Creating a Win/Win Natural Gas Distribution Energy Efficiency Program: Recognizing and Aligning Stakeholder Interests

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About the American Gas Association

- The American Gas Association represents 192 local energy utility companies that deliver natural gas to more than 53 million homes, businesses and industries throughout the United States.
- AGA member companies account for roughly 83 percent of all natural gas delivered by the nation's local natural gas distribution companies.

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Your local natural gas distribution companies have long supported conservation and energy efficiency

But

Why Don’t They Do More?

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The Problem – Potentially common interests are usually not allowed to be aligned

- Customer interests – safe, reliable and affordable natural gas service
- Regulator interests – satisfied customers, satisfied elected officials and financially healthy utilities; no unhappy surprises
- Utility interests – All of the above

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Gas Utility Rates – The Basics

- Opportunity to earn a reasonable return on investment (**profit**)
- **Gas Utility Costs** - Costs of safely operating and maintaining gas lines (salaries, operational expenses, etc.), cost of leasing transmission lines, debt, etc.
- **Gas Costs** – Costs of buying gas and reselling gas to customers without mark-up
- It's largely a fixed cost business (but we pretend it is not)

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Recovering these Costs: The Gas Utility Bill

1. **Gas Costs** – Often one-half or more of the bill
2. **Fixed monthly charge** (Example: My August gas bill for providing gas service was $5.69 (total bill was $15.46))
3. **Service (transportation charge)** The charge is based on how many units of gas (therms) the customer consumes. If customer consumes projected annual amount, the utility may earn its allowed return.

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What does this mean for energy efficiency?

- A gas utility needs to recover its fixed costs by getting customers to use more gas
- A small cut in customer usage can cause a large cut in a utility's profitability
- On the other hand, a cold winter and increased consumption, can increase a utility's profit
- Tying natural gas consumption to utility profitability is an artificial regulatory construct

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Impact of conservation and energy efficiency

- This rate structure reality creates a strong financial *disincentive* for a utility to promote conservation
- This need not be the case. Utilities generally should have no reason to favor customers using more natural gas – except that current rate designs favor that outcome.

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Solutions

1. **Fixed Variable Rate Design**. Raising the fixed monthly charge to recover all fixed costs in a fixed monthly fee (like cable service)
   - ✓ Most utilities would like to do this
   - ✓ Done with most FERC regulated pipelines (SFV)
   - ✓ Generally faces opposition by PUCs and consumer advocates because it is perceived as a rate increase (even though probably it is not)
   - ✓ Many environmentalists fear that it would discourage conservation

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Solutions

2. The Northwest Natural Conservation Tariff

- A “decoupling mechanism” designed to break the link between a utility’s earnings and energy consumption of its customers
- Residential and commercial rates are automatically adjusted, on a weather-normalized basis, to reflect conservation
- Utility downside: Utility cannot increase its earnings by increasing sales of gas to customers.
- Utility upside: Utility will not see decreased earnings from conservation

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Solutions

2. The NW Natural Conservation Tariff – Cont'd

- Partial decoupling mechanism (covers 90% of distribution margin)
- A public purpose surcharge on residential and commercial customers goes to independent Energy Trust of Oregon to fund energy efficiency and conservation programs
- Program to be evaluated in April 2005
- *See* Adopted Stipulation, Application for Public Purposes Funding and Distribution Margin Normalization, Northwest Natural Gas Co., Order No. 02-634, PUC of Oregon, UG 143 (Sept. 12, 2002). *See also* Northwest Natural Gas Co. Tariff sheets 190, 301, 300, 320, and 310.

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Hits and Misses

- **PG&E**
  - ✓ California PUC considering creation of performance-based incentives tied to verified net savings.
- **Southwest Gas**
  - ✓ California PUC authorizes SW Gas to establish a margin tracker that will balance actual margin revenues to authorized levels
  - ✓ Nevada PUC rejects decoupling mechanism proposal

    (Southwest Gas Corp. Docket No. 04-3011, Aug. 26, 2004 at pp. 72-77. http://puc.state.nv.us/GAS/dkt_04-3011/04-3011o.pdf)

Caveat: Not all gas utilities necessarily support decoupling. Needs to be looked at in context of other rate issues and differences among gas utilities.

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The AGA-NRDC Joint Statement

- In July 2004 AGA and NRDC presented a Joint Statement to the NARUC Gas and EERE Committees
- Statement endorsed by NARUC, the Alliance to Save Energy and ACEEE.
- Modeled on lessons learned from NW Natural conservation tariff

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The AGA – NRDC Joint Statement – Cont'd

- PUCs should consider gas utility rate proposals and other innovative programs that reward gas utilities for encouraging conservation…..
- AGA and NRDC support mechanisms that use modest automatic rate true-ups to ensure that a utility's opportunity to recover authorized fixed costs is not held hostage to fluctuations in retail gas sales.

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What's in it for the customer?

1. Over time, net effect should be to lower amount of natural gas consumed (and total consumer bills) without altering consumer lifestyles.
2. Possible reduction in uncollectible bills, which are a system cost paid by customers
3. Reducing overall gas demand could lower gas prices – 2003 ACEEE Study (20% projected decline in gas prices from reduction in natural gas (-1.9%) and electricity consumption (-2.2%))

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How much energy can be saved?

- Building efficiency gains: Gas and electric savings
- Appliance efficiency gains (gas savings):

  In 2000-2001 NW Natural saw reduced residential consumption of 10% (driven by higher prices and conservation campaign)
  - ✓ 2001 – 71% increase in sales of high efficiency gas furnaces
  - ✓ 2002 – additional 49% increase in sales of high efficiency gas furnaces

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Thank You

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