SGS class in the Staff Class Cost-of-Service study.
- If at all possible, the rate structure should be continuous with the SGS and LGS rates, meaning that a very large MGS customer should pay about the same as a very small LGS customer, and that a small MGS customer should pay approximately the same as an SGS customer at the 2,000 Ccf/year level.
- The customer charge for this class should recover as large an amount of the utility's fixed costs as the Commission deems appropriate.

Q. What is your proposal for the LGS class rate structure?

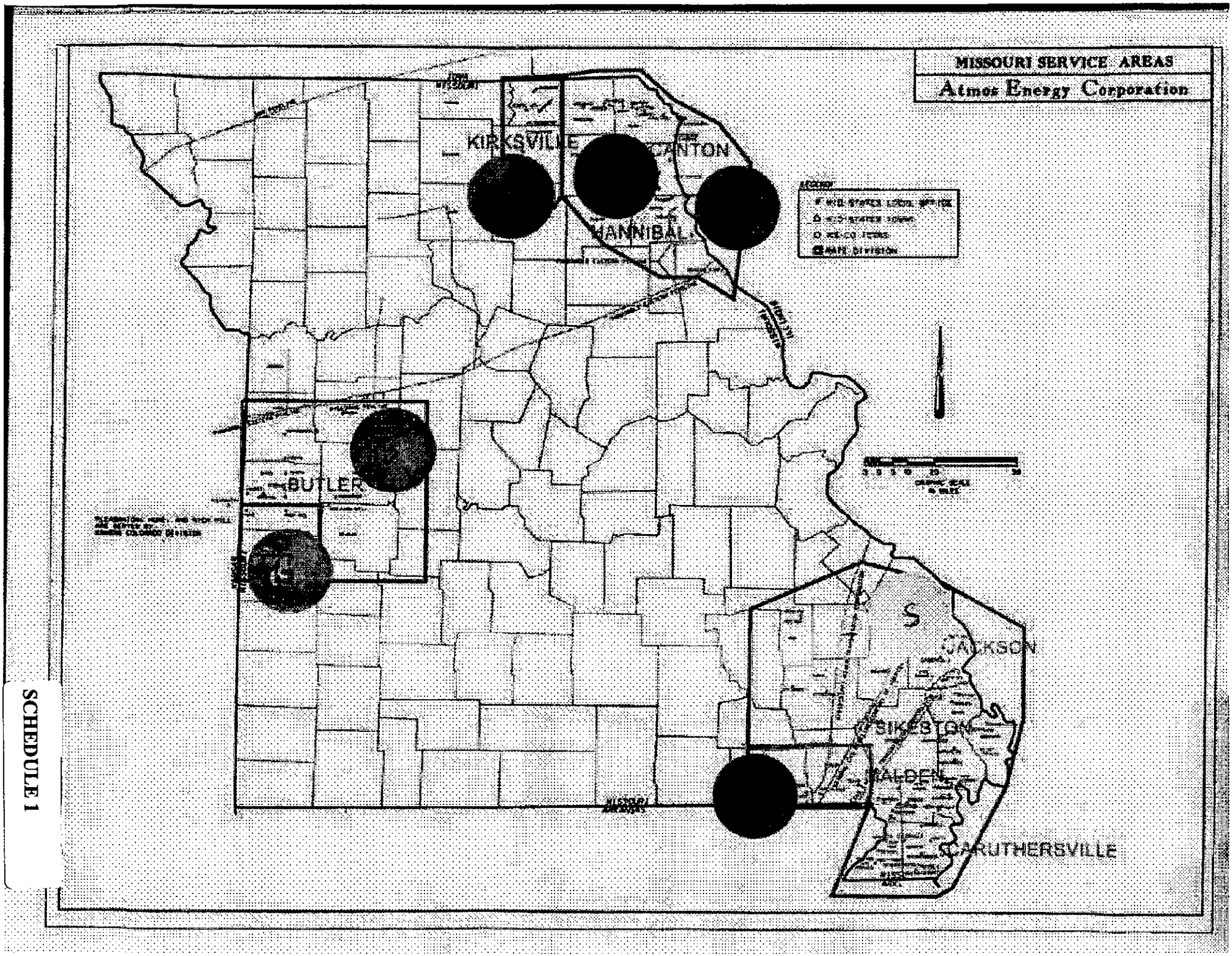
A. I believe that each component of the Large General Service customer rates should be increased at the same percentage as the class revenue requirement. This may have to be adjusted somewhat to provide the rate continuity I discussed in the previous Q and A. One rate design change that I believe is very important is a flat volumetric rate, as opposed to the current blocked rates. I do not see any benefits from the blocked rate structure, either to the customer or the Company, and agree with the Company's proposal to eliminate that rate structure.

Q. What is your proposal for the Large Volume Service class rate structure?

A. I propose that, in general, the current rates be increased for these customers according to the percentage increase recommended in Staff's class COS; however, I also recommend that the Sales customers in this class pay a per Ccf adder to reflect the costs of the Company's peaking facilities, in the service territories that contain these facilities.

Q. Does this conclude your direct testimony on rate design?

A. Yes.


MISSOURI SERVICE AREAS
Atmos Energy Corporation
KIRKSVILLE
CANTON
HANNIBAL
BUTLER
JACKSON
SIKESTON
CARUTHERSVILLE

SCHEDULE 1

ATMOS NATURAL GAS COMPANY
Case No. GR - 2006 - 0387
Classification of Current Tariff Classes into Staff Class Cost-of-Service Classes

	Current Atmos Tariff Class	Classification in Staff C-O-S	Bills	Ccf Volumes	Average Annual Usage/Cust
BUTLER	RES	Residential	38,677	2,514,034	780
	SGS	Small General Service	6,102	1,206,160	2,372
	LGS - Interruptible Sales	Large General Service	60	996,701	199,340
			0	0	0
GREELEY	RES	Residential	4,982	317,869	766
	SGS	Small General Service	490	51,901	1,271
KIRKSVILLE	RES	Residential	61,049	4,018,470	790
	SGS	Small General Service	10,455	2,529,020	2,903
	LGS - Interruptible Sales	Large General Service	60	1,018,649	203,730
	Transport	Large Volume Service	24	2,198,761	1,099,381
PALMYRA	RES	Residential	14,747	997,810	812
	SGS	Small General Service	2,178	613,621	3,381
	LGS - Firm Sales	Small General Service	24	3,260	1,630
	LV - Sales	Small General Service	12	39,730	39,730
	LV - Transport	Large Volume Service	24	585,660	292,830
UCG(Hannibal, Canton, Bowling Green)	RES	Residential	132,685	9,487,300	858
	SGS	Small General Service	17,821	4,948,905	3,332
	LV - Firm Sales	Large General Service	60	385,199	77,040
	LV - Interruptible Sales	Large General Service	72	740,532	123,422
	School Pilot Transport	Large General Service	12	73,248	73,248
	Hand-Billed Transport	Large Volume Service	108	3,204,631	356,070
SEMO	RES	Residential	370,881	20,204,770	654
	SGS	Small General Service	50,929	10,022,604	2,362
	LGS - Interruptible Sales	Large General Service	324	1,818,011	67,334
	TRANSPORT	Large Volume Service	192	23,066,805	1,441,675
UCG(Neelyville)	RES	Residential	4,842	211,327	524
	SGS	Small General Service	825	101,991	1,484

SCHEDULE 2

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