American Gas Association

Rate Stabilization Mechanisms

NARUC Staff Subcommittee on Gas
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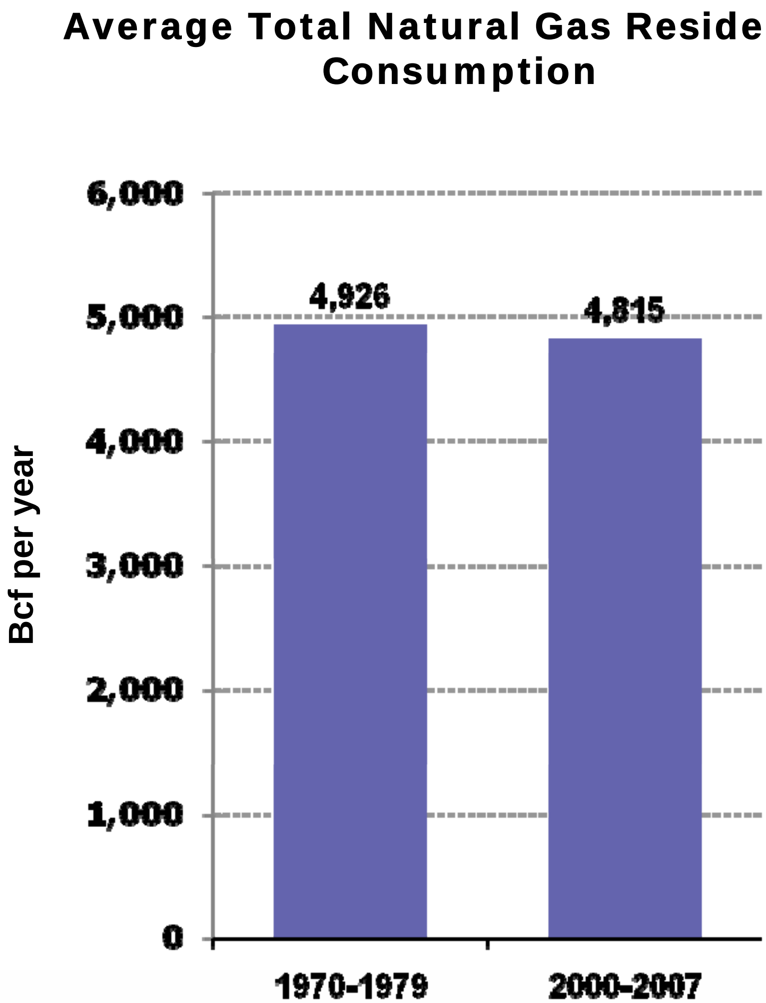
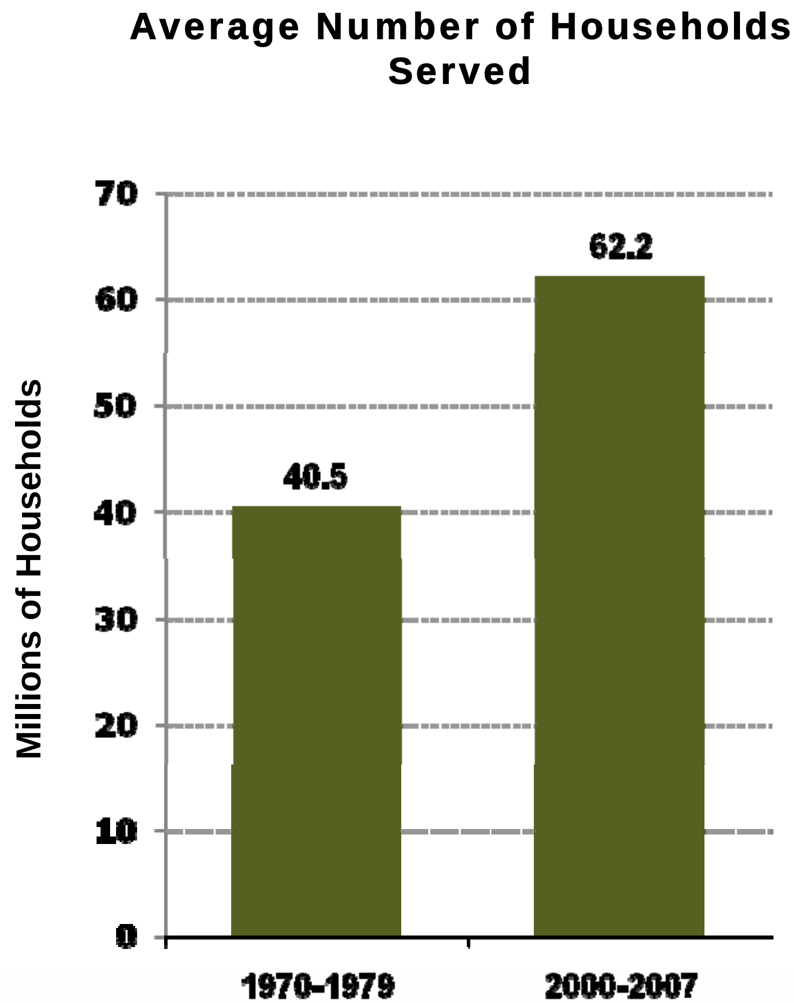
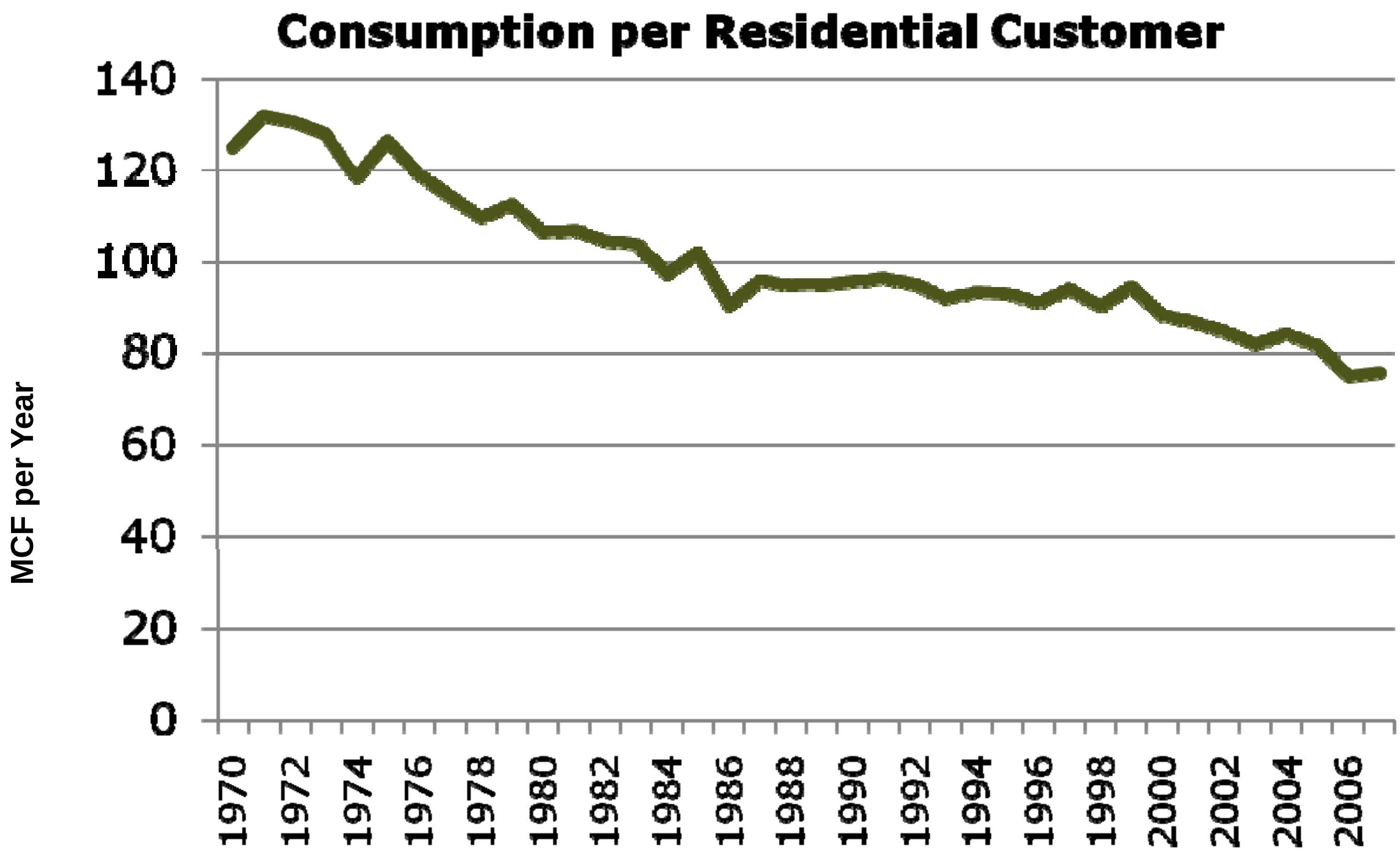
Residential Natural Gas:
Average Consumption vs. Average Number of Customers





Sources: U.S. Energy Information Administration and American Gas Association

Declining Use per
Natural Gas Residential Customer Since 1970



Sources: U.S. Energy Information Administration and American Gas Association
Note: Data is "weather normalized" or adjusted to reduce the impact of abnormally warm or cold weather.

19th Century Rate Design

- **Philosophy:**
  - Costs recovered based on energy consumption rather than on distribution cost of service
- **Basis:**
  - **Forecast costs** - rather than actual costs
  - **Forecast volumes** – each volumetric unit of natural gas is assigned a pro-rata share of distribution costs
- **Assumptions:**
  - **Inaccurate** - forecast errors (costs and volumes)
  - **Inequitable** – either customer or company loses
  - **Inefficient –** only remedy is frequent rate case

Innovative Rate Design:
Non-volumetric Rates and Cost Trackers

Non-volumetric – distribution revenues are assigned per customer or on some other basis that is not tied to volumes of energy consumed

- **48 million residential customers** in 39 states currently served under non-volumetric rates such as rate stabilization, revenue decoupling, SFV, etc.

Tracked costs – rate is based on actual costs rather than estimated and forecast costs

- **32 million residential customers in 28 states** have 2 cost trackers (bad debt and infrastructure) as part of their rates (**all** have PGA, **47** have LUAF)

Only 7 states without either a cost tracker or a non-volumetric rate (AZ, DE, IA, ID, MT, NM, VT)

What Are Tracking Mechanisms (Adjustment Clauses) and Why Are They Used?

- Trackers are approved in rate cases for specific future events, durations, and amounts
- The mechanisms track revenues or costs or both, and allow adjustments based on the tracked amounts
- Trackers allow utilities to recover or rebate between rate cases the adjustments prospectively approved in the rate case
- Expedited rate cases provide benefits to customers and companies
  - No over/under recoveries
  - Expensive, time-consuming cases are avoided

Revenue Tracker Summary
as of October 2010

Revenue Decoupling

- 20 states, 40 companies, 27 million residential customers

Rate Stabilization Tariffs

- 6 states, 13 companies, 6 million customers

Weather Normalization (Partial Decoupling)

- 25 states and Canada, 53 companies, 16 million US residential customers

All Revenue Trackers

- 86 companies, 35 states and Canada, 42 million US residential customers

*** Of 65 Million (2008) US Residential Customers**

Cost Tracker Summary
as of August 2010

Gas Cost Tracker (PGA)

- All states

Lost and Unaccounted For Tracker (LUAF)

- 47 States (excluding MI, MT, SD)

Bad Debt Cost Tracker

- 23 states plus DC and Canada, 57 companies, 23 million US customers ; pending 8 companies, 7 million customers

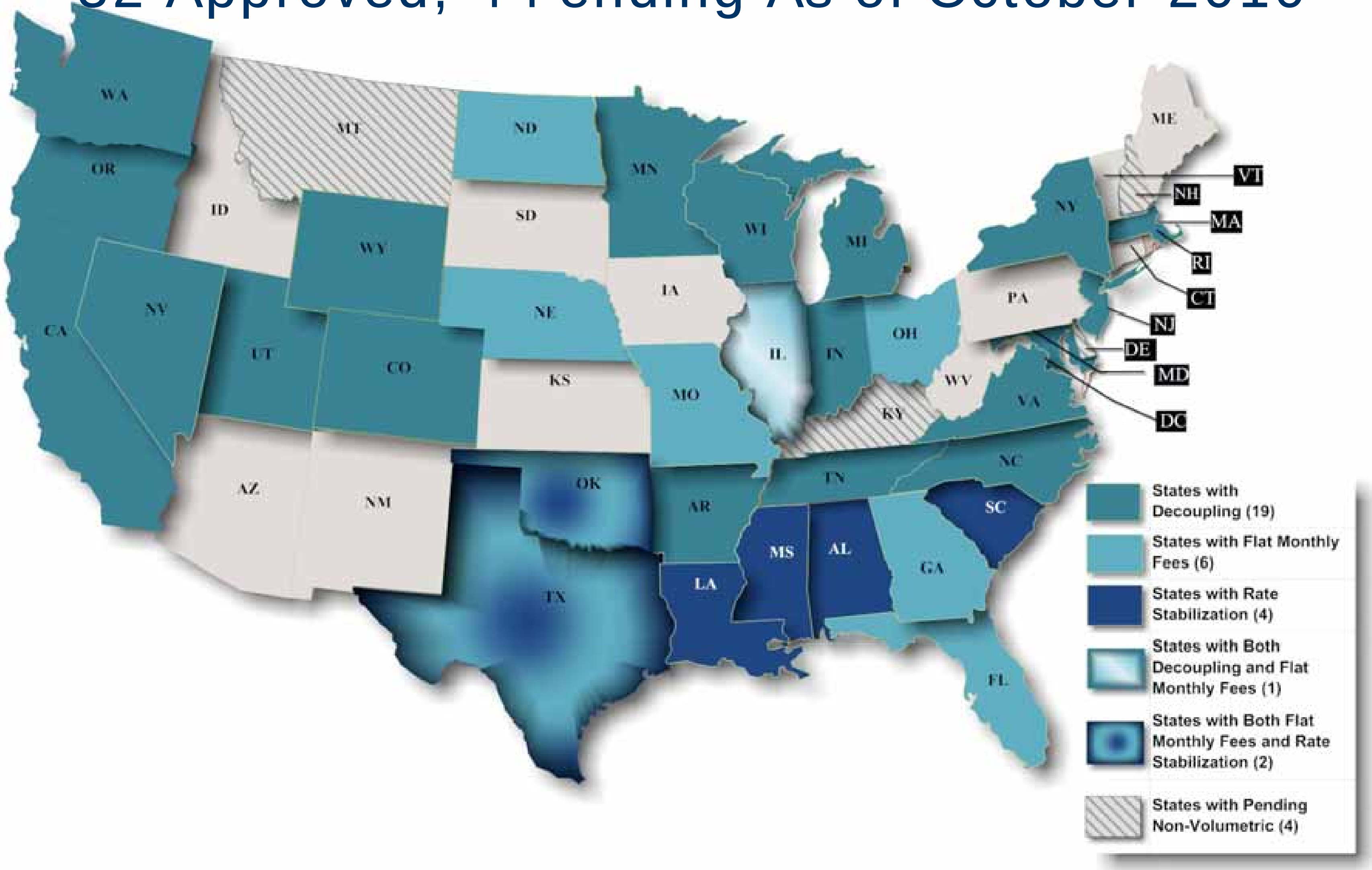
Infrastructure Investment Cost Tracker

- 17 states, 36 utilities, plus all in Texas, 19 million customers; pending 9 companies, 4 million customers

Pension, Energy Efficiency, Pipeline Integrity Management, Inflation, Storage Cost Trackers

- Growing numbers

States with Non-Volumetric Rate Designs
(Decoupling, Flat Monthly Fee, Rate Stabilization)
32 Approved, 4 Pending As of October 2010



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States with WNA and Non-Volumetric Rate Designs for Natural Gas as of October 2010

Approved - 96 Companies, 39 States, 48 Million Res. Customers

STATES WITH DECOUPLING

1. Arkansas
2. California
3. Colorado
4. Indiana
5. Massachusetts
6. Maryland
7. Michigan
8. Minnesota
9. New Jersey
10. Nevada
11. New York
12. North Carolina
13. Oregon
14. Tennessee
15. Utah
16. Virginia
17. Washington
18. Wisconsin
19. Wyoming

STATES WITH FLAT MONTHLY FEES

1. Florida
2. Georgia
3. Missouri
4. Nebraska
5. North Dakota
6. Ohio

STATES WITH RATE STABILIZATION

1. Alabama
2. Mississippi
3. Louisiana
4. South Carolina

STATES WITH BOTH DECOUPLING AND FLAT MONTHLY FEES

1. Illinois

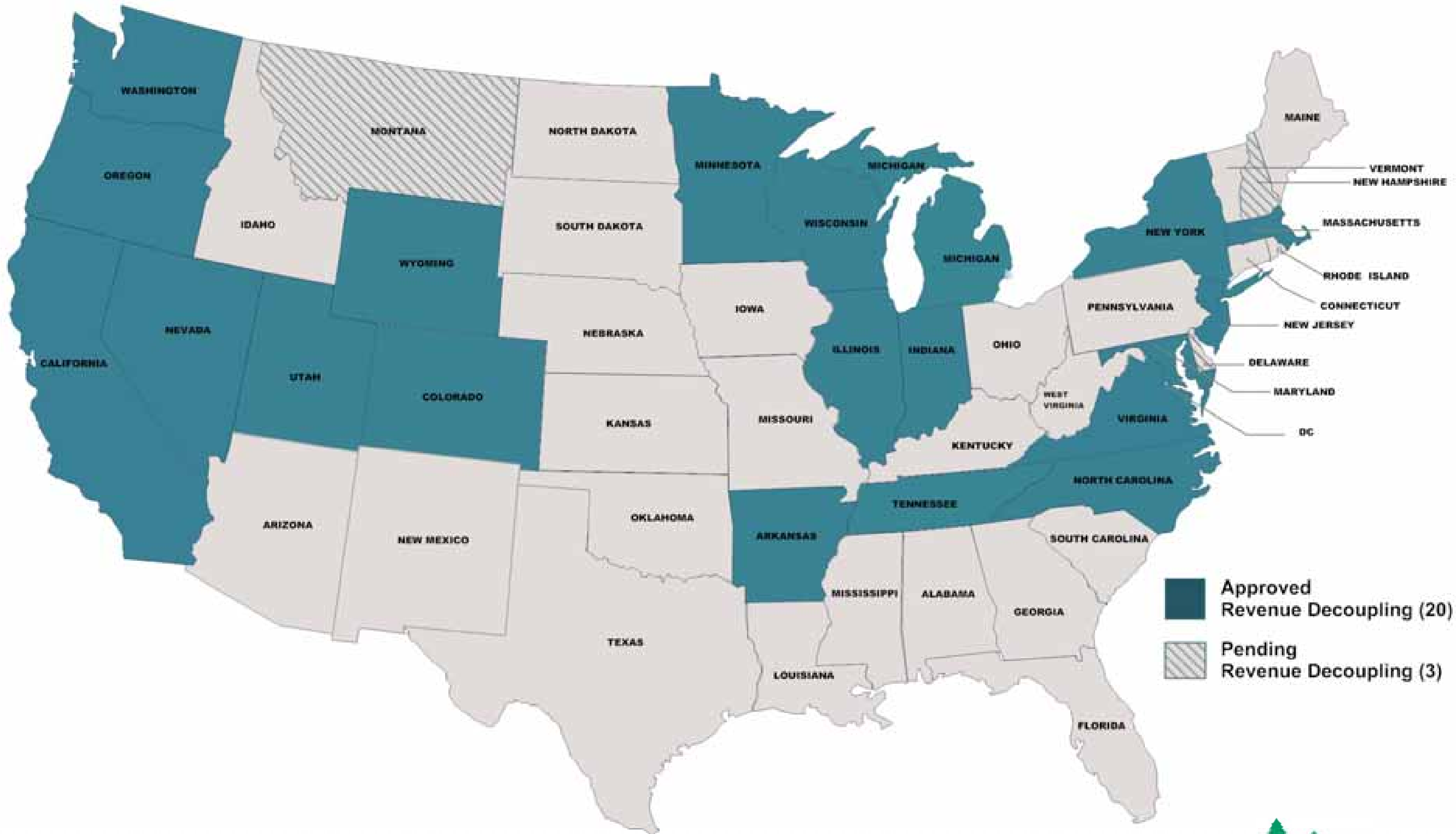
STATES WITH BOTH FLAT MONTHLY FEES AND RATE STABILIZATION

1. Oklahoma
2. Texas

STATES WITH WNA AND WITHOUT OTHER TYPES

1. Connecticut
2. Delaware
3. Kansas
4. Kentucky
5. Massachusetts
6. South Dakota
7. West Virginia

States with Natural Gas Revenue Decoupling As of October 2010



NRDC
THE EARTH'S BEST DEFENSE

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Decoupling Tariffs as of October 2010

APPROVED – 40 Companies, 20 States, 27 Million Res. Customers*

1. AR – Arkansas Oklahoma
2. AR – Arkansas Western
3. AR – CenterPoint Energy
4. CA – Pacific Gas and Electric
5. CA - San Diego Gas and Elec.
6. CA – Southern California Gas
7. CA – Southwest Gas
8. CO – PSC of Colorado
9. IL – Integrys - Peoples Gas
10. IL – Integrys - North Shore Gas
11. IN – Citizens Energy Group
12. IN – Vectren Indiana Gas
13. IN – Vectren Southern Indiana Gas
14. MA – Bay State Gas
15. MD – Baltimore Gas and Elec.
16. MD – Washington Gas
17. MI – Consumers Energy
18. MI - Michigan Consolidated Gas
19. MI – Integrys - Michigan Gas Utilities
20. MN – CenterPoint Minnesota Gas
21. NC - Piedmont Natural Gas
22. NC – PS Co. of North Carolina
23. NJ – NJ Natural Gas
24. NJ – South Jersey Gas
25. NV – Southwest Gas
26. NY – Central Hudson Gas and Electric
27. NY – Consolidated Edison
28. NY – National Fuel Gas Dist.
29. NY – National Grid Niagara Mohawk
30. NY – Orange and Rockland Utilities
31. OR – Cascade Natural Gas
32. OR – NW Natural Gas
33. UT – Questar Gas
34. TN – Chattanooga Gas
35. VA – Columbia Gas of Virginia
36. VA – Virginia Natural Gas
37. WA – Avista Corp.
38. WA – Cascade Natural Gas
39. WI – Integrys – Wisconsin Public Service Co.
40. WY – Questar Gas

PENDING – 10 Companies, 3 States, 3 Million Res. Customers*

1. DE – Delmarva Power and Light
2. MA – Boston Gas
3. MA – Colonial Gas
4. MA – Essex Gas
5. MT – Northwestern Corp.
6. NH – EnergyNorth Natural Gas
7. NJ – Pivotal Utility Holdings
8. NY – National Grid NYC
9. NY – National Grid Long Island
10. WY – Source Gas

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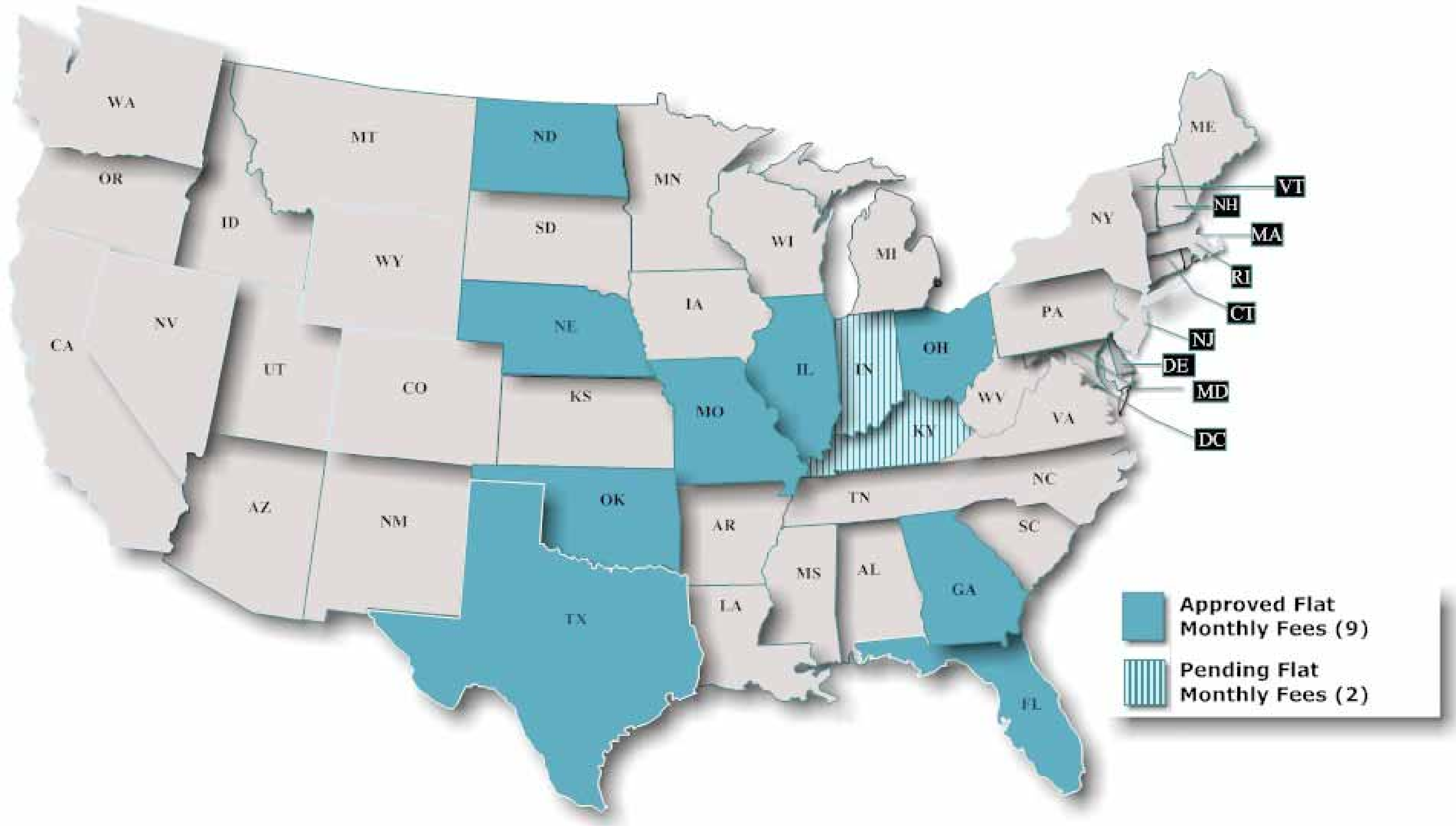
*** Of 65 Million (2008) US Residential Customers**

States with Flat Monthly Fee Rate Designs As of October 2010



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Flat Monthly Fee Rate Design (SFV) as of October 2010

Approved – 15 Companies, 9 States, 9 Million Res. Customers*

1. FL – TECO Peoples Gas – Three-tier monthly charge plus small variable charge
2. GA – Atlanta Gas Light – Individually determined monthly demand charge (Straight Fixed Variable)
3. IL – Nicor Gas – Flat fee plus a small variable charge
4. MO – Atmos Energy – Flat fee
5. MO – Empire District Gas
6. MO – Laclede Gas – Modified rate blocks; has filed for flat monthly fee (pending)
7. MO – Missouri Gas Energy - Flat monthly fee - $28 residential/$39.26 small general service
8. NE – SourceGas – Modified rate blocks
9. ND – Xcel Energy – $18.48 flat monthly fee
10. OH – Columbia Gas – Flat fee
11. OH – Dominion East Ohio – Flat fee plus small variable charge
12. OH – Duke Energy – Flat fee
13. OH – Vectren Ohio - $18.37 flat monthly fee
14. OK - ONEOK – Two-tier plan – Offers customers a choice
15. TX – Texas Gas Service El Paso – $10.80 flat fee up to 200 ccf/month

Pending – 5 Companies, 2 States, 1 Million Res. Customers*

1. IN – Northern Indiana Public Service
2. KY – Louisville Gas and Electric
3. NE - Black Hills – Two-tier, declining block rate
4. OH – Pike Natural Gas – Increased monthly charge
5. OH – Eastern Natural Gas

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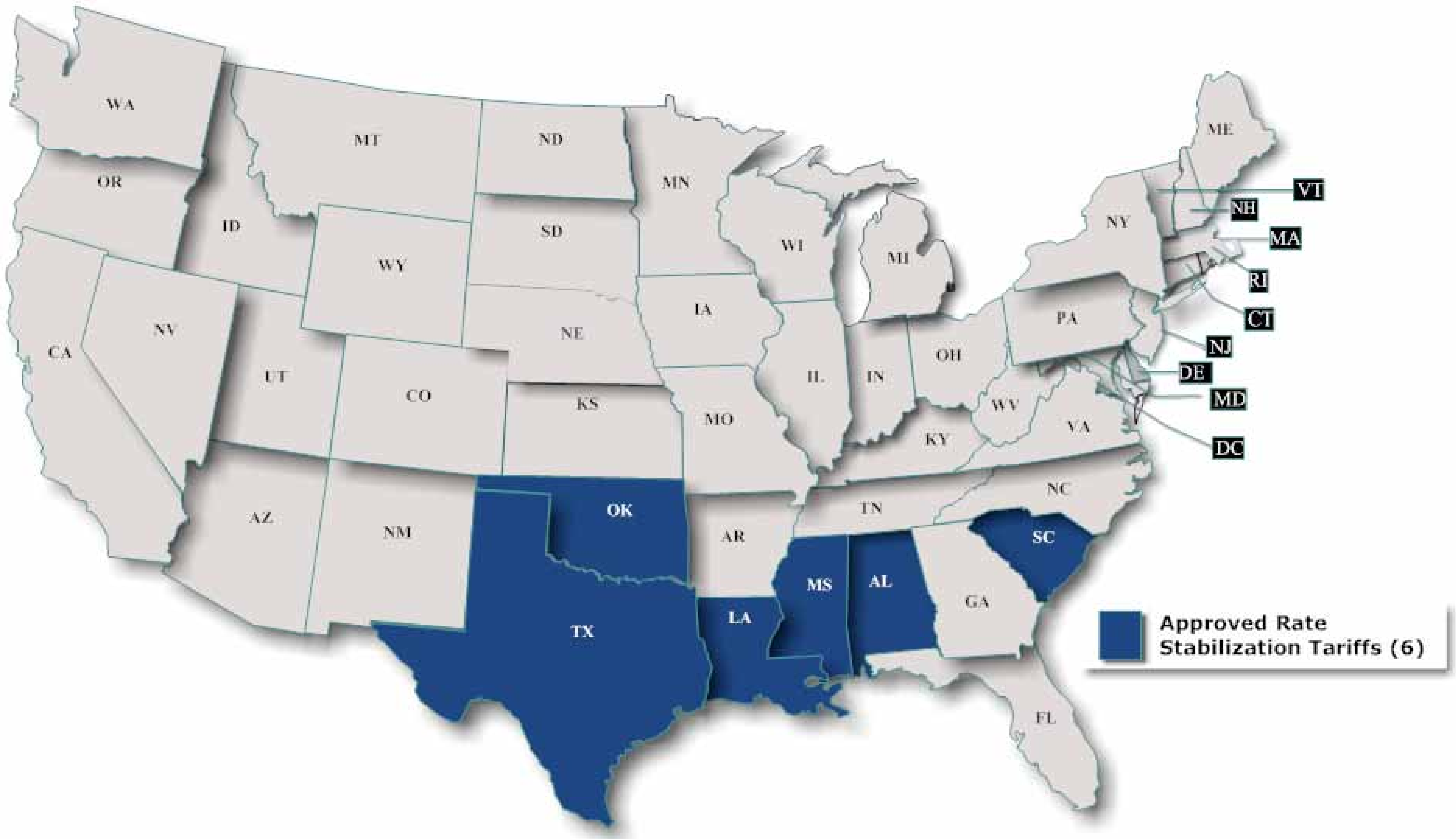
*** Of 65 Million (2008) US Residential Customers**

States with Rate Stabilization Tariffs as of October 2010



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Rate Stabilization Tariffs as of October 2010

Approved – 13 Companies, 6 States, 6 Million Res. Customers*

1. AL – Alabama Gas
2. AL – Mobile Gas
3. LA – Atmos Energy
4. LA – CenterPoint Energy
5. LA – Entergy
6. MS – Atmos Energy
7. MS – CenterPoint Energy
8. OK – CenterPoint Energy
9. OK – Oklahoma Natural Gas
10. SC – Piedmont Natural Gas
11. SC – South Carolina E&G
12. TX – CenterPoint Energy
13. TX – Atmos Energy

*** Of 65 Million (2008) US Residential Customers**

Rate Stabilization Mechanisms

- Decouples utility rates from natural gas throughput by adjusting rates to meet pre-established and authorized rate targets
- Regulatory review utilizes an expedited revenue study, as well as an expedited cost study
- NOT incentive regulation -- no reward for meeting performance targets
- Expedites utility infrastructure investment between rate cases
- Symmetrical - shares efficiency savings with customers
- FERC-regulated electric transmission companies use RS

Streamlines ratemaking process and costs of utility regulation

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Rethinking Utility Regulation

- The “essential facility” model – the basis for traditional energy utility regulation -- largely remains intact
- The goal of utility regulation – ensuring safe, reliable utility service at just and reasonable costs remains intact
- But the goal of ongoing, dramatic greenhouse gas reductions covering decades and even centuries raises new questions

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