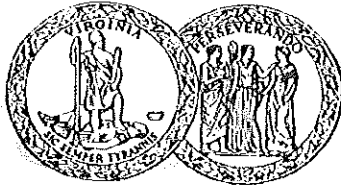


COMMONWEALTH OF VIRGINIA

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STATE CORPORATION COMMISSION

December 1, 2010

TO: The Honorable Robert F. McDonnell
Governor, Commonwealth of Virginia

The Honorable Bill Bolling
Lieutenant Governor, Commonwealth of Virginia
President Pro Tempore, Senate of Virginia

The Honorable William J. Howell, Speaker
Virginia House of Delegates

The Honorable Terry G. Kilgore
Chairman, House Committee on Commerce and Labor

The Honorable Richard L. Saslaw
Chairman, Senate Committee on Commerce and Labor

The State Corporation Commission is pleased to transmit its report on the implementation of the Natural Gas Conservation and Ratemaking Efficiency Act, as required by Chapter 639 of the 2008 Virginia Acts of Assembly.

Respectfully submitted,

Original signed by

James C. Dimitri
Chairman

Original signed by

Judith Williams Jagdmann
Commissioner

Original signed by

Mark C. Christie
Commissioner

Commonwealth of Virginia
State Corporation Commission

Report to the Governor of the Commonwealth of Virginia, the Speaker of the House of Delegates, the President Pro Tempore of the Senate, and the Chairs of the House and Senate Committees on Commerce and Labor



Report: Implementation of The Natural Gas Conservation and Ratemaking Efficiency Act

December 1, 2010

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Executive Summary

In 2008, the General Assembly enacted the Natural Gas Conservation and Ratemaking Efficiency Act (the “Natural Gas Conservation Act” or “Act”) authorizing natural gas utilities (1) to file conservation and ratemaking efficiency plans that are intended to promote improved energy efficiency and increased conservation and (2) to implement ratemaking mechanisms that “decouple” the recovery of a utility's allowed distribution revenue (i.e., its “non-gas” revenue) from the level of consumption of natural gas by its customers. The Natural Gas Conservation Act also requires the Virginia State Corporation Commission (“SCC” or “Commission”) to provide a report to the Governor, the Speaker of the House of Delegates, the President Pro Tempore of the Senate, and the Chairs of the House and Senate Committees on Commerce and Labor regarding the implementation of the Act by December 1, 2009, and annually by such date each year thereafter until December 1, 2013. This report is the second such report tendered by the Commission in compliance with this requirement. The first report was filed on December 1, 2009.

Thus far, three natural gas utilities have received approval for conservation and ratemaking efficiency plans with the Commission. Virginia Natural Gas, Inc. (“VNG”) filed an application seeking approval of its plan on July 3, 2008. Columbia Gas of Virginia, Inc. (“Columbia”) and Washington Gas Light Company (“WGL”) filed applications seeking approval of their plans on June 8, 2009, and September 29, 2009, respectively. VNG’s proposed plan was approved with modifications, and VNG was permitted to place its proposed decoupling rate adjustment mechanism into effect on January 1, 2009. Columbia’s plan was approved with modifications, and Columbia was permitted to place its proposed decoupling rate adjustment mechanism into effect on December 31, 2009. WGL’s proposed plan was approved with

modifications, and WGL was permitted to place its proposed decoupling rate adjustment mechanism into effect on May 1, 2010.

All three natural gas utilities examined their efficiency programs utilizing the Participant, Rate Impact Measure (“RIM”), Total Resource Cost (“TRC”), and Program Administrator (“PA”) Tests. The Participant Test measures the impact of the program on those customers who are direct participants in a program, i.e., the customers who actually receive the incentive or service. The RIM Test measures the net impact on the utility’s customers as a whole, with no focus on the participants’ direct benefits. The TRC Test measures the overall impact on both participants and non-participants. The PA Test estimates the impact on the utility in its administration of the program and its avoidance of alternative resource costs. In considering these tests, it should be noted that they rely on projections that are likely to vary from actual experience. Some estimates are difficult to predict with any significant degree of accuracy. Consequently, actual cost/benefit test results will likely vary, perhaps significantly, from the utilities’ estimates. Further, cost/benefit tests do not consider any increases or decreases in a utility’s non-gas revenue that might arise from the implementation of decoupling mechanisms.

Generally, the utilities’ estimates indicate that, for their proposed programs, cost/benefit results will show that costs exceed benefits under the RIM Test but that benefits will exceed costs under the other tests. Failure of the RIM Test indicates that customers that do not participate in the proposed programs will be negatively impacted by the proposed plans. These negative impacts may be offset by benefits to participants to the extent that the programs pass the TRC Test.

All three utilities proposed decoupling rate adjustment clauses designed to produce average non-gas revenues¹ per customer equal to the average non-gas revenue per customer produced by the rates and test-year conditions established in earlier proceedings in accordance with the Act's definition of "allowed distribution revenue." The test years used in the filings were calendar year 2005 or earlier. These somewhat dated test years effectively provide adjustments for changes in average weather-normalized usage that may have occurred between then and now. Average weather-normalized usage and non-gas revenue is, in reality, impacted by a number of factors. These factors include changing customer lifestyles, customer demographics, housing sizes, furnace and appliance efficiencies, customer price and inflation elasticities, customer awareness, and other factors unrelated to the utilities' offerings of efficiency programs. All three utilities have experienced declines in average weather normalized customer usage since 2005. As such, the decoupling rate clauses adjust for the aforementioned changes as well as those changes attributable to utility-sponsored efficiency programs.

In summary, Virginia's three largest natural gas utilities have implemented energy conservation plans that include the offering of various efficiency programs to customers. The preliminary results of these plans indicate that the Natural Gas Conservation Act has or will stimulate utility investment in energy and conservation programs.

Sufficient evidence does not yet exist to conclude that these investments are cost-effective under either the RIM or TRC Tests. Initial estimates indicate that these investments will be beneficial from some perspectives, but the estimates also show that the utilities' efficiency plans may negatively impact non-gas rates paid by consumers and that

¹ Non-gas revenues are those revenues that are intended to provide a return on utility investments and to recover non-purchased gas related expenses that include depreciation expenses, operating and maintenance expenses, and taxes. The recovery of costs associated with purchasing natural gas supplies for resale to customers are not considered to be non-gas revenues.

non-participants in programs will be adversely impacted. Additionally, the cost/benefit results do not consider any revenue impact resulting from the implementation of decoupling mechanisms. Such revenue changes could significantly impact the costs and benefits of a utility's plan when viewed from a utility customer's perspective.

Further, it is likely that the decoupling mechanisms adopted pursuant to the Act will increase utilities' non-gas revenues as compared to the revenues that the utilities would otherwise have received.² Such increases can be attributed to the Act's definition of "allowed distribution revenue" and the related requirement that this definition serve as the basis for decoupling mechanisms. To illustrate this point, the current actual results indicate that, since its inception, VNG's decoupling mechanism has compensated the company approximately \$7.7 million for forecasted energy reductions of approximately 18 million Ccfs. However, VNG's own estimates indicate that its programs have generated actual reductions of less than 491,000 Ccfs, so consumers are paying for a level of energy reductions that are not occurring.³ The Commission will continue to monitor results of the utilities' efficiency plans and report to the Governor and General Assembly as directed.

² The Natural Gas Conservation Act allows gas utilities to propose plans and decoupling mechanisms outside the context of comprehensive rate proceedings, in which all revenues are reviewed for reasonableness to consumers and fairness to utilities.

³ The results were similar for Columbia's and WGL's programs. Specifically, Columbia's decoupling mechanism enabled it to collect additional non-gas revenue of nearly \$3.2 million based on assumed usage reductions of 8.4 million Ccfs. However, Columbia's engineering estimates indicate that its programs have generated actual reductions of approximately 77,000 Ccfs. WGL's decoupling mechanism enabled it to collect additional non-gas revenue of \$219,275 from ratepayers during a period in which WGL had not yet implemented its conservation and energy efficiency programs.

Introduction

In 2008, the General Assembly enacted the Natural Gas Conservation and Ratemaking Efficiency Act (the “Natural Gas Conservation Act” or “Act”)⁴ authorizing natural gas utilities to file conservation and ratemaking efficiency (“CARE”) plans that are intended to promote improved energy efficiency and increased conservation, and authorizing the utilities to implement ratemaking mechanisms that “decouple” the recovery of a utility’s allowed distribution revenue from the level of consumption of natural gas by its customers. The Natural Gas Conservation Act also requires the Virginia State Corporation Commission (“SCC” or “Commission”) to provide a report to the Governor, the Speaker of the House of Delegates, the President Pro Tempore of the Senate, and the Chairs of the House and Senate Committees on Commerce and Labor regarding the implementation of the Act by December 1, 2009, and annually by such date each year thereafter until December 1, 2013. This report is the second such report tendered by the Commission in compliance with this requirement. The first report was filed on December 1, 2009.

The Natural Gas Conservation Act

The Natural Gas Conservation Act authorizes natural gas utilities to file CARE plans that include: (i) a normalization component to remove the effect of weather from the determination of conservation and energy efficiency results; (ii) a decoupling mechanism; (iii) cost-effective conservation and energy efficiency programs; (iv) provisions for the needs of low-income or low-usage residential consumers; and (v) provisions to ensure that rates and service to non-participating classes of customers are not adversely impacted. Such plans may include one or more residential, small commercial, or small general service classes but cannot apply to large commercial or large industrial customer classes. The SCC must allow a utility that implements a

⁴ 2008 Va. Acts ch. 639.

CARE plan to recover, through regulated rates, its costs associated with cost-effective conservation and energy efficiency programs. Utilities that demonstrate reductions in annualized, weather-normalized usage per customer have the opportunity to earn an incentive of up to a fifteen percent share of the independently verified net economic benefits created by the programs. The SCC is prohibited from reducing a utility's profit (as determined by its authorized return on equity capital) as a result of the implementation of a CARE plan.

The Natural Gas Conservation Act consists of §§ 56-600, 56-601, and 56-602 of the Code of Virginia ("Code"). These statutes respectively set forth definitions; describe the objectives of efficiency plans; and establish specific elements, conditions, and incentives for efficiency plans and decoupling proposals. Key definitions set forth in § 56-600 of the Code include:

"Allowed distribution revenue" means the average annual, weather-normalized, nongas commodity revenue per customer associated with the rates in effect as adopted in the applicable utility's last Commission-approved rate case or performance-based regulation plan, multiplied by the average number of customers served.

"Cost-effective conservation and energy efficiency program" means a program approved by the Commission that is designed to decrease the average customer's annual, weather-normalized consumption or total gas bill, for gas and nongas elements combined, or avoid energy costs or consumption the customer may otherwise have incurred, and is determined by the Commission to be cost-effective after analyzing such program using the Total Resource Cost Test, the Societal Test, the Program Administrator Test, the Participant Test, the Rate Impact Measure Test, and any other test the Commission reasonably deems appropriate. The Commission may determine the weight to be given to a test. Without limitation, rate designs or rate mechanisms, customer education, customer incentives, and weatherization programs are examples of conservation and energy efficiency programs that the Commission may consider.

"Decoupling mechanism" means a rate, tariff design or mechanism that decouples the recovery of a utility's allowed distribution revenue from the level of consumption of natural gas by its customers, including (i) a mechanism that adjusts actual nongas distribution revenues per customer to allowed distribution revenues per customer, such as a sales adjustment clause, (ii) rate design changes that substantially align the percentage of fixed charge revenue recovery with the percentage of the utility's fixed costs, such as straight fixed variable rates,

provided such mechanism includes a substantial demand component based on a customer's peak usage, or (iii) a combination of clauses (i) and (ii) that substantially decreases the relative amount of nongas distribution revenue affected by changes in per customer consumption of gas.

"Fixed costs" means any and all of the utility's nongas costs of service, together with an authorized return thereon, that are not associated with the cost of the natural gas commodity flowing through and measured by the customer's meter.

"Revenue-neutral" means a change in a rate, tariff design or mechanism as a component of a conservation and ratemaking efficiency plan that does not shift annualized allowed distribution revenue between customer classes, and does not increase or decrease the utility's average, weather-normalized nongas utility revenue per customer for any given rate class by more than 0.25 percent when compared to (i) the rate, tariff design or mechanism in effect at the time a conservation and ratemaking efficiency plan is filed pursuant to this chapter or (ii) the allocation of costs approved by the Commission in a rate case using the cost of service methodology set forth in § 56-235.2 or a performance-based regulation plan authorized by § 56-235.6, where a plan is filed in conjunction with such case.

Section 56-601 A of the Code identifies the following objectives for alternative rate designs and other mechanisms, where feasible:

- 1. Provide utilities with better tools to work with customers to decrease the average customer's annual average weather-normalized consumption of natural gas;*
- 2. Provide reasonable assurance of a utility's ability to recover costs of serving the public, including its cost-effective investments in conservation and energy efficiency as well as infrastructure needed to provide or maintain reliable service to the public;*
- 3. Reward utilities for meeting or exceeding conservation and energy efficiency goals that may be established pursuant to the Virginia Energy Plan (§ 67-100 et seq.);*
- 4. Provide customers with long-term, meaningful opportunities to more efficiently consume natural gas and mitigate their expenditures for the natural gas commodity, while ensuring that the rate design methodology used to set a utility's revenue recovery is not inconsistent with such conservation and energy efficiency goals;*
- 5. Recognize the economic and environmental benefits of efficient use of natural gas; and*

6. Preserve or enhance the utility bill savings that customers receive when they reduce their natural gas use.

Subdivision B of § 56-601 authorizes natural gas utilities to implement alternative rate designs and other mechanisms that:

1. Replace existing utility rate designs or other mechanisms that promote inefficient use of natural gas with rate designs or other mechanisms that ensure a utility's recovery of its authorized revenues is independent of the amount of customers' natural gas consumption;

2. Provide incentives for natural gas utilities to promote conservation and energy efficiency by granting recovery of the costs associated with cost-effective conservation and energy efficiency programs; and

3. Reward utilities that meet or exceed conservation and energy efficiency goals on a weather-normalized, annualized average customer basis through the implementation of cost-effective conservation and energy efficiency programs.

Section 56-602 of the Act contains key provisions regarding the filing and consideration of CARE plans and decoupling mechanisms. Among other things, these provisions:

- limit the applicability of decoupling clauses and efficiency plans to residential, small commercial and small general service customer classes;
- mandate that efficiency plans include: “(i) a normalization component that removes the effect of weather from the determination of conservation and energy efficiency results; (ii) a decoupling mechanism; (iii) one or more cost-effective conservation and energy efficiency programs, (iv) provisions to address the needs of low-income or low-usage residential customers, and (v) provisions to ensure that the rates and service to non-participating classes of customers are not adversely impacted”;⁵
- permit phased or targeted implementation of rate or tariff design changes and efficiency programs;
- require the Commission to allow natural gas utilities to recover their incremental costs associated with cost-effective efficiency plans;
- require participating utilities “to file annual reports showing the year over year weather-normalized use of natural gas on an average customer basis, by customer class, as well as the incremental, independently verified net economic benefits created

⁵ Va. Code § 56-602 A.

by the utility's cost-effective conservation and energy-efficiency programs during the previous year”;⁶

- require the Commission to grant a reasonable opportunity for participating utilities to earn performance based incentives of up to 15 percent of the independently verified net economic benefits resulting from their efficiency plans if target levels are met; and finally,
- preserve the Commission’s authority under §§ 56-234.2, 56-235.2, or 56-235.6, but provide that the Commission may not reduce an authorized return on common equity or other measure of utility profit as a result of the implementation of a natural gas CARE plan.

⁶ Va. Code § 56-602 E.

CARE Plans Filed with the Commission

To date, three natural gas utilities have filed CARE plans with the Commission. Virginia Natural Gas, Inc. (“VNG”) filed an application seeking approval of its plan on July 3, 2008. Columbia Gas of Virginia, Inc. (“Columbia”) and Washington Gas Light Company (“WGL”) filed applications seeking approval of their plans on June 8, 2009, and September 29, 2009, respectively. These filings and additional amendments are described in greater detail as follows.

Virginia Natural Gas, Inc.

VNG’s Application

VNG filed its proposed CARE plan on July 3, 2008. In its filing, VNG proposed to spend \$7.5 million to implement various efficiency and conservation programs for residential customers over a three-year period. These initiatives included the Community Outreach and Consumer Education Program, the Seasonal Check-up Program, the Low-Income Weatherization Program, the Pilot ENERGY STAR[®] Residential New Construction Program, and three other programs designed to promote installation of higher efficiency furnaces and water heaters.

VNG examined various efficiency programs utilizing the Participant, Rate Impact Measure (“RIM”), Total Resource Cost (“TRC”), and Program Administrator (“PA”) Tests. The Participant Test measures the impact of the program on customers who directly participate in a program, i.e., the customers who actually receive the incentive or service. The RIM Test measures the net impact on the utility’s customers as a whole with no focus on participants’ direct benefits. The TRC Test measures the overall impact on both participants and non-participants. The PA Test estimates the impact on the utility in its administration of the program and its avoidance of alternative resource costs. These cost/benefit tests rely on a number of projections that are likely to vary from actual experience. Some of these estimates are difficult

to predict with any significant degree of accuracy. It is also important to note that the cost/benefit tests do not consider increases or decreases in the utility's non-gas revenue that might arise as a result of the implementation of decoupling mechanisms. The results of VNG's analyses, as presented in its application, are summarized in the following table:

VNG Program Results

Program	Participant Test	RIM Test	TRC Test	PA Test
	Benefit/Cost Ratio			
Seasonal Check-Up	2.43	0.86	2.10	6.39
Low-Income Weatherization	3.07	0.67	2.07	2.07
Tank Water Heater	2.09	0.66	1.37	1.92
Tankless Water Heater	2.29	0.69	1.58	2.21
Space Heating	1.88	0.73	1.38	2.77
ENERGY STAR Pilot	2.52	0.90	2.26	8.82
Summary of All Programs	2.32	0.66	1.32	1.92

A benefit-to-cost ratio greater than 1.00 indicates that a program's expected benefits are greater than expected costs. Ratios less than 1.00 indicate that a program's expected costs exceed its expected benefits. These results show that, for the efficiency measures examined, benefits exceeded costs for all tests except the RIM Test, which no program passed. This indicated that VNG's non-participating customers would be negatively impacted by VNG's proposed CARE plan. VNG's estimates of the number of participating customers indicated that approximately 3.9% of its residential customers would benefit from the proposed programs in a given year while 96.1% of such customers would be adversely impacted by VNG's offering of these programs. Based on VNG's estimates, all of the proposed programs passed the TRC Test. Consequently, it was expected that benefits to program participants would exceed the negative impacts on non-participants in the programs. VNG estimated that the proposed programs would produce net benefits of \$39.5 million over a ten-year period.

VNG also proposed to implement a revenue decoupling adjustment, Rider D, in conjunction with its proposed programs. Applicable to VNG's residential rate schedules, Rider D would consist of monthly rate adjustments with an annual true-up. These rate adjustments were designed to produce average non-gas revenues per customer equal to the average non-gas revenue per customer produced by the rates and test-year conditions established in Case No. PUE-2005-00057.⁷ VNG proposed to base the calculation of Rider D on actual changes in the non-gas revenues of all residential customers from those reflected in the test year used in that case, the twelve months ending March 2005. As such, VNG's decoupling mechanism essentially assumed that the only factor impacting the average weather-normalized usage and non-gas revenue per customer would be the efficiency programs it proposed. VNG ignored changes in average weather-normalized usage that may have occurred since March 2005. In actuality, average weather-normalized usage and non-gas revenue is impacted by a number of factors including changing customer lifestyles, customer demographics, housing sizes, furnace and appliance efficiencies, customer price and inflation elasticities, customer awareness, and other factors unrelated to VNG's energy efficiency programs. As such, Rider D would adjust for the aforementioned changes as well as those changes actually driven by the company's energy efficiency programs.

VNG did not request an incentive share of the independently verified net economic benefits created by its conservation and energy efficiency programs. Such a request could be made in the future.

⁷ This proceeding established VNG's performance-based regulation plan. See *Application of Virginia Natural Gas, Inc., For approval of a performance based rate regulation methodology pursuant to Virginia Code § 56-235.6, and General Rate Case Filing of Virginia Natural Gas, Inc., For investigation of justness and reasonableness of current rates, charges, and terms and conditions of service in compliance with prior Commission Order*, Case Nos. PUE-2005-00057 and PUE-2005-00062, 2006 S.C.C. Ann. Rept. 341, Order (July 24, 2006).

Commission's Final Order

On December 23, 2008, the Commission issued its Order approving VNG's CARE plan with modifications and authorizing VNG to implement its decoupling mechanism effective January 1, 2009.⁸ The Commission's Order included specific discussion of numerous issues, including detailed discussion of two controversial elements of VNG's proposed plan: the impact on non-participants in the Energy Conservation Plan ("ECP") programs, and the impact on VNG's recovery of non-gas revenues. In discussing the impact of VNG's plan on non-participants, the Commission's Order stated that the ECP passes all the tests except the RIM Test, which is also called the Non-Participant Test because it measures the rate impact on non-participating customers. The Commission also noted that the Natural Gas Conservation Act embodies the ratemaking premise that non-participating customers may pay more for service so that the utility can recoup revenue lost from those who participate and conserve, making it difficult for many programs to pass the RIM Test. With regard to VNG's proposed programs, the Commission found that the RIM Test results highlight the limited residential customer participation expected in the ECP and that "it is reasonably appropriate to consider the number of customers targeted, and the type of programs that they are targeted with, as part of the ECP."⁹

Because of this concern, the Commission imposed two conditions on VNG's ECP:

- (1) that for the Plan to be cost effective under the Act, the annual funds proposed by the Company should be allocated in a manner that appreciably increases the realistically possible number of participants in significant conservation measures;
- and (2) that this shall be accomplished by increasing the allocation of funds for the Programmable Thermostat Program . . .¹⁰

⁸ See *Application of Virginia Natural Gas, Inc., For approval to implement a natural gas conservation and ratemaking efficiency plan including a decoupling mechanism and to record accounting entries associated with such mechanism*, Case No. PUE-2008-00060, 2008 S.C.C. Ann. Rept. 566, Order Approving Natural Gas Conservation and Ratemaking Efficiency Plan (Dec. 23, 2008).

⁹ *Id.* at 571. The Commission noted in Footnote 20 that the Revised Stipulation would likely increase participation because it included a \$4.00 coupon for air filters and a Programmable Thermostat Program with 5,000 expected participants.

¹⁰ *Id.*

In summary, the Commission's Order sought to mitigate the disparate impact of VNG's plan on participants and non-participants by broadening the scope of incentives such that a greater number of customers could participate in CARE programs.

The Order also addressed the impact of VNG's proposed decoupling mechanism on the company's non-gas revenues. The Commission recognized that in VNG's performance-based ratemaking ("PBR") plan, it was found that VNG's annual non-gas revenues should decrease by \$9.83 million and that this reduction was not instituted on the condition that VNG construct a certain pipeline and freeze rates for five years. The Commission described this second condition as "a necessary and obviously critical component of our approval of that plan."¹¹ Next, the Commission explained that VNG's proposed Revenue Normalization Adjustment Rider, though not technically a rate increase under the Natural Gas Conservation Act, nevertheless functions as a rate increase because it increases rates to residential customers through a "sales adjustment" so that VNG's guaranteed revenue for the residential class can be collected regardless of volume of gas consumed by that class. The Commission approved VNG's plan but stated that residential customers may ultimately pay a higher price for non-gas service than under the company's PBR plan.¹² Notably, the Natural Gas Conservation Act allows utilities to propose plans and decoupling mechanisms outside the context of comprehensive rate proceedings. Consequently, an increase in VNG's earnings could occur without a corresponding examination of the reasonableness of those earnings.

Plan Amendments

VNG initiated its plan and decoupling mechanism on January 1, 2009. VNG subsequently filed a request with the Commission on July 16, 2009, requesting permission to

¹¹ *Id.* at 574.

¹² *Id.* at 574-75.

modify aspects of its conservation and energy efficiency programs for the first year of its three-year CARE plan. The requested modifications included: (i) expanding the eligibility requirements for the low-income weatherization program to match the eligibility requirements of VNG's partner agencies; (ii) shifting allocated dollars from the low-income weatherization program to the space heating program; (iii) combining the programmable thermostat rebate program with the free programmable thermostat program; (iv) shifting allocated dollars from the programmable thermostat program to the tankless water heater program; and (v) allowing for additional participation in the space heating and tankless water heater programs by shifting allocated dollars from the consumer outreach program, in addition to the dollars reallocated from the low-income weatherization and programmable thermostat programs. The request was approved by the Commission on November 10, 2009.¹³ A copy of the Commission's Order is Attachment A to this Report.

VNG filed for a further amendment of its CARE plan on December 17, 2009. Generally, VNG sought authorization to further align its program eligibility requirements with those of partner agencies; to shift allocated dollars between already approved programs; to align rebates between programs and/or increase rebate amounts; to expand programs receiving reallocated dollars; to carry over any unused budgeted funds and administrative costs for a program from one year to that same program's budget and costs in future program years; and to allocate federal American Recovery and Reinvestment Act of 2009 funds among programs in a manner consistent with the guidelines for such funds.

The Commission denied this request by Order of April 14, 2010, out of concern that VNG's proposed funding reallocation would raise issues of creating potential savings for a

¹³ *Application of Virginia Natural Gas, Inc., To modify its conservation and ratemaking efficiency plan*, Case No. PUE-2009-00070, 2009 S.C.C. Ann. Rept. 509, Final Order (Nov. 10, 2009).

smaller customer group, funded by a larger customer group. The Commission also provided modifications to VNG's amendment, including: no shifting of funds from the low-income weatherization program to VNG's space heating program; shifting only one-half of proposed dollars between programs with the remaining one-half of funds not expended; limiting the authority to shift funds between programs to, at most, 25% of that program's fund allocation; and declaring that funds not expended on programs during a CARE plan year not be spent, serving to lower overall CARE plan expenditures. The Commission further stated that VNG must file annual reports starting May 3, 2010, and on each May 1 thereafter for the duration of the CARE plan.¹⁴

On June 14, 2010, VNG filed an application to accept the Commission's modifications and seeking authority to amend its CARE plan once again. In this compliance filing, VNG accepted the modifications of the Commission's April 14, 2010 Order. The Commission found that VNG's filing was in compliance with the findings and requirements of its prior Order. The Commission noted that, since many of the CARE programs included amendments that had not been in effect for a full year, it would continue to review these programs' cost/benefit analyses, in part to determine whether these programs should be continued if VNG were to file to extend its CARE plan.¹⁵ A copy of this Order is Attachment B to this Report.

VNG's 2009 Annual Report

On May 4, 2010, VNG filed its 2009 Annual Report of its CARE plan with the Commission. VNG discussed the various aspects of its recent education and outreach efforts,

¹⁴ See *Application of Virginia Natural Gas, Inc., For authority to amend its Conservation and Ratemaking Efficiency Plan*, Case No. PUE-2009-00139, Doc. Con. Cen. No. 100430003, Final Order (April 14, 2010).

¹⁵ *Application of Virginia Natural Gas, Inc., For authority to amend its Conservation and Ratemaking Efficiency Plan*, Case No. PUE-2009-00139, Doc. Con. Cen. No. 100730218, Order Approving Modifications and Amended Application (July 23, 2010).

provided a summary of participation numbers in each program, and estimated the savings associated with those programs.

Additionally, VNG performed cost/benefits analyses on its CARE programs based on 2009 participation. According to VNG, the 2009 evaluations were performed utilizing two savings assumptions: (1) future savings will be equal to the savings measured in VNG’s billing analysis; and (2) savings will be equal to the savings measured in VNG’s engineering analysis.¹⁶ The results of the updated cost/benefit tests as measured in the billing analysis are summarized in the following table:

Test Results Under Billing Analysis

Program	Participant Test	RIM Test	TRC Test	PA Test
	Benefit/Cost Ratio			
Seasonal Check-Up	0.90	0.40	0.36	1.07
Low-Income Weatherization	4.47	0.56	2.49	2.49
Tank Water Heater	3.71	0.55	2.03	2.58
Tankless Water Heater	2.62	0.52	1.35	1.89
Space Heating	1.83	0.52	0.95	1.91
ENERGY STAR Pilot	2.17	0.64	1.39	5.43
Programmable Thermostat	10.65	0.62	6.63	6.63
Summary of All Programs	2.92	0.56	1.62	2.65

¹⁶ Billing analysis is the development of an estimate of measure savings by evaluating specific customer consumption data. Engineering analysis is the development of an estimate of measure savings using engineering relationships, such as efficiency of a new appliance versus the efficiency of a comparable old appliance. The engineering analysis used to assess the programs in the Annual Report is the same analysis used in VNG’s initial application.

Cost/benefit tests results as measured in the engineering analysis are summarized as follows:

Test Results Under Engineering Analysis

Program	Participant Test	RIM Test	TRC Test	PA Test
	Benefit/Cost Ratio			
Seasonal Check-Up	2.01	0.54	1.07	3.14
Low-Income Weatherization	4.47	0.56	2.49	2.49
Tank Water Heater	3.58	0.54	1.94	2.47
Tankless Water Heater	3.15	0.55	1.73	2.43
Space Heating	1.54	0.48	0.74	1.49
ENERGY STAR Pilot	2.17	0.64	1.39	5.43
Programmable Thermostat	7.97	0.60	4.79	4.79
Summary of All Programs	2.65	0.54	1.43	2.35

These results show that, for the efficiency measures examined, benefits exceeded costs with three exceptions. First, under the RIM Test, costs exceeded benefits for all of VNG’s proposed programs. This indicates that CARE program non-participants are negatively impacted by the programs. Second, for the Seasonal Check-Up Program, under VNG’s billing analysis costs exceed benefits for all but the Program Administrator Test; conversely, under the engineering analysis, benefits exceed costs for all but the RIM Test. VNG’s Annual Report stated that the engineering analysis estimate is more representative of customer experience with the program because the billing analysis does not include a full year of customer experience with the program. As such, VNG recommended continuing the program. Third, for the Space Heating Program, costs exceed benefits for both the RIM and the TRC Tests under both the billing and engineering analysis estimates. Despite this result, VNG recommended continuing this program, primarily because federal stimulus dollars became available in 2010 to help defray the company’s investment in the program, resulting in the program being cost-effective under a TRC analysis at that time.

Results of VNG's Plan: January through September 2009

VNG began offering incentives under its plan in March 2009. A summary of results for January through September 2009 follows.¹⁷

January – September 2009 Results

January through September 2009 Program Results	
Program expenditures associated with customer rebates and other offerings:	\$923,683
Annual natural gas usage reductions associated with program expenditures:	116,136 Ccfs
Revenue deficiency recovered through the revenue decoupling mechanism:	\$4,681,024
Usage reductions tied to collections under the revenue decoupling mechanism:	9,755,057 Ccfs

Results of VNG's Plan: October 2009 through August 2010

Based on updated information submitted by VNG to the Commission Staff, the number of incentives provided to customers and the associated estimated annual natural gas usage reductions for October 2009 through August 2010 are shown below:

October 2009 – August 2010 Results

Program	Quantity	CCF Saving per Rebate	Total CCF Savings
Air Filter Coupons	3,529	-11.8	-41,642
Free Thermostat	9,288	-18	-167,184
Programmable Thermostat Rebate	270	-18	-4,860
Seasonal Check-Up	782	-37	-28,934
Space Heating	986	-77	-75,922
Tank Water Heater	186	-45	-8,370
Tankless Water Heater	451	-78	-35,178
Low-Income Weatherization	223	-52	-11,596
Thermostat Rebates – Check-up	73	-18	-1,314
TOTALS:	15,788		-375,000

¹⁷ This information was reported in more detail in the Commission's December 1, 2009 Report.

VNG also provided its year-to-date program expenditures. Those expenditures are as follows:

Program Expenditures Through August 2010

Program	Total Expenditures
Seasonal Check-Up	\$25,519
Programmable Thermostat Rebates	\$0
Low-Income Weatherization	\$140,000
Tank Water Heater	\$27,563
Tankless Water Heater	\$201,506
Space Heating	\$409,630
Free Programmable Thermostat	\$227,064
Community Education and Outreach	\$655,425
Air Filter Coupon	\$14,152
ENERGY STAR New Construction	\$0
Other Expenses	\$135,578
Total	\$1,846,437

In addition to undertaking the measures listed above, VNG continued its revenue decoupling mechanism. Based on VNG's monthly submittals related to this factor, the Commission Staff compiled the following information for the period of October 2009 through August 2010:

Comparison of Decoupling Mechanism Collections and Ccf Sales

	Revenue Deficiency Collected Through Adj. Factor	Targeted Sales Ccf	Booked Sales Ccf	Sales Difference Ccf
Oct	\$ (263,732)	6,354,355	6,440,480	86,125
Nov	\$ (645,002)	13,659,771	12,286,560	(1,373,211)
Dec	\$ 742,558	29,446,864	27,926,960	(1,519,904)
Jan	\$ 620,971	37,033,506	39,644,170	2,610,664
Feb	\$ 1,163,710	29,887,406	33,337,270	3,449,864
March	\$ (597,373)	19,674,224	19,283,720	(390,504)
Apr	\$ 1,077,886	13,544,587	6,829,170	(6,715,687)
May	\$ 500,806	6,417,305	3,793,180	(2,624,125)
June	\$ 196,535	3,302,706	2,609,850	(692,856)
July	\$ 119,148	2,841,986	2,369,189	(472,797)
August	\$ 127,501	2,935,816	2,429,140	(506,676)
Total	\$ 3,043,008	165,098,796	156,949,689	(8,149,107)

This table shows that the operation of the decoupling mechanism enabled VNG to collect additional non-gas revenue of approximately \$3.0 million from ratepayers from October 2009 through August 2010. The calculations supporting this collection effectively assume that VNG's efforts have produced usage reductions of almost 8.2 million Ccf during this period. Further, since its inception, VNG's decoupling mechanism has compensated the company for usage reductions of approximately 18 million Ccf and allowed it to collect additional non-gas revenue of nearly \$7.7 million from its ratepayers. By contrast, VNG's own estimates indicated that the measures installed pursuant to its plan would produce cumulative annual savings of only 491,136 Ccf.¹⁸

This result can be attributed to the use of a stale test year for establishing the "allowed distribution revenue." Any utility's decoupling mechanism functions to decouple the recovery of allowed distribution revenue from that utility's customers' consumption of natural gas. Allowed distribution revenue is calculated based on the utility's rates adopted in its last SCC-approved rate case or performance-based regulation plan,¹⁹ which in VNG's case was the twelve months ending March 2005. VNG's average normalized non-gas revenue per customer has declined significantly since then due, at least in part, to customer-initiated efficiency efforts. As noted above, VNG's decoupling mechanism has compensated the company for energy reductions of approximately 18 million Ccfs while VNG's own estimates indicated that its programs would generate reductions of approximately 491,000 Ccfs. Thus, use of the specified non-gas revenue as required by the Natural Gas Conservation Act provides significant additional revenue to VNG above compensation needed to offset lost revenues attributable solely to VNG's efficiency efforts.

¹⁸ This includes reductions of 116,136 Ccf per year, attributable to measures taken in 2009, in addition to the 375,000 Ccf reduction estimated for the current period.

¹⁹ Va. Code § 56-500, definitions of "allowed distribution revenue" and "decoupling mechanism."

Columbia Gas of Virginia, Inc.

Columbia's Application

On June 8, 2009, Columbia filed a proposed CARE plan to offer incentives to its residential and small commercial customers. Columbia estimated that its plan would save customers \$41 million over twenty years and that individual participants could save from \$90 to \$350 annually. Columbia's proposed CARE plan was comprised of five principal components (i) a variety of conservation and energy efficiency programs; (ii) provisions to address the needs of low-income residential customers; (iii) a mechanism to recover the costs associated with CARE programs on a timely basis; (iv) an annual performance-based incentive mechanism for the delivery of conservation and energy efficiency benefits through an adjustment to the company's Purchased Gas Adjustment ("PGA") mechanism; and (v) a natural gas decoupling mechanism in the form of a sales adjustment clause. Columbia proposed that its plan be approved for three calendar years (2010-2012) and requested an effective date for the plan of December 31, 2009.

Columbia's proposed plan included a portfolio of six conservation and energy efficiency programs, described below.

Education and Outreach. These efforts would include company employee and customer education, general community outreach programs, the "Utiliwise" program branding effort, customer bill presentation, and the coordination with state and local stakeholders of communication of common information. Specifically, Columbia proposed to create a web page to provide information about the programs and to utilize other communication tools to provide information to customers including periodic bill inserts, news releases, and direct information

provided to senior citizen organizations, faith-based organizations and charitable organizations within its service territory.

Home Savings Program. This program would provide financial incentives to residential customers who purchase qualifying high-efficiency natural gas equipment for newly constructed or existing homes or take certain steps to weatherize existing homes. To receive the incentives, customers would have to submit completed application forms with supporting documentation.

The following measures were planned for the initial program offering:

- ENERGY STAR Natural Gas Storage Water Heater,
- ENERGY STAR Natural Gas Tankless Water Heater,
- ENERGY STAR Natural Gas Furnace,
- High efficiency Windows,
- Increasing Attic Insulation,
- Increasing Floor Insulation,
- Performing Duct Sealing, and
- Performing Duct Insulation.

Web-based Home Audit Program. Columbia proposed this program to provide an opportunity for residential customers, including low-income customers, to participate in home energy audits. The audit would be completed electronically or via mail. Upon audit completion, the customer would receive a customized report recommending home improvements that could be implemented to reduce natural gas usage. Energy efficiency measures could include recommendations requiring little or no customer investment, those requiring an investment with savings sufficient to justify the investment, recommendations not expected to generate sufficient savings, and other energy efficiency tips. Examples of energy efficiency measures that could be recommended in the report include water heater blankets, low-flow showerheads, faucet aerators and hot water pipe insulation.

Business Savings Program. This proposed program would provide financial incentives to existing Columbia small general service customers purchasing qualifying high efficiency natural

gas equipment for newly constructed (except where noted) or existing facilities, or to take steps to improve efficiency of certain equipment. To receive incentives, customers would have to submit completed application forms with supporting documentation. Among the measures proposed for the initial program offering were:

- Low-Flow Pre-Rinse Spray Valve (Retrofit Applications),
- High-Efficiency Coin-Op or Laundromat Clothes Washer,
- ENERGY STAR Gas Storage or Tankless Water Heater,
- Direct Contact Gas Water Heater,
- High-Efficiency Gas Furnace,
- Infrared Heater,
- Boiler Tune-up, and
- Outside Air Reset Controls.

Business Custom Program. This proposed program was intended to provide an avenue for small general service customers to propose projects and receive incentives for measures not contained in the Business Savings Program. Participants would provide submittals for a firm quantity of natural gas reduction through the installation of conservation and energy efficiency measures in return for a fixed rebate of \$10 per MCF up to a 50% cap equal to a percentage of the eligible incurred project cost. Eligible projects would be installed at small general service customer facilities. The Business Custom Program required customers to submit to Columbia specific information for each project and to conduct energy engineering and savings verification at their own cost. This project information would be provided in two reports, one before and one after installation. Incentives would be paid directly to participating customers meeting program requirements.

Residential Low-Income Program. Columbia's proposed Residential Low-Income Program was designed to address the implications of significant increases in funding levels provided for low-income home weatherization programs under the 2009 American Recovery and Reinvestment Act. Specifically, Columbia proposed to fund, in collaboration with the Virginia

Department of Housing and Community Development (“DHCD”) and other agencies, technical training for qualified energy auditors. Columbia would communicate information about the availability of low-income weatherization funding programs through its communication channels.²⁰ Columbia planned to utilize energy auditors trained through the DHCD-funded program to provide assessments for eligible customers.

Columbia examined its proposed efficiency programs utilizing various cost/benefits tests, the results of which are displayed in the following table.

Columbia Program Results

Program	Participant Test	RIM Test	TRC Test	PA Test
	Benefit/Cost Ratio			
Home Savings Program	2.3	0.8	1.0	1.2
Business Savings Program	2.3	0.9	1.0	1.4
Business Custom Program	5.9	1.0	1.3	1.5
Web-based Audit Program	30.1	1.3	3.3	2.8
Summary of All Programs	2.9	0.8	1.0	1.2

Columbia’s estimates indicated that four measures in the Business Savings Program and one measure in the Home Savings Programs had TRC ratios less than 1.00, indicating that the costs outweighed the benefits for these programs. Additionally, Columbia’s estimates indicated that under the RIM Test costs for the company’s plan as a whole would exceed benefits. As such, the plan would raise Columbia’s average non-gas rates.

Columbia proposed a rate adjustment clause that provides for class-specific estimates of its conservation and energy efficiency program costs, to be applied to customers’ bills as surcharges applicable separately to the residential and small general service customer classes. The initial surcharge billing would begin with the proposed effective date of Columbia’s CARE

²⁰ The DHCD maintains a list of weatherization providers located throughout Virginia with whom low-income customers may apply for weatherization benefits. See http://www.dhcd.virginia.gov/HousingPreservationRehabilitation/PDFs/weatherization_providers.pdf

plan. Subsequent surcharge factors would be billed beginning with the first billing unit for January each year thereafter.

In addition, after the first year of the CARE plan, the company would compare actual program costs with the costs recovered via the rate adjustment clause and calculate a true-up of the prior year's under- or over-recovered expenses. This amount would be added or subtracted from the estimated costs for the next year. The total of the current estimated costs and the reconciliation, as determined by customer class, would be divided by the applicable customer class's estimated volumes for the applicable year to determine the rate adjustment factor for that year.

Columbia also proposed a Revenue Normalization Adjustment ("RNA"), intended to align Columbia's annual actual billed non-gas distribution revenue with a pre-established level of annual distribution revenue. The pre-established annual distribution revenue was based on a revenue study derived from Columbia's most recent rate proceeding and was based upon average weather-normalized customer usage in calendar year 2005. As such, Columbia's proposed RNA would, like VNG's, adjust for changes in factors unrelated to its proposed efficiency programs. These other factors may include changing customer lifestyles, efficiency measures undertaken by customers on their own initiative, housing sizes, furnace and appliance efficiencies, and future natural gas prices.

Finally, Columbia requested an incentive equal to fifteen percent of the net present value of the cumulative projected gas cost savings over the life of each program minus the net present value of the recovered CARE program costs. The proposed incentive would be a flat rate shared-savings mechanism intended to allow Columbia's shareholders to share in the net benefits created by the CARE programs.

Summary of the Proceeding

On June 23, 2009, the Commission issued a procedural Order regarding Columbia's application, assigning the case to a Hearing Examiner. The Hearing Examiner conducted a hearing to receive public comments on October 19, 2009, and an evidentiary hearing on October 28, 2009. During the latter hearing, Columbia, the Commission Staff, and the other parties submitted a stipulation with modifications to Columbia's proposed CARE plan and recommended that those modifications be accepted.

Among other things, the Stipulation modified the programs to be offered by Columbia; amended Columbia's proposed incentive mechanism to vary the incentive level according to the achievement of specified goals and actual savings generated by the programs; and modified Columbia's decoupling mechanism to eliminate the impact of weather differences on revenues collected through that mechanism.

On November 4, 2009, the Hearing Examiner issued his report, finding that the proposed Stipulation represented a reasonable compromise of the interests of Columbia and its customers.

Commission's Final Order

On December 4, 2009, the Commission issued its Order approving Columbia's plan as modified by the Stipulation and as recommended by the Hearing Examiner.²¹ A copy of that Order is Attachment C to this Report. Among other things, the Commission found that Columbia's CARE plan represents a revenue neutral plan and utilizes a decoupling mechanism consistent with the Natural Gas Conservation Act. The Commission further found that Columbia's CARE plan should be approved effective December 31, 2009.²²

²¹ *Application of Columbia Gas of Virginia, Inc., For approval to implement a natural gas conservation and ratemaking efficiency plan including a decoupling mechanism*, Case No. PUE-2009-00051, 2009 S.C.C. Ann. Rept. 484, Final Order (Dec. 4, 2009).

²² *Id.* at 486.

The Commission also considered the impact of the RNA decoupling mechanism on non-participating customers who engage voluntarily in conservation or energy efficiency measures outside of the CARE plan, stating that such customers would no longer see lower contributions to Columbia's distribution costs as a result of curtailing gas usage. The Commission further noted that, despite the uncertain nature of the natural gas price projections over the life of the CARE programs, the record reflected that the projected gas costs used to measure the company's CARE plan benefits were reasonable and the CARE programs were cost-effective, particularly given the contribution toward costs of federal American Recovery and Reinvestment Act funds.²³

Notably, any reduction in benefits to non-participating customers who voluntarily engage in energy efficiency measures outside the CARE plan would increase Columbia's earnings. As previously noted, the Natural Gas Conservation Act allows utilities to propose plans and decoupling mechanisms outside the context of rate proceedings. Consequently, an increase in Columbia's earnings could occur without a corresponding examination of the reasonableness of those earnings.

Plan Amendments

On August 23, 2010, Columbia filed a proposed amendment to its CARE plan to suspend the free water heater insulation blanket measure that is part of the Web-Based Home Audit Program. This program's audit results include measures that customers can implement for free, including, among other things, water heater insulation blankets. Columbia's experience had revealed that customers would not likely install many of these blankets because this is a complex task and requires ongoing maintenance. Columbia expressed potential safety concerns that could arise if the blankets were not properly installed.

²³ *Id.* at 486-87.

Columbia proposed that the \$1,926 spent for water heater blankets given to participants, as well as the cost of other water blankets the company had already purchased, would be absorbed by Columbia and would not be passed through to ratepayers. Columbia further represented that, since up to 33.3% of funds budgeted for this appliance could be reallocated to other CARE measures, the company planned to use these funds toward low-flow shower heads and free faucet aerators, two other options that are free to customers through the Web-Based Home Audit Program. Columbia stated it did not plan to spend the other water heater blanket funds, saving ratepayers \$75,250. The application also included a revised Stipulation, signed by all original signatories, related to suspending the water heater blanket measure.

On August 27, 2010, the Commission entered a procedural Order²⁴ (Attachment D to this Report) requiring Columbia to provide public notice of this proposed amendment and allowing time for comments on the application. In accordance with § 56-602 B of the Code requiring action within 120 days on amended plan filings, the Commission must enter an Order by December 21, 2010, approving or denying the amendment.

Preliminary Results of Columbia's Plan

The Commission approved Columbia's CARE plan effective as of December 31, 2009, and Columbia began offering incentives under its plan in April 2010. In early June 2010, Columbia provided Commission Staff with an update on plans for CARE program evaluation, measurement, and verification. Columbia's Annual Reports are due May 1 of each year the CARE plan is in effect.

²⁴ *Application of Columbia Gas of Virginia, Inc., For authority to amend its natural gas conservation and rate making efficiency plan*, Case No. PUE-2010-00099, Doc. Con. Cen. No. 100870705, Order for Notice and Comment (Aug. 27, 2010).

Based on further preliminary information submitted by Columbia to the Commission Staff, the numbers of CARE plan incentives provided to customers from April through August 2010 are as follows:

Number of Incentives Disbursed Through August 2010²⁵

Program	April	May	June	July	August	Total
Furnace	0	19	30	12	17	78
Tank Water Heater	0	9	6	0	1	16
Tankless Water Heater	0	14	15	8	10	47
Insulation	0	2	1	50	179	232
Windows	0	0	3	1	4	8
Faucet Aerators	182	286	118	292	490	1,368
Low Flow Shower Heads	91	143	59	146	245	684
Pipe Insulation – 2 pieces	38	54	16	28	180	316
Water Heater Blankets	38	54	16	28	0	136
TOTALS:	349	581	264	565	1,126	2,885

Columbia also provided the following estimated annual natural gas usage reductions associated with the above totals:

Estimated Annual Usage Reductions by Program

Program	Quantity	Est. Ccf Per Measure	Total Est. Ccf Sales
Furnace	78	70.2	5,476
Tank Water Heater	16	18.2	291
Tankless Water Heater	47	74.7	3,511
Insulation (square feet)	264,806	0.06	15,888
Windows (square feet)	1,604	0.38	610
Faucet Aerators	1,368	4.2	5,746
Low Flow Shower Heads	684	55.5	37,962
Pipe Insulation – 2 pieces	316	13.4	4,234
Water Heater Blankets	136	21.1	2,870
TOTALS:	266,551		76,588

Columbia also provided year-to-date program expenditures, detailed in the following table:

²⁵ The incentives listed are for participation in the Home Savings Program or Web-based Home Audit Program. No incentives for business-related programs were given during this time period.

Program Expenditures Through August 2009

Program	Total Expenditures
Education and Outreach	\$195,536
Home Savings Program	\$115,593
Web-based Audit	\$127,703
Low-Income Program	\$75,000
Business Savings Program	\$236
Business Custom Program	\$0
Administration	\$396,995
Total	\$911,063

In addition to undertaking the CARE programs listed above, Columbia also initiated its revenue decoupling mechanism. Based on Columbia's monthly submittals of its revenue decoupling adjustment factor, the Commission Staff compiled the following information:

Comparison of Decoupling Mechanism Collections and Ccf Sales

	Revenue Deficiency Collected Through Adj. Factor	Targeted Sales Ccf	Booked Sales Ccf	Sales Difference Ccf
Jan	\$ 1,280,371	48,781,105	46,103,614	(2,677,491)
Feb	\$ 819,571	45,391,486	44,003,024	(1,388,462)
March	\$ 257,493	35,188,118	34,923,053	(265,065)
Apr	\$ 247,625	22,586,050	22,042,737	(543,313)
May	\$ 217,793	11,435,572	10,753,509	(682,063)
June	\$ 280,898	7,870,683	6,950,613	(920,070)
July	\$ (31,432)	5,360,929	5,519,119	158,190
August	\$ 110,443	5,202,836	3,162,376	(2,040,460)
Total	\$ 3,132,762	181,816,779	173,458,045	(8,358,734)

This table shows that the operation of Columbia's decoupling mechanism has enabled the company to collect additional non-gas revenue of nearly \$3.2 million from ratepayers. The calculations supporting this collection assume that Columbia's energy efficiency efforts have produced usage reductions of approximately 8.4 million Ccfs during January through August 2010. By contrast, Columbia's estimates indicate that the CARE measures, once installed, would produce annual savings of roughly 76,588 Ccfs.

As with VNG, this result can be attributed to the use of a stale test year for establishing the “allowed distribution revenue.” Any utility’s decoupling mechanism functions to decouple the recovery of allowed distribution revenue from that utility’s customers’ consumption of natural gas. Allowed distribution revenue is calculated based on the utility’s rates adopted in its last SCC-approved rate case or performance-based regulation plan,²⁶ which in Columbia’s case was the twelve months ending December 31, 2005.²⁷ Columbia’s average normalized non-gas revenue per customer has declined significantly since that time due, at least in part, to customer-initiated efficiency efforts. As noted above, Columbia’s decoupling mechanism will compensate the company for energy reductions of approximately 8.4 million Ccfs while Columbia’s own estimates indicate that its programs have generated reductions of 76,588 Ccfs. As such, use of the specified non-gas revenue as required by the Natural Gas Conservation Act provides significant additional revenue to Columbia above compensation needed to offset lost revenues attributable solely to Columbia’s efficiency efforts. In accordance with the Act, Columbia proposed its plan and decoupling mechanism outside of the context of a rate proceeding, in which the Commission examines the justness and reasonableness of a utility’s revenues and earnings.

Washington Gas Light Company

WGL’s Application

On September 29, 2009, WGL filed a proposed CARE plan to offer incentives to its residential customers, small commercial and industrial customers, and small group metered apartment customers. WGL estimated that its plan would save customers \$12.8 million over

²⁶ Va. Code § 56-500, definitions of “allowed distribution revenue” and “decoupling mechanism.”

²⁷ See *Application of Columbia Gas of Virginia, Inc., For approval of a performance based rate regulation methodology pursuant to Va. Code § 56-235.6*, Case No. PUE-2005-00098, 2006 S.C.C. Ann. Rept. 366, Final Order (Dec. 28, 2006).

three years and that individual residential customers participating in the various measures could save \$106 annually. WGL's proposed CARE plan was comprised of four principal components: (i) a portfolio of conservation and energy efficiency programs; (ii) a mechanism to recover the costs associated with those programs on a timely basis; (iii) an annual performance-based incentive mechanism associated with the delivery of conservation and energy efficiency benefits through an adjustment to the company's PGA mechanism; and (iv) a natural gas decoupling mechanism in the form of a sales adjustment clause to adjust actual non-gas distribution revenues per customer to allowed distribution revenues per customer. WGL proposed that its plan be approved for three years and requested the plan be effective the first day of the billing cycle month immediately after Commission approval.

WGL's proposed plan consisted of a portfolio of eight conservation and energy efficiency programs, as described below.

Energy Efficiency Education Program. This program was intended to raise the awareness of the importance of energy conservation among WGL customers and to teach customers how they could take advantage of program offerings to conserve natural gas and lower their energy bills.

Heating System Check-up Program with Programmable Thermostat Option. This program would provide residential customers with a \$30 incentive towards either the cost of a seasonal check-up of their heating system or a credit towards a programmable thermostat and its installation. The check-up would provide customers with information on low-cost and easily implemented energy efficiency measures.

Boiler/Furnace Replacement Program. This program would provide residential customers with a \$250 incentive to cover part of the incremental cost for the installation of a

high-efficiency natural gas boiler with an efficiency of 85% or greater. Further, this program would provide residential customers with a \$500 incentive for the installation of a high-efficiency natural gas boiler with an efficiency of 90% or greater.

Water Heater Replacement Program. This program would provide residential customers with an incentive to replace existing water heaters with more energy efficient natural gas water heaters. WGL would provide a \$50 incentive for the installation of a natural gas water heater with an energy factor of 0.62 or greater and a \$250 incentive for the installation of a high-efficiency natural gas water heater with an energy factor of 0.82 or greater.

Natural Gas New Homes Program with ENERGY STAR. This program was proposed to encourage residential customers to install ENERGY STAR-rated natural gas equipment in new residential construction. In addition to the water heater and natural gas furnace incentives, an additional \$250 would be applied towards the cost of the ENERGY STAR inspections, testing, and modeling.²⁸ To be eligible for the program, a residential customer would be required to have natural gas for both space heating and water heating.

Commercial Efficiency Program. This program would provide commercial customers with incentives to offset the costs of weatherization and high-efficiency equipment installation. An incentive of up to \$10,000 could be provided to commercial customers' energy efficiency proposals meeting a certain standard. Examples of qualifying energy efficiency measures include high-efficiency natural gas equipment, including water heaters, booster heaters, food service equipment, and hydronic heaters. Other measures could include installation of attic/roof insulation, windows, duct sealing, and other weatherization.

²⁸ The ENERGY STAR home construction standard provides for a home that is at least 15 percent more efficient, or uses 15 percent less energy, than the same home built under the 2003 International Energy Conservation Code.

Low-Income Energy Assistance Program. Under this proposed program, WGL would provide funding to a state agency that administers the federal weatherization assistance programs, Community Housing Partners Corporation (“CHPC”), who had indicated the need to develop and increase the number of energy auditors working with the low-income population. In developing a program budget, WGL assumed a contribution of \$1,650 per home (for 100 participants) to be applied toward the activity agreed upon with the CHPC, such as the training of energy efficiency auditors.

Residential Essential Service Program. WGL proposed to spend \$100,000 to assist low-income residential customers with winter gas bills by providing a credit to eligible customers during the months of November through April.

WGL examined its efficiency programs utilizing various cost/benefits tests, and the results are summarized below.

WGL Program Results

Program	Participant Test	RIM Test	TRC Test	PA Test
	Benefit/Cost Ratio			
Seasonal Check-up	1.9	0.6	1.2	2.8
Water Heater (.62 EF)	2.0	0.6	1.2	2.3
Water Heater (.82 EF)	1.9	0.6	1.1	2.2
Boiler / Furnace (.85 EF)	2.0	0.6	1.3	2.5
Boiler / Furnace (.90 EF)	1.7	0.6	1.0	2.0
New Home	3.6	0.6	2.2	2.2
Summary of All Programs	2.0	0.6	1.2	2.3

WGL’s estimates indicate that, as a whole, CARE plan costs exceed benefits. As such, the plan would raise WGL’s average non-gas rates.

WGL proposed a rate adjustment clause that provides for class-specific estimates of the company’s conservation and energy efficiency program costs to be applied to customers’ bills as monthly surcharges applicable separately to the residential class, small customers within the

commercial and industrial class, and small customers within the group metered apartment class. The initial surcharge billing would begin with the proposed effective date of WGL's plan. Subsequent surcharges would be billed on a monthly basis thereafter.

In addition, WGL proposed that after the first year of its CARE plan, it would compare actual program costs with the costs recovered via the rate adjustment clause and calculate a true-up of the prior year's under- or over-recovered expenses. This amount would be added or subtracted from the estimated costs for the next year.

WGL also proposed a decoupling mechanism intended to align WGL's annual actual billed non-gas distribution revenue with a pre-established level of annual distribution revenue. This level is based on a revenue study calculated in WGL's most recent rate proceeding and was based upon average weather-normalized customer usage in calendar year 2005.²⁹ As such, WGL's proposed decoupling mechanism would, like VNG's and Columbia's, adjust for changes in factors unrelated to WGL's proposed efficiency programs.

Finally, WGL requested an incentive of 15% of the net present value of the net economic benefits (defined as the difference between WGL's costs to offer the CARE programs and customer savings) in the first year. The proposed incentive would be a flat rate shared-savings mechanism intended to allow WGL's shareholders to share in the net benefits created by its energy efficiency programs.

Summary of the Proceeding

On October 21, 2009, the Commission issued its procedural Order regarding WGL's application, assigning the case to a Hearing Examiner. The Hearing Examiner held an

²⁹ *Application of Washington Gas Light Company, For a general increase in rates, fees, charges and revisions to the terms and conditions of service as well as approval of a performance-based rate regulation methodology under Va. Code § 56-235.6, Case No. PUE-2006-00059, 2007 S.C.C. Ann. Rept. 315, Final Order (Sept. 19, 2007), modified by 2007 S.C.C. Ann. Rept. 320, Order Granting Petition for Reconsideration (Oct. 5, 2007).*

evidentiary hearing on February 1 and 9, 2010, and issued his report on February 19, 2010. He found that WGL's CARE plan should be approved with modifications but that the proposed Residential Essential Service and Commercial Efficiency Programs should not be approved. The Hearing Examiner recommended that funds related to the Residential Essential Service Program be applied to WGL's weatherization plan for low-income customers.

Commission's Final Order

On March 26, 2010, the Commission issued its Order approving WGL's plan as modified and recommended by the Hearing Examiner.³⁰ Among other things, the Commission rejected the Residential Efficiency Program and the Commercial Efficiency Program and approved the Boiler/Furnace Replacement Program with only a \$250 incentive for equipment with an efficiency of at least 85%.³¹ A copy of the Order is Attachment E to this Report.

The Commission's Order also discussed the impact of WGL's plan on non-participating customers who engage voluntarily in conservation or energy efficiency measures outside the CARE plan, stating that such customers would no longer see lower contributions to WGL's distribution costs as a result of curtailing gas usage. The Commission found, however, that WGL's decoupling mechanism meets the standards of § 56-602 A of the Code and therefore approved it.³² The Commission also ordered WGL to file reports each year the CARE plan is in effect, starting August 1, 2011.³³

Plan Amendment

On July 22, 2010, WGL filed an application to amend its CARE plan to allow it to extend its CARE plan to small commercial and industrial ("C&I") customers and group metered

³⁰ *Application of Washington Gas Light Company, For approval of natural gas conservation and ratemaking efficiency plan including a decoupling mechanism*, Case No. PUE-2009-00064, Doc. Con. Cen. No. 100360098, Order Approving Natural Gas Conservation and Ratemaking Efficiency Plan (Mar. 26, 2010).

³¹ *Id.* at 13-14.

³² *Id.* at 15-16.

³³ *Id.* at 10-11.

apartment (“GMA”) customers using 30,000 therms of gas or less per month.³⁴ The company’s proposed CARE plan for these customers consisted of four main components: (1) a portfolio of seven rebate programs, a Commercial Custom Program, and a Community Outreach and Education Program to encourage conservation and the efficient use of natural gas; (2) a CARE ratemaking adjustment that would adjust the actual non-gas distribution revenues per customer to the allowed level of distribution revenues per customer approved in WGL’s most recent rate case;³⁵ (3) a CARE cost adjustment that would allow WGL to recover the costs of its proposed CARE plan through a monthly surcharge to customers’ bills; and (4) a performance-based incentive mechanism.

On November 18, 2010, the Commission issued an Order³⁶ (Attachment F to this Report) denying WGL’s application to amend its CARE plan, citing as the threshold issue whether WGL’s proposed CARE plan amendment meets the requirements of § 56-602 A, which allows CARE plan participants to “include one or more residential, small commercial, or small general service classes” but excludes “large commercial or large industrial classes of customers.” The Commission explained that WGL’s approved tariff does not currently include separate rate schedules for “small” and “large” C&I and GMA classes of customers and that the class cost of service study and revenue apportionment performed in WGL’s last rate case did not account for separate “small” and “large” commercial rate classes. The Commission noted that WGL can amend its tariff to include distinctive “small” and “large” commercial customer classes and

³⁴ Section 56-602 A of the Code provides that a CARE plan “shall not apply to large commercial or large industrial classes of customers.” Since the Company does not have any separate rate schedules segregating any specific “large commercial or large industrial classes of customers,” WGL proposed that its CARE plan apply only to its C&I and GMA customers using 30,000 therms of gas or less per month.

³⁵ *Application of Washington Gas Light Company, For a general increase in rates, fees, charges and revisions to the terms and conditions of service as well as approval of a performance-based rate regulation methodology under Va. Code § 56-235.6*, Case No. PUE-2006-00059, 2007 S.C.C. Ann. Rept. 315, Final Order (Sept. 19, 2007).

³⁶ *Application of Washington Gas Light Company, For authority to amend its natural gas conservation and ratemaking efficiency plan*, Case No. PUE-2010-00079, Doc. Con. Cen. No. 101120321, Order on Application to Amend Conservation and Ratemaking Efficiency Plan (Nov. 18, 2010).

perform a class cost of service study including these rate classes in its next rate case, scheduled to be filed by February 1, 2011.³⁷

Preliminary Results of WGL’s Plan

The Commission approved WGL’s CARE plan to be effective on May 1, 2010, and WGL began offering its conservation and energy efficiency programs on November 1, 2010. As such, no information is available at this time regarding incentives provided to customers or natural gas usage reductions related to WGL’s programs.

WGL did, however, begin collecting its revenue decoupling mechanism effective May 1, 2010. Based on WGL’s monthly submittals of collections for its revenue decoupling adjustment factor, the Commission Staff compiled the following information:

Comparison of Decoupling Mechanism Collections and Revenue

	Revenue Deficiency Collected Through Adj. Factor	Targeted Revenue	Actual Revenue
July	\$ 8,306	6,072,850	6,064,544
August	\$ (80,834)	3,924,891	4,005,725
September	\$ 291,803	3,359,698	3,067,895
Total	\$ 219,275	13,357,439	13,138,164

The operation of WGL’s decoupling mechanism has enabled the company to collect additional non-gas revenue of \$219,275 from its ratepayers to date. This result can be attributed to the use of a stale test year for establishing the “allowed distribution revenue.” Any utility’s decoupling mechanism functions to decouple the recovery of allowed distribution revenue from that utility’s customers’ consumption of natural gas. Allowed distribution revenue is calculated based on the

³⁷ *Application of Washington Gas Light Company, For a general increase in rates, fees, charges and revisions to the terms and conditions of service as well as approval of a performance-based rate regulation methodology under Va. Code § 56-235.6, Case No. PUE-2006-00059, 2007 S.C.C. Ann. Rept. 315, 318-19, Final Order (Sept. 19, 2007).* As noted in the Final Order, the February 1, 2011 filing must include a class cost of service study already, so it should not be burdensome to the Company to perform such a study including the “small” and “large” class designations.

utility's rates adopted in its last SCC-approved rate case or performance-based regulation plan,³⁸ which in WGL's case was the twelve months ending December 31, 2005. As is the case with VNG and Columbia, WGL's average normalized non-gas revenue per customer has declined since that time due, at least in part, to customer-initiated efficiency efforts. As such, use of the specified non-gas revenue as required by the Natural Gas Conservation Act provides additional revenue to WGL over and above compensation needed to offset lost revenues attributable to WGL's efficiency efforts. In accordance with the Natural Gas Conservation Act, WGL proposed its plan and decoupling mechanism outside of the context of a comprehensive rate proceeding in which the Commission examines the justness and reasonableness of a utility's revenues and earnings.

³⁸ Va. Code § 56-500, definitions of "allowed distribution revenue" and "decoupling mechanism."

Conclusion

The Commonwealth's three largest natural gas utilities have developed and implemented conservation and ratemaking efficiency plans that include offering various efficiency programs to customers in conjunction with decoupling mechanisms pursuant to the Natural Gas Conservation Act. Those decoupling mechanisms are designed to decouple the recovery of a utility's allowed distribution revenue from the level of consumption of natural gas by its customers. The results so far indicate that the Natural Gas Conservation Act will in fact stimulate utility investment in energy and conservation programs. Sufficient evidence does not yet exist to conclude that these investments are cost-effective under either the RIM or TRC Tests. Initial estimates generally indicate that these investments will be beneficial from some perspectives. However, these same estimates indicate that the natural gas utility CARE plans may negatively impact the non-gas rates paid by natural gas consumers and that non-participants in the programs offered pursuant to these plans will be negatively impacted. Additionally, the cost/benefit results do not consider any revenue impact that might be attributable to the implementation of decoupling mechanisms. Such revenue changes could significantly impact the costs and benefits of a utility's overall conservation plan when viewed from a utility customer's perspective.

Further, initial results indicate that the utilities' decoupling mechanisms have increased the utilities' non-gas revenues as compared to the revenues that the utilities would otherwise have received. Such increases can be attributed to the Natural Gas Conservation Act's definition of "allowed distribution revenue" and the related requirement that this definition must serve as the basis for decoupling mechanisms. The Commission will continue to monitor actual results of the utilities' CARE plans and report to the Governor and General Assembly as directed.

ATTACHMENT A

**Application of Virginia Natural Gas, Inc.,
To modify its conservation and
ratemaking efficiency plan,
Case No. PUE-2009-00070
Final Order dated
November 10, 2009.**

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, NOVEMBER 10, 2009

APPLICATION OF

VIRGINIA NATURAL GAS, INC.

CASE NO. PUE-2009-00070

To modify its conservation and
ratemaking efficiency plan

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FINAL ORDER

On July 16, 2009, Virginia Natural Gas, Inc. ("VNG" or the "Company") filed with the State Corporation Commission ("Commission") a Motion for Waiver and Application to Modify its Conservation and Ratemaking Efficiency ("CARE") Plan as approved by the Commission in Case No. PUE-2008-00060 ("Application").¹ Filed with the Application was the direct testimony of Cathie J. France, Director of Governmental Regulations at AGL Services Company.

The Company seeks permission to modify certain aspects of its conservation and energy efficiency programs for the first year of its 3-year CARE plan. The modifications include:

- (i) expanding the eligibility requirements for the low-income weatherization program to match the eligibility requirements of the Company's partner agencies;²
- (ii) shifting allocated dollars from the low-income weatherization program to the space heating program;
- (iii) combining the programmable thermostat rebate program with the free programmable thermostat program;
- (iv) shifting allocated dollars from the programmable thermostat program to the tankless water heater program; and
- (v) allowing for additional participation in the space heating and tankless

¹ *Application of Virginia Natural Gas, Inc., For approval to implement a natural gas conservation and ratemaking efficiency plan including a decoupling mechanism and to record accounting entries associated with such mechanism*, Case No. PUE-2008-00060, 2008 S.C.C. Ann. Rept. 566, Order Approving Natural Gas Conservation and Ratemaking Efficiency Plan (Dec. 23, 2008).

² Eligibility has expanded for the Company's partner agencies as a result of their receipt of funds pursuant to the American Recovery and Reinvestment Act of 2009 ("Stimulus Act").

water heater programs by shifting allocated dollars from the consumer outreach program in addition to the dollars reallocated, as described above, from the low-income weatherization and programmable thermostat programs.

On August 12, 2009, the Commission issued an Order for Notice and Comment, which among other things: (1) directed the Company to provide notice to the public, and (2) provided an opportunity for interested persons to comment on the Application. The Commission received one comment submitted electronically from a VNG customer who urged the Commission to approve increasing the amount of customer rebates for the purchase of certain energy efficient appliances. This customer advised that she had delayed purchasing a more efficient heating system upon learning that there was no money for rebates presently available in the VNG program. On October 6, 2009, comments were filed by the Office of the Attorney General's Division of Consumer Counsel ("Consumer Counsel"). Consumer Counsel stated that it had not identified any issues of concern within the proposed modifications. Consumer Counsel also stated support for utilities' efforts to obtain Stimulus Act funding for the costs of energy efficiency and conservation programs that would otherwise be charged to ratepayers. Accordingly, Consumer Counsel stated that it does not object to VNG's application to modify its CARE plan.

NOW THE COMMISSION, upon consideration of the filings herein and applicable law, is of the opinion and finds that VNG should be allowed to modify certain aspects of its conservation and energy efficiency programs during the first year of its 3-year CARE plan pursuant to Va. Code § 56-602 B.

Accordingly, IT IS ORDERED THAT:

(1) Pursuant to Va. Code § 56-602 B, the amendment to the first year of the 3-year CARE Plan of VNG as approved in Case No. PUE-2008-00060, is hereby approved.

(2) VNG's request for permission to modify certain aspects of its conservation and energy efficiency programs, as set forth in VNG's Application in this proceeding, is granted;

(3) There being nothing further to come before the Commission in this proceeding, this case is hereby dismissed from the Commission's active docket and the papers filed herein placed in the Commission's file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:

Bernard L. McNamee, Esquire, McGuireWoods, LLP, One James Center, 901 East Cary Street, Richmond, Virginia 23218-4030; C. Meade Browder, Jr., Senior Assistant Attorney General, Division of Consumer Counsel, Office of Attorney General, 900 East Main Street, 2nd Floor, Richmond, Virginia 23219; and the Commission's Office of General Counsel and Divisions of Energy Regulation and Economics and Finance.

ATTACHMENT B

Application of Virginia Natural Gas, Inc.,
For authority to amend its Conservation
and Ratemaking Efficiency Plan,
Case No. PUE-2009-00139
Order Approving Modifications
and Amended Application
dated July 23, 2010.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, JULY 23, 2010

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APPLICATION OF
VIRGINIA NATURAL GAS, INC.

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CASE NO. PUE-2009-00139

For Authority to Amend its Conservation
and Ratemaking Efficiency Plan

ORDER APPROVING MODIFICATIONS
AND AMENDED APPLICATION

On December 17, 2009, Virginia Natural Gas, Inc. ("VNG" or the "Company"), by counsel, filed an application with the State Corporation Commission ("Commission") to modify its three-year Conservation and Ratemaking Efficiency Plan ("CARE Plan" or the "Plan") approved in Case No. PUE-2008-00060¹ for the second and third year of the Plan ("Application"). The modifications to the CARE Plan set out in the Company's Application included: (i) expansion of the eligibility for low-income weatherization programs to seventy-five percent of the median income up from 175% of the poverty level, as authorized in the Plan approved in Case No. PUE-2008-00060, so as to match the eligibility requirements now being used by VNG's partner agencies, the Southeastern Tidewater Opportunity Project and the Williamsburg/James City County Community Action Network, as a result of their receipt of funds pursuant to the American Recovery and Reinvestment Act of 2009 (the "Stimulus Act"); (ii) authority to shift the program's eligibility requirements to match the partner agencies' eligibility requirements should these requirements change in the future; (iii) authority to shift allocated dollars from the low-income weatherization program to the space heating

¹ *Application of Virginia Natural Gas, Inc., For approval to implement a natural gas conservation and ratemaking efficiency plan including a decoupling mechanism and to record accounting entries associated with such mechanism*, Case No. PUE-2008-00060, 2008 S.C.C. Ann. Rept. 566, Order Approving Natural Gas Conservation and Ratemaking Efficiency Plan (Dec. 23, 2008) ("December 23, 2008 Order").

(high-efficiency furnace) program; (iv) authority to align the rebate for a programmable thermostat of the customer's choice with the free programmable thermostat program and to maximize the seasonal checkup program as approved in the December 23, 2008 Order; (v) authority to increase the rebate amount for the seasonal checkup program from Twenty-five Dollars (\$25) to Fifty Dollars (\$50) each; (vi) expansion of participation in the space heating (high-efficiency furnace) rebate, tankless water heater rebate, and tank-style water heater rebate programs; (vii) authority to shift dollars from the low-income weatherization, programmable thermostat and seasonal checkup programs to the space heating (high-efficiency furnace) rebate, tankless water heater rebate, and tank-style water heater rebate programs for the remainder of years two (2) and three (3) of the Plan and to increase participation further by accepting federal stimulus dollars to fund additional rebates for these three (3) programs upon distribution of those funds by the Virginia Department of Mines, Minerals and Energy; (viii) authorization to reallocate up to one-third of the budgeted funds for each program or measure to another program or measure within a CARE Plan year without prior approval from the Commission; (ix) authorization to carry over into the following program year any unused budgeted funds for a program or measure to the same program or measure for the following program years;² unused administrative costs in any program or measure would also be carried over to the following year; and (x) authorization to allocate Stimulus Act funds among eligible conservation and energy efficiency programs and measures in any manner that is consistent with funding guidelines applicable to such Stimulus Act funds in order to maximize the availability and utilization of such funds.

² According to the Company's Application, VNG proposed to advise the Commission Staff in advance of any such reallocation or carry-over of budgeted funds.

On January 25, 2010, the Commission entered its Order for Notice and Comment ("Order"). Among other things, the Order directed VNG to publish notice of its Application throughout the Company's service territory in Virginia and serve a copy of the Order on local governmental officials in the Company's service territory. The Order also invited interested persons and the Commission Staff to file, on or before March 11, 2010, written comments on the issues presented in the case and directed the Company to file, on or before March 25, 2010, any response to the comments filed in the proceeding.

On February 26, 2010, VNG, by counsel, filed proof of the notice and service required by Ordering Paragraphs (2) and (3) of the Order.

Comments were filed by the Office of the Attorney General and Diane Ribble on March 11, 2010. Also on March 11, 2010, the Commission Staff filed a letter advising that it was not filing comments in the proceeding.

On March 16, 2010, VNG filed its Reply Comments.

On April 14, 2010, the Commission entered its Final Order³ in this matter, in which it denied VNG's application as filed. In its Final Order the Commission made the following findings:

First, we find that VNG's proposed reallocation of funds among certain programs raises an issue of creating potential savings to a smaller group of customers funded by an even larger body of customers, who incur higher rates as a result thereof. To address this issue, we find that the following modifications to VNG's proposed CARE Plan amendments would need to be made: (1) shift no funds from the low-income weatherization program to the space heating program; (2) shift one-half of VNG's proposed \$579,852 from the programmable thermostat program to the space heating program, with the remaining one-half of such funds not to

³ See *Application of Virginia Natural Gas, Inc., For Authority to Amend its Conservation and Ratemaking Efficiency Plan*, Case No. PUE-2009-00139, Doc. Con. Cen. No. 428114, Final Order (April 14, 2010) (hereinafter "Final Order").

be expended (which results in cost savings to the larger body of customers); (3) shift one-half of VNG's proposed \$67,304 from the seasonal check-up program to the water heater programs, with the remaining one-half of such funds not to be expended (which results in cost savings to the larger body of customers); (4) limit VNG's authority to shift funds from a program – without Commission approval – to no more than 25% of that program's fund allocation; and (5) any funds not expended on the programs designated thereto during a CARE Plan year shall not be spent and shall serve to lower the overall expenditures of the CARE Plan.

Accordingly, since § 56-602 B of the Code of Virginia requires the Commission either to 'approve or deny, within 120 days, a natural gas utility's application to amend a previously approved plan,' we deny VNG's Application to amend its CARE Plan as filed.

Second, we note that the Company's Application did not include quantitative data concerning the cost effectiveness of these programs before and after the proposed amendments. We will require VNG to file in this docket with the Clerk of the Commission an annual report pursuant to § 56-602 E of the Code, beginning May 3, 2010, . . . and continuing on May 1 of every year thereafter during the term of the Company's CARE Plan. . . .

The annual reports required herein will provide important information to the Commission concerning whether the Plan programs are cost effective and warrant continuation or whether they should be modified or discontinued. Indeed, any subsequent request from VNG to amend or extend its CARE Plan shall incorporate the results from these annual reports.⁴

On May 25, 2010, VNG filed "Virginia Natural Gas, Inc.'s Acceptance of Modifications and Amended Application" ("May 25, 2010 Filing"). On June 14, 2010, VNG requested leave to withdraw its May 25, 2010 Filing and filed in its place a revised version of its "Application to Accept Commission's Modifications and for Authority to Amend its Conservation and Ratemaking Efficiency Plan and Verifications of Virginia Natural Gas, Inc." (hereinafter "Compliance Filing"). In its Compliance Filing, VNG accepted the modifications to the CARE

⁴ *Id.*, Final Order at 6-8 (footnotes omitted).

Plan set forth in the Commission's Final Order and affirmed that the Company's modifications to its CARE Plan set out in its Compliance Filing will: (1) shift no funds from the low-income weatherization program to the space heating program; (2) shift one-half of the proposed \$579,852 from the programmable thermostat program to the space heating (high-efficiency natural gas furnace) program, with the remaining one-half of such funds not to be expended; (3) shift one-half of the proposed \$67,304 from the seasonal check-up program to the high efficiency natural gas water heater programs, with the remaining one-half of such funds not to be expended; (4) limit VNG's authority to shift funds from a program without prior Commission approval to no more than 25% of that program's fund allocation; and (5) retain any funds not expended in the programs designated thereto during a CARE Plan year in order to lower overall expenditures of the CARE Plan.

NOW THE COMMISSION, upon consideration of VNG's Compliance Filing, and having been advised by its Staff, is of the opinion and finds that VNG should be permitted to substitute its Compliance Filing for the May 25, 2010 Filing and to implement the proposals set forth in its Compliance Filing, effective as of the date of this Order.

In this regard, we note that § 56-602 B of the Code of Virginia grants a utility like VNG "the right to refile, without prejudice, an amended plan or amendment within 60 days" of a denial of a plan or amendment by the Commission. Thereafter, the Commission has "60 days to approve or deny the amended plan or amendment." VNG's Compliance Filing represents VNG's 60-day filing made after the denial of its initial application to amend its CARE Plan. After a review of VNG's Compliance Filing, we find that it complies with the findings and requirements in the Final Order. We recognize that many of VNG's CARE Plan programs include amendments thereto that have not been implemented for a full twelve months. We will,

therefore, continue to review the cost/benefit analyses associated with these programs to consider whether the programs remain cost-effective during the term of VNG's Plan and to determine whether the programs should be continued in the event the Company files to amend or extend its CARE Plan further.

Accordingly, IT IS ORDERED THAT the amendments to VNG's CARE Plan set forth in its June 14, 2010 Compliance Filing are hereby approved, effective as of the date of this Order.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:

Shannon Omia Pierce, Esquire, AGL Resources Inc., Ten Peachtree Place, 15th Floor, Atlanta, Georgia 30309; Bernard L. McNamee, Esquire, Kristian M. Dahl, Esquire, and Elaine S. Ryan, Esquire, McGuireWoods LLP, One James Center, 901 East Cary Street, Richmond, Virginia 23219; Ashley B. Macko, Assistant Attorney General, Office of the Attorney General, Division of Consumer Counsel, 900 East Main Street, Second Floor, Richmond, Virginia 23219; Diane Ribble, 2446 Tyler Way, Salem, Virginia 24153; and a copy shall be delivered to the Commission's Office of General Counsel and Divisions of Energy Regulation, Economics and Finance, and Public Utility Accounting.

ATTACHMENT C

Application of Columbia Gas of Virginia, Inc.
For approval to implement a natural gas
conservation and ratemaking efficiency
plan including a decoupling mechanism
Case No. PUE-2009-00051
Final Order dated
December 4, 2009

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, DECEMBER 4, 2009

APPLICATION OF

COLUMBIA GAS OF VIRGINIA, INC.

CASE NO. PUE-2009-00051

For approval to implement a natural gas conservation and ratemaking efficiency plan including a decoupling mechanism

FINAL ORDER

On June 8, 2009, Columbia Gas of Virginia, Inc. ("Columbia" or "Company") filed an application with the State Corporation Commission ("Commission") pursuant to Chapter 25 of Title 56 (§§ 56-600 *et seq.*) of the Code of Virginia ("Code") seeking approval to implement a natural gas conservation and ratemaking efficiency plan ("CARE Plan" or "Plan"), which includes a decoupling mechanism ("Application"). The Application advised that the Plan "includes a portfolio of programs and incentives designed to promote conservation and energy efficiency among Columbia's residential and small general service customer classes and a decoupling mechanism that adjusts actual non-gas distribution revenue for participating customer classes to the allowed distribution revenue previously approved by the Commission."¹

The Company proposed that the Plan be approved for a three-year period (2010, 2011, and 2012), at which time Columbia would return to the Commission seeking further approval to continue or modify the Plan. Columbia asked that the Commission approve the Plan effective December 31, 2009 (the first billing unit for the Company's January 2010 billing cycle).

According to the Application, the Company's Plan has five (5) principal components: (i) a variety of cost-effective programs and incentives designed to promote conservation and energy efficiency among the Company's residential ("RS") and small general service ("SGS")

¹ Application at 1.

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customer classes; (ii) provisions to address the needs of low-income customers; (iii) a mechanism to recover the costs associated with these programs on a timely basis; (iv) an annual performance-based incentive mechanism for the delivery of conservation and energy efficiency benefits, which is based upon a verification process that measures conservation results on a weather-normalized basis; and (v) a natural gas decoupling mechanism in the form of a sales adjustment clause that (a) adjusts actual non-gas distribution revenue per customer to "allowed distribution revenue" as defined in § 56-600 of the Code, (b) is revenue neutral, and (c) does not shift annualized distribution revenue between customer classes.

Columbia's proposed Plan, as set out in its Application, contains six (6) programs with thirty (30) conservation and energy efficiency measures that the Company estimates will save 0.3% - 0.5% of the Company's annual sales each year for the life of the measures proposed in the Plan. Over the initial three-year term of the Plan, the Company proposed to spend \$9 million on these programs. For that expenditure, the Company projected that its customers will save "\$41 million over the life of the measures for a three year program cycle, the net present value of which is more than \$22 million".² The Company maintained in its Application that individual customers who participate in the various measures offered under the conservation and energy efficiency programs can save \$90 to \$350 per year, and that the cost to an average residential customer for providing the residential programs is approximately \$10 per year.

Columbia's proposed CARE Plan will offer (i) two programs for residential customers, including a web-based home audit program and a program with incentives for investments in high efficiency natural gas equipment and certain home weatherization measures; (ii) funding for training and education to increase the number of energy auditors who support low-income

² *Id.* at 6.

weatherization programs; (iii) a community education and outreach program; and (iv) two programs for the small general service customer class, including a program with incentives for investments in high efficiency equipment and a program to provide customer-specific conservation and energy efficient solutions for larger SGS customers with customized systems.

The Company proposed, pursuant to § 56-602 (D) of the Code, to recover the incremental costs associated with its conservation and energy efficiency programs by means of a surcharge labeled in its Application as the CARE Program Adjustment ("CPA"). The proposed CPA provides for class-specific projections of the costs of the Company's proposed conservation and energy efficiency programs to be included on customers' bills as a surcharge applicable separately to the RS and SGS customer classes. The proposed CPA is \$0.137/Mcf for RS customers and \$0.032/Mcf for SGS customers for the first year of the CARE Plan.

The Company's Application also represented that Chapter 25 of Title 56 (§§ 56-600 *et seq.*) of the Code (the "Act") permits the Company to receive up to fifteen percent (15%) of the independently verified net economic benefits created by its cost-effective conservation and energy efficiency programs. Columbia's Application proposed to recover this incentive through an adjustment to its Purchased Gas Adjustment ("PGA") mechanism.

The Company's Application maintained that under the Company's current rate design, Columbia is permitted to recover the majority of its costs based on a charge per cubic foot of natural gas sold or transported, even though the majority of the Company's non-gas costs are fixed. The Company contended that its existing rate design creates a disincentive for it to encourage its customers to reduce their natural gas consumption. Columbia therefore proposed a

decoupling mechanism in the form of a Revenue Normalization Adjustment ("RNA")³ to be applied separately to the Company's residential and small general service customer classes that adjusts non-gas distribution revenue to allowed distribution revenue. According to Columbia, its "allowed distribution revenue" is determined based on the rates in effect under the Company's performance-based regulation ("PBR") Plan approved by the Commission in Case No. PUE-2005-00098.⁴

Columbia's proposed CARE Plan also included a provision requiring it to perform a second earnings sharing test on behalf of non-participating classes of customers. The Company explained that "[i]f the sharable earnings calculated under this CARE Plan Earnings Test for any non-participating customer class are greater than the sharable earnings that result from the current PBR Earnings Test calculation, the difference will be added to the PBR sharable earnings for that non-participating customer class."⁵ The Company asserted that the use of a second earnings test ensured that the rates and services of non-participating classes of customers would not be adversely impacted by its proposed Plan.

On June 23, 2009, the Commission entered an Order for Notice and Hearing ("Order") in this case. This Order assigned a Hearing Examiner to the case, set the matter for hearing on October 19, 2009, and established a procedural schedule governing participation in the captioned case for the Company, respondents, public witnesses, and the Commission Staff.

³ For purposes of the RNA, the Company's RS customer class is defined as all customers taking service under Rate Schedules RS and RTS as well as residential customers taking service under Rate Schedule EDS. Similarly, the Company's SGS customer class is defined as all customers taking services under Rate Schedules SGS and SGTS as well as small general service customers taking service under Rate Schedule EDS.

⁴ See *Application of Columbia Gas of Virginia, Inc., For approval of a performance based rate regulation methodology pursuant to Va. Code § 56-235.6*, Case No. PUE-2005-00098, 2006 S.C.C. Ann. Rept. 366, Final Order (Dec. 28, 2006); Application at 11.

⁵ Application at 12.

In the June 23, 2009 Order, interested parties were provided the opportunity to participate as respondents. On July 20, 2009, the Office of the Attorney General, Division of Consumer Council ("OAG"), gave notice of its intent to participate in the captioned proceeding. In addition, on August 4, 2009, the Virginia Industrial Gas Users' Association ("VIGUA") filed a notice of participation in the proceeding.

On October 19, 2009, a public hearing was convened before Michael D. Thomas, Hearing Examiner ("Hearing Examiner" or "Examiner"). No public witnesses appeared at this hearing. During the public hearing, counsel for the Commission Staff made a motion to continue the proceeding to permit the continuance of settlement discussions among the case participants. Staff counsel advised that counsel for Columbia, the OAG, and VIGUA did not oppose the Staff's motion. The Hearing Examiner granted Staff's motion for continuance and continued the hearing to October 26, 2009.

On October 22, 2009, the Staff filed an additional Motion for Continuance ("Motion") in which the Staff requested an additional continuance to October 28, 2009, in order to facilitate the timely review and analysis of additional information provided by Columbia and to explore whether a resolution of the issues raised in the case could be reached. Staff advised that none of the other case participants objected to a continuance of the evidentiary hearing to October 28, 2009.

On October 23, 2009, the Hearing Examiner granted the Staff's October 22, 2009 Motion.

At the hearing convened on October 28, 2009, a Proposed Stipulation and Recommendation ("Stipulation") was presented to the Hearing Examiner for his consideration. Counsel appearing during the course of the captioned proceeding included: Edward L. Flippen, Esquire, Bernard L. McNamee, Esquire, and James S. Copenhaver, Esquire, counsel for the

Company; Sherry H. Bridewell, Esquire, Kerry R. Wortzel, Esquire, and Glenn P. Richardson, Esquire, counsel for the Commission Staff; Ashley B. Macko, counsel for the OAG; and Michael J. Quinan, Esquire, counsel for VIGUA. During the October 28, 2009 hearing, all prefiled testimony and exhibits were marked and admitted into the record without cross-examination. The Company also submitted proof of compliance with the notice requirements set forth in the Commission's Order for Notice and Hearing, which was received as Exhibit A. During the hearing, the case participants supported the Stipulation and requested the Hearing Examiner to recommend that the Commission adopt the Stipulation. The Stipulation and its attachments were collectively identified as Exhibit 14 and received into the record.

At the conclusion of the proceeding, the Hearing Examiner advised that he anticipated recommending that the Commission accept the Stipulation. Thereafter, the case participants waived their right to comment on the Hearing Examiner's Report.

On November 4, 2009, the Hearing Examiner issued his Report in this proceeding. In his Report, the Hearing Examiner summarized the testimony and discussed the provisions of the Plan, as modified by the Stipulation. In his discussion of the issues, among other things, the Hearing Examiner noted that Columbia's Plan, as modified by the Stipulation, reflected the withdrawal of the Boiler Tune-Up Measure, the High-Efficiency Gas Hot Water Boiler (> 2,500,000 btu/hr) Measure, and the High-Efficiency Gas Steam Boiler (> 2,500,000 btu/hr) Measure, leaving twenty-seven (27) individual conservation and energy efficiency measures.⁶ The Examiner noted that during 2010 and 2011, the CARE Plan will be supplemented by approximately \$382,500 in federal funding under a program administered by the Virginia Department of Mines, Minerals and Energy in accordance with the American Recovery and

⁶ Report of Michael D. Thomas, Hearing Examiner, Doc. Con. No. 420713, at 33 (Nov. 4, 2009). Hereafter, this document will be cited as "Hearing Examiner's Report."

Reinvestment Act ("ARRA").⁷ Funds received under ARRA, or any other funding secured by the Company for the benefit of customers, will supplement amounts to be collected under the CPA and will provide additional funding for Columbia's CARE programs.⁸ Columbia will not recover ARRA funding from its customers as part of the CPA. Further, Columbia updated its cost-effectiveness analysis to reflect the application of ARRA funds to eligible measures.⁹

According to the Hearing Examiner, the case participants agreed that the resulting programs and measures included in the CARE Plan, as revised by the Stipulation, should be approved based on the updated cost-effectiveness analysis and a reasonable weighting of the various cost/benefit tests.¹⁰

According to the Hearing Examiner, under the Plan, as revised, Columbia will invest \$8.5 million in excess of the ARRA funds over three (3) years in its Plan measures.¹¹ The Stipulation also included revised CARE program expense projections set out in the Stipulation at page 4.¹² The Hearing Examiner noted that the Stipulation provided that the CARE Plan would be effective for a three (3) year period commencing December 31, 2009, except that the recovery of incentive amounts through Columbia's Actual Cost Adjustment mechanism in its tariff will continue beyond an extension, revision, modification, or termination of the CARE Plan, as described in the Stipulation.¹³ Under the terms of the Stipulation, the Company must file for

⁷ *Id.*

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.*

¹³ *Id.* at 35.

approval to extend, modify, or renew the CARE Plan beyond December 31, 2012, or it will terminate.¹⁴

The Hearing Examiner found that the Company's CARE Plan, as modified by the Stipulation, satisfies the statutory requirements for natural gas conservation and ratemaking efficiency plans set out in the Act.¹⁵ According to the Hearing Examiner, Columbia's Plan meets the statutory definition of "Conservation and ratemaking efficiency plan" found in § 56-600 of the Code.¹⁶

The Hearing Examiner noted in his Report that the Company's CARE Plan meets the requirements of § 56-602 A of the Code in that it: (i) provides six (6) conservation and energy efficiency programs with twenty-seven (27) individual measures for its RS and SGS customer classes, but not its commercial or large industrial customer classes; (ii) includes a normalization component that removes the effect of weather from the determination of conservation and energy efficiency results; and (iii) incorporates an RNA that adjusts the Company's non-gas distribution revenue to "allowed distribution revenue," as that term is defined in the Code.¹⁷ The Hearing Examiner commented that:

Taking into consideration the ARRA [American Recovery and Reinvestment Act] funding and the multi-perspective approach to evaluating the cost/benefits of the programs and individual measures, the CARE Plan provides one or more cost-effective conservation and energy efficiency programs. The CARE Plan has a dedicated program to address the needs of low income residential customers and low-usage customers may participate in the Web-Based Home Audit Program and the Home Savings Program.

¹⁴ *Id.*

¹⁵ *Id.* at 39.

¹⁶ *Id.*

¹⁷ *Id.*

Finally, the CARE Plan does not adversely impact the rates of the Company's non-participating customer classes.¹⁸

In sum, the Hearing Examiner found that:

- (1) The Stipulation represents a reasonable compromise of the interests of the Company and its customers;
- (2) The Company's CARE Plan, as modified by the Stipulation, meets the requirements of the Natural Gas Conservation and Ratemaking Efficiency Act, §§ 56-600 to 56-602 of the Code; and
- (3) The Stipulation reasonably addresses other substantive issues affecting the Company's CARE Plan.¹⁹

The Hearing Examiner recommended that the Commission enter an order that: (i) adopts the findings of his Report; (ii) adopts the Stipulation set forth as Attachment A to that Report; (iii) approves the Company's CARE Plan, as modified by the Stipulation; (iv) directs the Company to implement its CARE Plan effective December 31, 2009; (v) directs the Company to file its revised CARE Plan tariff pages with the Commission Staff within thirty (30) days of the entry of the Commission's Final Order; and (vi) dismisses the case from the Commission's docket of active proceedings.²⁰

NOW UPON CONSIDERATION of the Company's Application, the record developed herein, the Hearing Examiner's Report dated November 4, 2009, and the applicable statutes, the Commission is of the opinion and finds that the recommendations of the Hearing Examiner's Report are supported by the record and should be adopted; that Columbia's Plan filed on June 8, 2009, as modified by the Stipulation (Attachment A hereto), is consistent with the requirements of the Act, represents a "revenue neutral" conservation and ratemaking efficiency plan as

¹⁸ *Id.*

¹⁹ *Id.* at 41.

²⁰ *Id.*

contemplated by § 56-602 B of the Code, includes a decoupling mechanism that is "revenue neutral" as that term is defined in § 56-600 of the Code, and that such decoupling mechanism is otherwise consistent with the Act; that the terms of the Stipulation and its attachments should be incorporated herein by its attachment hereto; that Columbia's CARE Plan as amended by the Stipulation should be approved effective December 31, 2009, the first billing unit for the Company's January 2010 billing cycle; that within thirty (30) days of the entry of this Final Order, Columbia should file revised tariff sheets with the Division of Energy Regulation for implementation of this Plan; and that this case should be dismissed from the Commission's docket of active proceedings.

While we find that the Company's proposed CARE Plan, as modified by the Stipulation, should be approved, we note that the RNA decoupling mechanism mandated by § 56-602 A of the Code may produce lower benefits for non-participating customers who engage voluntarily in conservation or energy efficiency measures outside of the CARE Plan. Without the RNA, for example, customers who lower their thermostats to reduce their gas usage realize two separate and distinct benefits under the Company's current volumetric rates: (i) a reduction in their gas costs, and (ii) a reduction in their contributions to the Company's distribution costs. However, the proposed RNA will reduce the savings or benefits that can be realized by such customers because the RNA will prevent customers from lowering their contributions to the Company's distribution costs by curtailing gas usage. Nevertheless, § 56-602 A of the Code mandates that a CARE Plan "shall include . . . a [RNA] decoupling mechanism;" and the Commission shall approve such RNA decoupling mechanism if it meets the statutory standards.

In accepting the Plan proposed in the Stipulation, we note that the record demonstrates that the projection of the price of natural gas over the life of the measures included in the Plan is

characterized by significant uncertainties. Accordingly, it is difficult to predict accurately the total benefits to consumers that will be produced by the Plan with any degree of certainty given the current and likely future volatility of natural gas prices. Nonetheless, based on the record developed in this proceeding, it appears for purposes of this evaluation, that the projected gas costs used to measure the benefits of the Plan are reasonable and that the various measures under the Plan are cost effective, as costs are partially defrayed with federal ARRA subsidies. Moreover, the estimated lifetime total of natural gas savings of 3,271,687 Mcf projected over the life of the Plan measures set out at page 4 of the Stipulation represents a significant reduction in the consumption of natural gas, consistent with the statutory policy.

We commend the case participants on their successful efforts to design a performance-based incentive (described at pages 5-8 of the Stipulation) mechanism that calculates Columbia's share of the Plan benefits based upon actual gas prices rather than projected gas costs. Columbia's incentive mechanism incorporates the use of actual natural gas prices in calculating the net economic benefits from Columbia's measures by multiplying the cumulative gas usage reductions by the jurisdictional weighted average commodity costs of gas for each year.²¹ Such approach, in our view, avoids the vagaries inherent in any long term projection of natural gas prices.

Accordingly, IT IS ORDERED THAT:

(1) The findings and recommendations of the November 4, 2009 Hearing Examiner's Report are hereby adopted.

²¹ Stipulation Attachment A hereto, at 7.

(2) In accordance with the findings made herein, the Stipulation identified as Attachment A hereto is adopted, and its terms are hereby incorporated into this Order by its attachment hereto.

(3) The Company's CARE Plan set forth in its Application, as modified by the Stipulation attached hereto, shall be approved, effective December 31, 2009, the first billing unit for the Company's January 2010 billing cycle.

(4) The Company shall include a separate line item for the revenue normalization adjustment ("RNA") in its bills to customers who are subject to the RNA.

(5) Consistent with the findings made herein and the Stipulation attached hereto, Columbia must file for approval to extend, modify, or renew the CARE Plan beyond December 31, 2012, or the Plan will terminate.

(6) Consistent with the findings made herein and the Stipulation attached hereto, Columbia shall file its revised CARE Plan tariff sheets with the Division of Energy Regulation within thirty (30) days of the entry of this Final Order.

(7) There being nothing further to be done herein, this case shall be dismissed from the Commission's docket of active proceedings, and the papers filed herein shall be placed in the Commission's file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:
James S. Copenhaver, Assistant General Counsel, Columbia Gas of Virginia, Inc., 1809 Coyote Drive, Chester, Virginia 23836; Edward L. Flippen, Esquire, and Bernard L. McNamee, Esquire, McGuireWoods LLP, One James Center, 901 East Cary Street, Richmond, Virginia 23219; Ashley B. Macko, Assistant Attorney General, Division of Consumer Counsel, Office of the Attorney General, 900 East Main Street, Second Floor, Richmond, Virginia 23219; Michael J.

Quinan, Esquire, Christian & Barton, L.L.P., 909 East Main Street, Suite 1200, Richmond, Virginia 23219; and the Commission's Office of General Counsel and Divisions of Energy Regulation, Economics and Finance, and Public Utility Accounting.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

ATTACHMENT A

APPLICATION OF)
)
COLUMBIA GAS OF VIRGINIA, INC.)
) CASE NO. PUE-2009-00051
For approval to implement a natural gas)
conservation and ratemaking efficiency plan)
including a decoupling mechanism)

PROPOSED STIPULATION AND RECOMMENDATION

This Proposed Stipulation and Recommendation ("Stipulation") represents the agreement between Columbia Gas of Virginia, Inc. ("CGV" or "the Company"), the Staff of the State Corporation Commission ("Staff"), the Office of the Attorney General Division of Consumer Counsel ("Attorney General") and the Virginia Industrial Gas Users' Association ("VIGUA") (collectively, "the Stipulating Participants") resolving all issues raised by the Stipulating Participants relating to the Application filed by CGV on June 8, 2009 ("Application") for approval of a Conservation and Ratemaking Efficiency ("CARE") Plan applicable to residential and small general service customer classes. The Stipulating Participants stipulate, agree and recommend that this Stipulation be adopted and that the CARE Plan proposed by CGV be approved, as modified below.

(1) Except as modified by this Stipulation, the Stipulating Participants agree that the Company's CARE Plan as set forth in its Application should be approved, including: (i) the Company's Education and Outreach Program, Home Savings Program, Web-Based Home Audit Program, Residential Low-Income Program, and Business Custom Program; (ii) the CARE Program Adjustment ("CPA") that provides for the recovery of conservation and energy efficiency program costs on a timely basis; and (iii) the CARE Plan earnings test that is designed to ensure that non-participating classes of customers are not adversely impacted.

Conservation and Energy Efficiency Programs

(2) CGV's CARE Plan will include a portfolio of six programs with 27 individual conservation and energy efficiency measures ("programs" and/or "measures", as applicable). The conservation and energy efficiency programs and measures are listed below and correspond to the descriptions, where applicable, contained in the Company's Application:

Education and Outreach Program

Home Savings Program

- ENERGY STAR Natural Gas Storage Water Heater in New and Existing Homes*
- ENERGY STAR Natural Gas Tankless Water Heater in New and Existing Homes*
- High-Efficiency Natural Gas Furnace in New and Existing Homes*
- High-Efficiency Windows in Existing Homes
- Increasing Attic Insulation in Existing Homes
- Increasing Floor Insulation in Existing Homes
- Performing Duct Sealing in Existing Homes
- Performing Duct Insulation in Existing Homes

Web-Based Home Audit Program

- Free Water Heater Blanket
- Free Low-Flow Showerheads
- Free Faucet Aerators
- Free Hot and Cold Water Pipe Insulation

Residential Low-Income Program

Business Savings Program

- Low-Flow Pre-Rinse Spray Valve (Retrofit Applications)
- High-Efficiency Coin-Op or Laundromat Clothes Washer
- ENERGY STAR Gas Storage Water Heater ($\leq 75,000$ btu/hr)*
- High-Efficiency Gas Storage Water Heater ($> 75,000$ btu/hr)
- ENERGY STAR Tankless Water Heater ($< 200,000$ btu/hr)*
- High-Efficiency Tankless Water Heater ($\geq 200,000$ btu/hr)
- ENERGY STAR Gas Boiler ($< 300,000$ btu/hr)*
- High-Efficiency Gas Hot Water Boiler ($\geq 300,000$ btu/hr and $< 2,500,000$ btu/hr)
- High-Efficiency Gas Steam Boiler ($\geq 300,000$ btu/hr and $< 2,500,000$ btu/hr)
- Direct Contact Gas Water Heater
- High-Efficiency Gas Furnace (AFUE $\geq 90\%$)*
- High-Efficiency Gas Furnace (AFUE $\geq 92\%$)*
- High-Efficiency Gas Furnace (AFUE $\geq 94\%$)*
- Infrared Heater
- Outside Air Reset Controls

Business Custom Program

(3) The Company anticipates that, during 2010 and 2011, the CARE Plan will be supplemented by approximately \$382,500 in funding from the U.S. Department of Energy ("DOE") under a program administered by the Virginia Department of Mines, Minerals and Energy ("DMME"), in accordance with the American Recovery and Reinvestment Act ("ARRA"), to be applied to certain high efficiency appliance and equipment rebates. Any funding received under ARRA, or any other funding secured by the Company for the benefit of customers, will supplement amounts to be collected under the CPA and will provide additional funding for CARE programs. The measures that are eligible for ARRA funding are denoted by an asterisk in the list in Paragraph 2 of this Stipulation. The Company will not recover ARRA funding from CGV's customers as part of the CPA.

(4) The Company performed an updated cost effectiveness analysis on the above-referenced programs and measures to reflect the application of ARRA funds to eligible measures and the elimination of three Business Savings Program measures that were included in the Company's initial Application.¹ For purposes of settlement, the Stipulating Participants agree that the programs and measures to be included in the CARE Plan should be approved based on the updated cost effectiveness analysis and a reasonable weighting of the various cost/benefit tests. The conservation and energy efficiency programs are designed to achieve the gross annual natural gas savings set forth in the table below.

¹ The Company withdrew the Boiler Tune-Up Measure, the High-Efficiency Gas Hot Water Boiler (> 2,500,000 btu/hr) Measure, and the High-Efficiency Gas Steam Boiler (> 2,500,000 btu/hr) Measure. The Company also incorporated updated cost information from the DOE with respect to the ENERGY STAR Gas Boiler (< 300,000 btu/hr) Measure.

**REVISED Gross Annual Natural Gas Savings Projections at the Customer Meter
(Incremental Annual Mcf Saved)**

Program	Sector	Year 1 ²	Year 2	Year 3	3-Yr Total	Lifetime Total
Education and Outreach	All	-	-	-	-	-
Home Savings Program	Res.	23,949	35,631	47,389	106,969	2,102,699
Web-based Home Audit Program	Res.	25,305	25,305	25,305	75,914	759,142
Residential Low-Income Program	Res.	-	-	-	-	-
Business Savings Program	Sm. Gen Serv	4,530	6,795	9,061	20,386	334,415
Business Custom Program	Sm. Gen Serv	-	1,676	3,352	5,029	75,431
Total Savings (MCF)		53,785	69,407	85,107	208,298	3,271,687
Savings as a Percentage of 2008 Residential Sales		0.34%	0.43%	0.51%	1.28%	
Savings as a Percentage of 2008 SGS Sales		0.05%	0.09%	0.14%	0.28%	

(5) The Company plans to invest approximately \$8.5 million in excess of the ARRA funds over three years on the conservation and energy efficiency measures set forth herein.³ The costs of the conservation and energy efficiency programs and measures will be collected through the CPA as set forth in the initially proposed CARE Plan. The program level budget projections are set forth in the table below.

**REVISED Program Expense Projections
(Includes Design, Administration, Customer Incentives, Evaluation and Outreach)**

Program	2010 Budget Projections (2009\$)	2011 Budget Projections (2009\$)	2012 Budget Projections (2009\$)	3-Yr Total Budget Projections
Education and Outreach	\$380,000	\$385,000	\$435,000	\$1,200,000
Home Savings Program	\$1,207,369	\$1,661,370	\$2,460,583	\$5,329,322
Web-based Home Audit Program	\$315,664	\$233,998	\$233,998	\$783,659
Residential Low-Income Program	\$150,000	\$150,000	\$150,000	\$450,000
Business Savings Program	\$192,328	\$155,196	\$213,149	\$560,672
Business Custom Program	\$-	\$103,177	\$102,274	\$205,451
Total	\$2,245,361	\$2,688,741	\$3,595,003	\$8,529,104

(6) The Company will be authorized to reallocate up to one-third (33.3%) of the budgeted funds for an individual measure (including up to a pro-rata share of the program

² Includes only the savings attributed to participants enrolled in that year only. The savings in Years 2 and 3 are incremental to the previous year's savings.

³ The Company may not recover more than the approximately \$8.5 million proposed in the Company's CARE Plan, as amended by this Stipulation, and recovered by the Company through the CPA, unless other amounts are approved by the Commission. The ARRA funding will not be recovered through the CPA.

administration costs) to another measure or program within a CARE Plan year without prior approval from the Commission. Similarly, the Company will be authorized to reallocate up to one-third (33.3%) of the budgeted funds for a program without individual measures (including up to a pro-rata share of the program administration costs) to another measure or program within a program year without prior Commission approval. Commission approval will be required to reallocate funds in excess of the foregoing budget limits from such measure(s) or program(s). The Company will also be permitted to carry over into the following program year any unused budget funds for a measure (or program without individual measures) to the same measure or program for the following program year. Unused administrative costs in any program may also be carried over to the following year. However, the Company will advise the Staff in advance of any such reallocation or carry-over of budgeted funds. Measure level budgets for the Home Savings Program, Web-Based Audit Program and Business Savings Programs are reflected in Attachment 1 to this Stipulation. The Company will also be authorized to allocate ARRA funds among eligible conservation and energy efficiency programs and measures in any manner that is consistent with funding guidelines applicable to such ARRA funds in order to maximize the availability and utilization of such funds.

Performance-Based Incentive Mechanism

(7) CGV's performance-based incentive is designed to provide the Company with the opportunity to earn an incentive of up to 15% of actual independently verified net economic benefits created by CGV's portfolio of cost-effective conservation and energy efficiency programs. CGV's performance-based incentive is set forth in Section 17.13 of the Company's General Terms and Conditions, which is included in Attachment 2 to this Stipulation. Below is a summary of the performance incentive contained in the General Terms and Conditions.

(8) CGV will be permitted to recover a percentage of independently verified net economic benefits resulting from efficiency measures implemented during each year of the CARE Plan, based upon its success in meeting predetermined usage reduction targets established for that year. The performance-based incentive will be calculated in the following manner:

- (a) The Performance Incentive Rate used to determine the level of performance-based incentive earned, if any, will be determined by comparing the annual savings expected to be achieved by the programs and/or measures in the year of installation to the usage reduction target. The usage reduction targets for the CARE Plan are based upon the cumulative savings calculated for all participants in the programs and/or measures, measured from the year of installation. The usage reduction targets for the CGV CARE Plan are as follows:

2010: 53,785 Mcf

2011: 123,192 Mcf

2012: 208,298 Mcf

The Performance Incentive Rate will be determined by the annual savings expected to be achieved by the installed programs and/or measures as a percentage of the above usage reduction targets, as shown in the following table:

Percentage of Usage Reduction Target Achieved	Performance Incentive Rate
Less than 50 %	None
50% to 59%	5%
60% to 69%	10%
70% or greater	15%

The Performance Incentive Rate for all subsequent years (Year 4 and beyond) will equal the Performance Incentive Rate achieved in Year 3.

- (b) The usage reductions for each measure will be calculated for each year of the measure's useful lifetime. Usage reductions attributed to the measure's first year and last year will be pro-rated to account for the level of natural gas savings achieved in that year based upon the month of the measure's installation and the measure's deemed operational lifetime, respectively. The Company will develop a detailed table of the monthly attribution of energy savings for each measure which will be provided to the Commission Staff in advance of the Company's filing for the performance incentive. The savings attribution will be stipulated for each measure and based upon the measure's operational parameters and weather. Non-weather dependent measure savings will be equally distributed for each month of the year. Weather-dependent measure savings will be attributed by the equipment's operational characteristics and the heating degree-days for the region.
- (c) The net economic benefits for the Program Year will be calculated by subtracting the annual program costs from the annual benefits. The annual benefits will be calculated by multiplying the cumulative usage reductions calculated above by the jurisdictional weighted average commodity cost of gas ("WACCOG") for each year. The annual program cost used for the performance incentive calculation is the sum the cost of CARE Plan programs for each year amortized over a 16 year period, which represents

the weighted average of the measure lives of the measures included in each program.

- (d) The performance incentive will be calculated by multiplying the Performance Incentive Rate by the net economic benefits for each year during the effective life of any measure implemented under the Care Plan.
- (e) An illustrative example of the Performance Incentive calculation is set forth in Attachment 3.

(9) The performance-based incentive will be included in the Company's Annual Cost Adjustment ("ACA") mechanism. The performance-based incentive will be in addition to any other revenue requirements or rates established pursuant to § 56-235.2 or § 56-235.6 and independent of any computation of shared revenues under an approved performance-based regulation plan. Consistent with § 56-602 G, the performance-based incentive shall not reduce an authorized return on common equity or other measure of utility profit.

(10) The performance-based incentive associated with approved conservation and energy efficiency programs and measures shall be recoverable, subject to measurement and verification, through future ACA filings regardless of extension, modification, termination, or continuing applicability of the CARE Plan.

Measurement and Verification

(11) The independent measurement and verification ("M&V") of the net economic benefits of the Company's conservation and energy efficiency programs shall follow industry accepted methodologies such as, but not limited to, the International Performance Measurement and Verification Protocol ("IPMVP") and American Society of Heating Refrigeration and Air-Conditioning Engineers ("ASHRAE") Guideline 14. The measurement and verification structure will utilize an IPMVP M&V method (Option A, B, C or D), as necessary, to verify the net

economic benefits. M&V activities will include a calculation of the annual level of savings associated with efficiency measures implemented during the corresponding CARE Plan years and determine the period over which such savings will occur, based upon the effective life of the efficiency measure, as established by industry standards at the time of the review. M&V activities will be conducted for each of the three CARE Plan program years. The annual level of savings associated with efficiency measures implemented during the corresponding CARE Plan years as verified during the M&V process will be applied to the years beyond the three year CARE Plan program period. The Company will retain a qualified independent contractor other than Nexant and who is unaffiliated with Columbia, its parent company, subsidiaries or affiliates to independently measure and verify the net economic benefits associated with the programs identified herein.

(12) M&V activities will include a statistically significant level of direct sampling in order to validate measure impacts. Sampling may include, but is not limited to, verifying assumptions for key independent variables that are included in the savings calculations as well as validating measure lifetimes, estimated net-to-gross ratios, and customer incremental costs. The Company will work with the independent M&V contractor to establish the level of sampling that aligns the costs of the M&V activities with the level of savings risk and the proposed evaluation budgets estimated in the Company's CARE Plan.

Decoupling Mechanism

(13) CGV's Revenue Normalization Adjustment ("RNA"), which is a decoupling mechanism in the form of a sales adjustment clause, will be designed to adjust actual weather-normalized non-gas distribution revenues per customer to "allowed distribution revenues" per customer as that term is defined in § 56-600 of the Conservation and Ratemaking Efficiency Act ("the Act"). The RNA will be applied separately to the Company's residential and small general

service customer classes. The Company's RNA, as defined in this Stipulation, is reflected in Section 12.7 of the Company's General Terms and Conditions, which is included in Attachment 2⁴ to this Stipulation.

Additional Items

(14) The CARE Plan will be effective for a three year period commencing December 31, 2009, except that the recovery of incentive amounts through the ACA mechanism shall continue beyond an extension, modification or termination of the CARE Plan as described herein. CGV must file for approval to extend, modify or renew the CARE Plan beyond December 31, 2012 or it will terminate as per its original term.

(15) The Stipulating Participants stipulate as follows with respect to the evidentiary record:

- a. CGV's Application and Attachments and the Pre-Filed Direct Testimony, Attachments and Exhibits of Company witnesses Carl Levander, Matt Gibbs, Brentley K. Archer, Robert C. Innes and Robert E. Horner, filed on June 8, 2009, shall be made part of the record without cross examination.
- b. The Pre-Filed Direct Testimony, Attachments and Exhibits of Staff witnesses John A. Stevens, Richard W. Taylor and Mark K. Carsley, filed on September 28, 2009, shall be made part of the record without cross examination.
- c. The Pre-Filed Rebuttal Testimony, Attachments and Exhibits of Company witnesses Michael D. Anderson, Matt Gibbs, and Robert E. Horner, filed on October 8, 2009, shall be made part of the record without cross examination.

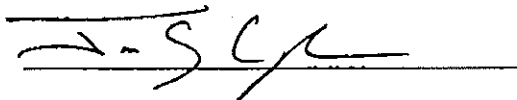
⁴ Attachment 2 also includes a revised index and rate sheets that reflect the modifications set forth in this Stipulation.

(16) The Stipulating Participants agree that this Stipulation represents a compromise for the purposes of settlement of this case only and shall not be regarded as a precedent with respect to any ratemaking principle, any proceeding initiated under the Act, or any other principle in any future rate case, except as specifically set forth herein. None of the signatories to this Stipulation necessarily agrees with the treatment of any particular item, any procedure followed, or the resolution of any particular issue in agreeing to this Stipulation other than as specified herein, except that the Stipulating Participants agree that the resolution of the issues herein, taken as a whole, and the disposition of all other matters set forth in this Stipulation are in the public interest. This Stipulation is conditioned upon and subject to acceptance by the Commission and is non-severable and of no force or effect and may not be used for any other purpose unless accepted in its entirety by the Commission.

(17) In the event that the Hearing Examiner does not accept the Stipulation in its entirety, including the issuance of a recommendation to approve the Stipulation, each of the signatories herein retain the right to withdraw support for the Stipulation. In the event of such action by the Hearing Examiner, any of the signatories to the Stipulation will be entitled to give notice exercising its right to withdraw support for the Stipulation; provided, however, that the signatories to the Stipulation may, by unanimous consent, elect to modify the Stipulation to address any modifications required, or issues raised, by the Hearing Examiner or the Commission. Should the Stipulation not be approved, it will be considered void and have no precedential effect, and the signatories to the Stipulation reserve their rights to participate in all relevant proceedings in the captioned case notwithstanding their agreement to the terms of the Stipulation. If the Hearing Examiner or the Commission chooses to reject the Stipulation, an *ore tenus* hearing shall be convened at which time testimony and evidence may be presented by the case participants and cross-examination may occur.

Accepted and Agreed to this 28th day of October, 2009.

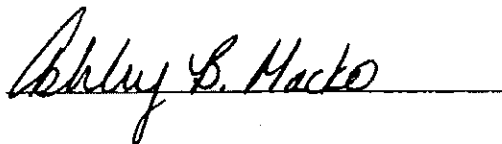
COLUMBIA GAS OF VIRGINIA, INC.



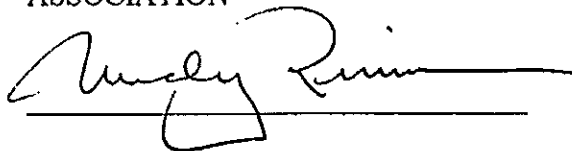
STAFF OF THE VIRGINIA STATE
CORPORATION COMMISSION



OFFICE OF ATTORNEY GENERAL
DIVISION OF CONSUMER COUNSEL



VIRGINIA INDUSTRIAL GAS USERS'
ASSOCIATION



ATTACHMENT 1

Table 1. Home Savings Program Measure Summary

Measure	Size Category	Minimum Efficiency Requirements	Year 1		Year 2		Year 3		Total
			Incentive Budget	Program Administrative Costs	Incentive Budget	Program Administrative Costs	Incentive Budget	Program Administrative Costs	
ENERGY STAR Gas Storage Water Heater	≤ 75,000 btu/hr	ENERGY STAR (EF ≥ 0.62)	\$ 16,583		\$ 23,300		\$ 62,150		\$ 102,033
ENERGY STAR Tankless Water Heater	< 200,000 btu/hr	ENERGY STAR (EF ≥ 0.82)	\$ 8,302		\$ 12,075		\$ 31,697		\$ 52,074
ENERGY STAR Gas Furnace	< 225,000 btu/hr	AFUE ≥ 90%	\$ 103,582		\$ 150,664		\$ 395,494		\$ 649,741
High-Efficiency Windows*	Windows Only (No Patio/Swinging Doors, Skylights)	ENERGY STAR (North-Central) U-factor ≤ 0.32, SHGC ≤ 0.40	\$ 48,329		\$ 72,494		\$ 96,659		\$ 217,483
Attic Insulation*	--	Minimum increment of R-19 added	\$ 711,368		\$ 1,067,052		\$ 1,422,735		\$ 3,201,155
Floor Insulation*	--	Minimum increment of R-19 added	\$ 29,750		\$ 44,626		\$ 59,501		\$ 133,877
Duct Sealing*	Minimum 10 feet in unconditioned space	Must complete per PTCS standards	\$ 2,000		\$ 4,000		\$ 6,000		\$ 12,000
Duct Insulation*	Minimum 10 feet of un-insulated ductwork in unconditioned space	Duct Insulated with R-6 or higher	\$ 2,500		\$ 5,000		\$ 7,500		\$ 15,000
Program Administrative Costs				\$ 284,955		\$ 282,160		\$ 378,846	\$ 945,961
Total			\$ 922,414	\$ 284,955	\$ 1,379,211	\$ 282,160	\$ 2,081,737	\$ 378,846	\$ 5,329,322

Table 2. Business Savings Program Measure Summary

Measure	Size Category	Minimum Efficiency Requirements	Year 1		Year 2		Year 3		Total
			Incentive Budget	Program Administrative Costs	Incentive Budget	Program Administrative Costs	Incentive Budget	Program Administrative Costs	
Low-Flow Pre-Rinse Spray Valve (Retrofit Only)	≤ 1.6 gpm	≤ 1.6 gpm	\$ 2,342		\$ 3,513		\$ 4,683		\$ 10,538
High-Efficiency Coin-Op or Laundromat Clothes Washer	Front Load ≤ 3.5 ft ³ Top Load ≤ 4.0 ft ³	ENERGY STAR (MEF ≥ 1.8 and WF ≤ 7.5)	\$ 429		\$ 643		\$ 858		\$ 1,930
ENERGY STAR Gas Storage Water Heater (≤ 75,000 btu/hr)	≤ 75,000 btu/hr	ENERGY STAR (EF ≥ 0.62)	\$ 390		\$ 575		\$ 1,550		\$ 2,515
High-Efficiency Gas Storage Water Heater (> 75,000 btu/hr)	> 75,000 btu/hr	EI ≥ 82%	\$ 2,607		\$ 3,911		\$ 5,214		\$ 11,732
ENERGY STAR Tankless Water Heater (< 200,000 btu/hr)	< 200,000 btu/hr	ENERGY STAR (EF ≥ 0.82)	\$ 3,648		\$ 5,469		\$ 11,966		\$ 21,080
High Efficiency Tankless Water Heater (≥ 200,000 btu/hr)	≥ 200,000 btu/hr	EI ≥ 82%	\$ 2,597		\$ 3,895		\$ 5,193		\$ 11,685
ENERGY STAR Gas Boiler (< 300,000 btu/hr)	< 300,000 btu/hr	ENERGY STAR (AFUE ≥ 85%)	\$ 1,643		\$ 2,465		\$ 6,573		\$ 10,682
High-Efficiency Gas Hot Water Boiler (≥ 300,000 btu/hr)	≥ 300,000 btu/hr and ≤ 2,500,000 btu/hr	EI ≥ 90%	\$ 17,497		\$ 26,245		\$ 34,994		\$ 78,736
High-Efficiency Gas Steam Boiler (≥ 300,000 btu/hr)	≥ 300,000 btu/hr and ≤ 2,500,000 btu/hr	EI ≥ 82%	\$ 12,666		\$ 18,999		\$ 25,332		\$ 56,996
Direct Contact Gas Water Heater	> 300,000 btu/hr	EI ≥ 90%	\$ 1,246		\$ 1,870		\$ 2,493		\$ 5,609
High-Efficiency Gas Furnace (AFUE ≥ 90%)	< 225,000 btu/hr	AFUE ≥ 90%	\$ 439		\$ 659		\$ 3,514		\$ 4,611
High-Efficiency Gas Furnace (AFUE ≥ 92%)	< 225,000 btu/hr	AFUE ≥ 92%	\$ 3,294		\$ 4,941		\$ 13,176		\$ 21,411
High-Efficiency Gas Furnace (AFUE ≥ 94%)	< 225,000 btu/hr	AFUE ≥ 94%	\$ 3,294		\$ 4,941		\$ 10,541		\$ 18,775
Infrared Heater	Any Size	Any Gas-Fired Infrared Heating System	\$ 447		\$ 671		\$ 895		\$ 2,014
Outside Air Reset Controls	Any Size	Install Boiler Outside Air Reset Control	\$ 1,357		\$ 11,036		\$ 14,715		\$ 33,109
Program Administrative Costs				\$ 132,434		\$ 65,364		\$ 71,453	\$ 269,251
Total			\$ 58,894	\$ 132,434	\$ 89,832	\$ 65,364	\$ 141,696	\$ 71,453	\$ 560,672

Table 3. Web-based Home Audit Program Measure Summary

Measure	Size Category	Minimum Efficiency Requirements	Year 1		Year 2		Year 3		Total
			Incentive Budget	Program Administrative Costs	Incentive Budget	Program Administrative Costs	Incentive Budget	Program Administrative Costs	
Water Heater Blankets	-	-	\$ 37,625		\$ 37,625		\$ 37,625		\$ 112,875
Low Flow Showerheads	-	-	\$ 10,750		\$ 10,750		\$ 10,750		\$ 32,250
Faucet Aerators	-	-	\$ 8,063		\$ 8,063		\$ 8,063		\$ 24,188
Pipe Insulation	-	-	\$ 16,125		\$ 16,125		\$ 16,125		\$ 48,375
Program Administrative Costs				\$ 243,101		\$ 161,435		\$ 161,435	\$ 565,971
Total			\$ 72,563	\$ 243,101	\$ 72,563	\$ 161,435	\$ 72,563	\$ 161,435	\$ 783,659

ATTACHMENT 2

Sheets 3 and 3A

Sheets 403 and 404

Sheets 432 – 432e

Sheet 441

Sheets 444a – 444c

	Base Gas 11/26/2008	Base Non-Gas 4/30/2002	Base Rate 11/26/2008	PGA 5/29/2009	Refunds 11/26/2008	ACA 11/26/2008	TCRC 11/1/2002	CPA 12/31/2009	Billing Rate 12/31/2009
	[1]	[2]	[3=1+2]	[4]	[5]	[6]	[7]	[8]	[9=3+4+5+6+7+8]
Residential Sales Service (RS) (for customers that were <u>not</u> on Residential Transportation Service (RTS) in the last 12 months)									
First 5 Mcf	\$0.000	\$2.939	\$2.939	\$0.000	\$0.000	\$0.000	\$0.000	\$0.129	\$3.068
Next 45 Mcf	0.000	2.851	2.851	0.000	0.000	0.000	0.000	0.129	2.980
Over 50 Mcf	0.000	2.723	2.723	0.000	0.000	0.000	0.000	0.129	2.852
Customer Charge		\$12.25	\$12.25						\$12.25
Residential Sales Service (RS) (for customers that were on Residential Transportation Service (RTS) in the last 12 months)									
First 5 Mcf	\$0.000	\$2.939	\$2.939	\$0.000	\$0.000	\$0.000	\$0.000	\$0.129	\$3.068
Next 45 Mcf	0.000	2.851	2.851	0.000	0.000	0.000	0.000	0.129	2.980
Over 50 Mcf	0.000	2.723	2.723	0.000	0.000	0.000	0.000	0.129	2.852
Customer Charge		\$12.25	\$12.25						\$12.25
Metered Propane Service (MPS) (Same as "RS")									
								N/A	
Small General Service (SGS) (for customers that were <u>not</u> on Small General Transportation Service (SGTS) in the last 12 months)									
First 20 Mcf	\$0.000	\$1.920	\$1.920	\$0.000	\$0.000	\$0.000	\$0.000	\$0.027	\$1.947
Next 80 Mcf	0.000	1.789	1.789	0.000	0.000	0.000	0.000	0.027	1.816
Next 900 Mcf	0.000	1.753	1.753	0.000	0.000	0.000	0.000	0.027	1.780
Next 1,500 Mcf	0.000	1.692	1.692	0.000	0.000	0.000	0.000	0.027	1.719
Over 2,500 Mcf	0.000	1.659	1.659	0.000	0.000	0.000	0.000	0.027	1.686
Customer Charge		\$23.25	\$23.25						\$23.25
Small General Service (SGS) (for customers that were on Small General Transportation Service (SGTS) in the last 12 months)									
First 20 Mcf	\$0.000	\$1.920	\$1.920	\$0.000	\$0.000	\$0.000	\$0.000	\$0.027	\$1.947
Next 80 Mcf	0.000	1.789	1.789	0.000	0.000	0.000	0.000	0.027	1.816
Next 900 Mcf	0.000	1.753	1.753	0.000	0.000	0.000	0.000	0.027	1.780
Next 1,500 Mcf	0.000	1.692	1.692	0.000	0.000	0.000	0.000	0.027	1.719
Over 2,500 Mcf	0.000	1.659	1.659	0.000	0.000	0.000	0.000	0.027	1.686
Customer Charge		\$23.25	\$23.25						\$23.25
Air Conditioning Service (ACS)									
All Volumes Above Base Load	\$0.0000	\$0.0000	\$0.0000	\$0.0000	\$0.000	\$0.000	\$0.000	N/A	\$0.000
Customer Charge	(Applicable RS or SGS Customer Charge)								
Unmetered Gas Light Service (UGLS) (for customers that were <u>not</u> on Unmetered Gas Light Transportation Service (UGLTS) in the last 12 months)									
First Standard Burner	\$0.00	\$4.445	\$4.45	\$0.000	\$0.000	\$0.000	\$0.000	N/A	\$4.445
Each Additional Burner	0.00	3.840	3.84	0.000	0.000	0.000	0.000	N/A	3.840
UNMETERED GAS LIGHT SERVICE (UGLS) (for customers that were on Unmetered Gas Light Transportation Service (UGLTS) in the last 12 months)									
First Standard Burner	\$0.00	\$4.445	\$4.45	\$0.000	\$0.000	\$0.000	\$0.000	N/A	\$4.445
Each Additional Burner	0.00	3.840	3.84	0.000	0.000	0.000	0.000	N/A	3.840

With the exception of Column 3, the above rates are effective with meter readings on and after the stated dates

	Base		Base Rate	PGA	Refunds	ACA	TCRC	CPA	Billing Rate
	Base Gas	Non-Gas	Base Rate	PGA	Refunds	ACA	TCRC	CPA	Billing Rate
	11/26/2008	11/26/2003	11/26/2008	5/29/2009	11/26/2008	11/26/2008	11/1/2002	12/31/2009	12/31/2009
	[1]	[2]	[A=1+2]	[4]	[5]	[6]	[7]	[8]	[9=3+4+5+6+7+8]
Residential Transportation Service (RTS) (for customers that were <u>not</u> on Residential Sales Service (RS) in the last 12 months)									
First 5 Mcf	\$0.000	\$2.939	\$2.939	\$0.000	\$0.000	\$0.000	\$0.000	\$0.129	\$3.068
Next 45 Mcf	0.000	2.851	\$2.851	0.000	0.000	0.000	0.000	0.129	2.980
Over 50 Mcf	0.000	2.723	\$2.723	0.000	0.000	0.000	0.000	0.129	2.852
Customer Charge		\$12.25	\$12.25						\$12.25
Residential Transportation Service (RTS) (for customers that were on Residential Sales Service (RS) in the last 12 months)									
First 5 Mcf	\$0.000	\$2.939	\$2.939	\$0.000	\$0.000	\$0.000	\$0.000	\$0.129	\$3.068
Next 45 Mcf	0.000	2.851	\$2.851	0.000	0.000	0.000	0.000	0.129	2.980
Over 50 Mcf	0.000	2.723	\$2.723	0.000	0.000	0.000	0.000	0.129	2.852
Customer Charge		\$12.25	\$12.25						\$12.25
Small General Transportation Service (SGTS) (for customers that were <u>not</u> on Small General Service (SGS) in the last 12 months)									
First 20 Mcf	\$0.000	\$1.920	\$1.920	\$0.000	\$0.000	\$0.000	\$0.000	\$0.027	\$1.947
Next 80 Mcf	0.000	1.789	1.789	0.000	0.000	0.000	0.000	0.027	1.816
Next 900 Mcf	0.000	1.753	1.753	0.000	0.000	0.000	0.000	0.027	1.780
Next 1,500 Mcf	0.000	1.692	1.692	0.000	0.000	0.000	0.000	0.027	1.719
Over 2,500 Mcf	0.000	1.659	1.659	0.000	0.000	0.000	0.000	0.027	1.686
Customer Charge		\$23.25	\$23.25						\$23.25
Small General Transportation Service (SGTS) (for customers that were on Small General Service (SGS) in the last 12 months)									
First 20 Mcf	\$0.000	\$1.920	\$1.920	\$0.000	\$0.000	\$0.000	\$0.000	0.027	\$1.947
Next 80 Mcf	0.000	1.789	1.789	0.000	0.000	0.000	0.000	0.027	1.816
Next 900 Mcf	0.000	1.753	1.753	0.000	0.000	0.000	0.000	0.027	1.780
Next 1,500 Mcf	0.000	1.692	1.692	0.000	0.000	0.000	0.000	0.027	1.719
Over 2,500 Mcf	0.000	1.659	1.659	0.000	0.000	0.000	0.000	0.027	1.686
Customer Charge		\$23.25	\$23.25						\$23.25
Air Conditioning Transportation Service (ACTS)									
All Volumes Above Base Load	\$0.000	\$0.0000	\$0.0000	\$0.000	\$0.000	\$0.000	\$0.000	N/A	\$0.000
Customer Charge	(Applicable RTS or SGTS Customer Charge)								
Unmetered Gas Light Transportation Service (UGLTS) (for customers that were <u>not</u> on Unmetered Gas Light Sales Service (UGLS) in the last 12 mos)									
First Standard Burner	\$0.000	\$4.445	\$4.445	\$0.000	\$0.000	\$0.000	\$0.000	N/A	\$4.445
Each Additional Burner	-	3.840	3.840	0.000	0.000	0.000	0.000	N/A	3.840
Unmetered Gas Light Transportation Service (UGLTS) (for customers that were on Unmetered Gas Light Sales Service (UGLS) in the last 12 mos)									
First Standard Burner	\$0.000	\$4.445	\$4.445	\$0.000	\$0.000	\$0.000	\$0.000	N/A	\$4.445
Each Additional Burner	-	3.840	3.840	0.000	0.000	0.000	0.000	N/A	3.840
Enhanced Balancing Service (EBS)	\$0.734	0.000	0.734	(0.063)	0.000	0.000	0.000	N/A	0.671
System Integration Service (SIS)	\$1.460	0.000	1.460	0.306	0.000	0.000	0.000	N/A	1.766

With the exception of Column 3, the above rates are effective with meter readings on and after the stated dates.

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(c) Unusual Bill Extended Payment Plan

At the request of any residential Customer who uses gas as the primary source for space heating, an extended payment plan may be devised wherein the excess cost over the normal bill can be amortized over several payments. With this arrangement, a Customer is permitted to pay a part of the excess amount over varying periods in addition to the Customer's regular monthly bill.

12.7 Revenue Normalization Adjustment (RNA)

(a) The RNA will be calculated for each billing month separately for the residential and small general service Customer Classes. For purposes of the RNA, the Company's Residential Customer Class is defined as all customers taking service under Rate Schedules RS, RTS, and residential customers taking service under Rate Schedule EDS. For purposes of the RNA, the Company's Small General Service Customer Class is defined as all customers taking service under Rate Schedules SGS, SGTS and commercial and industrial customers taking service under Rate Schedule EDS.

(b) RNA Calculation

(i) **Base Monthly Normalized Non-Gas Revenue Per Bill (BMNR)** - Utilizing the monthly base non-gas revenue and number of bills corresponding to the rates established by the Commission in the Company's most recent rate case or performance based ratemaking proceeding in which its base non-gas rates were increased, decreased or confirmed, and separately for each applicable Customer Class, divide each applicable billing month's weather normalized non-gas revenue by the corresponding number of bills for that month. The resulting BMNR's are in the table below:

	Residential BMNR	Small General Service BMNR
Month	Rate Schedules RS, RTS and EDS	Rate Schedules SGS, SGTS and EDS
January	\$58.51	\$162.05
February	54.44	157.73
March	43.60	132.16
April	32.42	95.55
May	21.70	65.74
June	18.00	57.99
July	16.00	48.73
August	16.10	50.29
September	16.10	52.83
October	18.66	61.97
November	25.30	76.59
December	40.00	115.33
Annual Allowed Distribution Revenue	\$360.83	\$1,076.96

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- (ii) **Authorized Monthly Normalized Non-Gas Revenue (AMNR)** - The AMNR is calculated by multiplying the applicable billing month's BMNR from the table in Section 12.7(b)(i) by the actual number of bills for that billing month, separately for the Residential and Small General Service Customer Classes.
 - (iii) **Weather Adjusted Monthly Booked Revenues (WAMBR)** - The WAMBR is the applicable billing month's non-gas revenue recorded on the books of the Company adjusted to remove the effects of colder or warmer than normal weather pursuant to Section 12.7(c) and excluding the revenue resulting from the billing of the RNABF pursuant to Section 12.7(e), which shall be calculated separately for the Residential and Commercial Small General Service Customer Classes. The WAMBR for the Industrial Small General Service Customer Class will be equal to the non-gas revenue recorded on the books of the Company unadjusted for weather.
 - (iv) **Revenue Normalization Adjustment (RNA)** - The RNA will be equal to the difference of the AMNR minus the WAMBR for the applicable billing month, which shall be calculated separately for the Residential and Small General Service Customer Classes.
- (c) **WAMBR Calculation** - Weather normalized volumes, calculated separately for the Residential and Commercial Small General Service Customer Classes, as determined in Section 12.7(c) shall be utilized in Section 12.7(c)(vi) to calculate the applicable billing month's WAMBR to be used in calculating the RNA pursuant to Section 12.7(b)(iv).
- (i) **Actual Heating Degree Days (AHDD)** - The average of twenty-one billing units where for each billing unit, AHDD is the average hourly temperature for each day subtracted from a reference temperature of 62 degrees for residential customers or 67 degrees for commercial customers, but not less than zero, for the cumulative days of the billing month.
 - (ii) **Normal Heating Degree Days (NHDD)** - The average of twenty-one billing units making up a billing month where for each billing unit, NHDD is the average for the 30 years ended 2005 of the AHDD for each day, accumulated for the days of the billing month as set forth in the table below:

Month	Normal HDD Residential	Normal HDD SGS Commercial
January	772	936
February	727	873
March	545	689
April	316	449
May	108	200
June	18	56
July	0	0
August	0	0
September	0	0
October	51	113
November	221	346
December	512	668

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- (iii) **Base Load Monthly Volumes (BLMV)** - The average consumption per customer per month, measured in Mcf, for the two months with the lowest consumption per customer per billing day from the period of the three immediately preceding summer months, of July, August and September, updated annually.
- (iv) **Actual Monthly Volumes (AMV)** - The actual volume of gas consumed per customer, measured in Mcf for the billing month.
- (v) **Weather Normalized Billing Volume (WNBV)** - The WNBV for each billing month to be used in the calculation of the weather adjusted non-gas revenue pursuant to Section 12.7(c)(vi) will be equal to the value calculated in the following equation:

$$WNBV = ((AMV - BLMV) \times (NHDD/AHDD)) \div BLMV \times \# \text{ of Bills}$$

- (vi) **WAMBR** - A bill frequency distribution will be created for each rate schedule applicable to the RNA pursuant to Section 12.7(a) for each billing month for the usage levels that coincide with the rate blocks of each rate schedule to determine the WNBV volumes by rate block. For customers billed utilizing the Company's "Distributive Information System", the OGIVE method will be used to create the monthly bill frequencies. For customers billed utilizing the Company's "Gas Measurement Billing System" the monthly bill frequencies will be created by accumulating volumes for each rate block on a customer by customer basis.

For each rate schedule applicable to the RNA the WAMBR will be equal to the sum of the products of each rate block's current non-gas volumetric rates times the weather adjusted rate block's volumes plus the applicable rate schedule customer charge times the number of bills.

(d) **RNA Billing Factor (RNABF) Calculation**

- (i) The RNABF for the Residential Customer Class will be equal to the amount derived in 12.7(b)(iv) plus or minus any prior months' under or over applied RNA, divided by the estimated normalized volumes of sales and retail choice service to the Residential Customer Class for the second succeeding billing month following the billing month's RNA. For example, the Residential Customer Class' RNA for the January billing month will be divided by the Residential Customer Class' estimated volumes for the March billing month to determine the applicable RNABF.
- (ii) The RNABF for the Small General Service Customer Class will be equal to the amount derived in 12.7(b)(iv) plus or minus any prior months' under or over applied RNA, divided by the estimated normalized volumes of sales and retail choice service to the Small General Service Customer Class for the third succeeding billing month following the billing month's RNA. For example, the Small General Service Customer Class' RNA for the January billing month will be divided by the Small General Service Customer Class' estimated volumes for the April billing month to determine the applicable RNABF.

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(e) RNA Billing

- (i) The RNABF determined in 12.7(d)(i) for the Residential Class will be applied to the Residential Customer Class' bills beginning with the first billing unit for the second succeeding billing month following the billing Month's RNA. For example, the Residential Customer Class' RNA for the January billing month would be billed beginning with the first billing unit for the March billing month.
- (ii) The RNABF determined in 12.7(d)(ii) for the Small General Service Customer Class will be applied to the for the Small General Service Customer Class' bills beginning with the first billing unit for the third succeeding billing month following the billing Month's RNA. For example, the Small General Service Customer Class' RNA for the January billing month would be billed beginning with the first billing unit for the April billing month.

(f) Annual Allowed Distribution Revenue True-up (AADRT)

- (i) At the end of each calendar year, for each applicable customer class, the average number of customers will be computed by dividing the year's total bills by twelve.
- (ii) The Annual Allowed Distribution Revenue (AADR) for each applicable Customer Class will be computed by multiplying the average number of customers computed in Section 12.7(f)(i) above by the sum of the BMNR for the year.
- (iii) The AADRT will be equal to the difference in the sum of the monthly AMNR's computed in Section 12.7(b)(ii) for the year minus the AADR computed in Section 12.7(f)(ii).
- (iv) The AADRT will be included with the RNABF calculation pursuant to Section 12.7(d) for December of each year and billed to the Residential Customer and Small General Service Customer Classes pursuant to Section 12.7(e) above.

12.8 CARE Program Adjustment (CPA)

- (a) Customer bills applicable to the Residential and Small General Service Rate Schedules identified in Section 12.7(a) shall include an adjustment providing for the recovery of costs associated with conservation and energy efficiency programs approved by the Commission. A CPA will be determined separately for each applicable Customer Class.
- (b) The CPA will be comprised of a Current Factor to be effective during the billing months of January through December of each year, commencing with the first billing unit for January 2010, and a Reconciling Factor to be effective during the billing months of January through December of each year, commencing with the first billing unit for January 2011.

GENERAL TERMS AND CONDITIONS
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(continued)

(c) Current Factor Calculation

- (i) The Current Factor for the 12 month period beginning January of each year shall be determined separately for the Residential and Small General Service Customer Classes by dividing the total projected costs for the upcoming 12 month period beginning January of each year of conservation and energy efficiency programs approved by the Commission and attributable to such Customer Class by the applicable estimated 12 month normalized volumes of sales and retail choice service.
- (ii) Projected costs of conservation and energy efficiency programs shall include utility expenditures, incentive payments to customers, and those costs not elsewhere recovered in base non-gas rates including, but not limited to, incremental Company labor and related expenses, consultant fees and expenses, vendor fees and expenses, and office supplies and expenses incurred in the implementation and operation of the such conservation and energy efficiency programs.
- (iii) Costs will be attributable to the applicable Customer Classes as follows:
 1. Program costs directly attributable to a specific conservation or energy efficiency program will be directly assigned to the Customer Class to which such program applies. The program costs directly assigned to each Customer Class will be separately totaled and compared to derive a ratio, by class, to be used to allocate other conservation or energy efficiency program costs between Customer Classes.
 2. All other conservation or energy efficiency program costs, shall be allocated on the basis of the ratios derived in 12.8(c)(iii)(1).

(d) Reconciliation Factor

- (i) The Reconciling Factor for each Customer Class will be equal to the difference between the actual costs of conservation and energy efficiency programs approved by the Commission, as described in Section 12.8(c)(iii), for the 12 month period ended October of each year, and the CPA collections from customers for the 12 month period ended October of each year, plus or minus any under or over applied Reconciliation Factor from the previous year, attributable to such Customer Class. The costs of conservation and energy efficiency programs shall include interest as computed in Section 12.8(d)(ii), for the twelve month period ended October. The over/under collection derived above will be collected from or credited to customers within the corresponding Customer Class over a twelve month period commencing in the next succeeding January billing month utilizing estimated normalized twelve month sales and retail choice volumes for the applicable Customer Class.
- (ii) The Company shall compute interest (income or expense) by applicable Customer Class on that portion of the actual collections from customers that differs from the actual conservation or energy efficiency program costs. Interest will be calculated based on the monthly average over/under collected balance, for the 12 month period ended October, utilizing the Company's short-term borrowing interest rate.

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- (iii) Notwithstanding the foregoing provisions of 12.8(d)(i) and (ii), the initial Reconciliation Factor shall be calculated based on the actual period of costs and collections rather than a 12 month period.

13. SERVICE VIA FARM TAPS ON HIGH PRESSURE INTERSTATE PIPELINES

Where the service line and related facilities of a Customer taking service under Rate Schedule RS, RTS, SGS, SGTS, ACS, ACTS, UGLS or UGLTS are interconnected directly to a high-pressure interstate pipeline, the Company's obligation to serve such Customer is contingent upon the interstate pipeline making gas service available to Company to serve such Customer. The Company makes no warranty, express or implied, as to neither the length of time such natural gas service will be available, nor its availability at any specific point in time.

14. NEW SPACE HEATING SERVICE

In order to safeguard continued good service to its present Customers, to enable it to attach new space heating loads in an orderly manner, and to enable it properly to anticipate and plan for future requirements of its Customers, the following additional terms and conditions shall apply to the sale of gas for space heating:

- (a) The obligation of the Company to supply gas for space heating to any Customer shall be conditioned upon the filing by the Customer of a written application and the issuance by the Company of a written approval;
- (b) The obligation of the Company to issue written approval to a proposed Customer for gas for space heating purposes shall be conditioned upon the existence of Customer facilities adequate to carry the load involved;
- (c) The obligation of the Company to supply gas under an approval shall be conditioned upon the installation of the space heating equipment within a reasonable time after the issuance of the written approval; and
- (d) The obligation of the Company to supply gas for space heating in commercial and industrial classifications in excess of 1,000,000 Btu per hour input shall be conditioned, when such is necessary in the discretion of the Company to protect service to other classes of Customers, upon the installation by the Customer of standby equipment and its undertaking to use such equipment when so requested by the Company.

15. TRANSPORTATION SERVICE RATE SCHEDULES TS1/TS2, LVTS and LVEDTS - ADDITIONAL TERMS AND CONDITIONS

15.1 Heat Content Adjustment

When Company receives Customer's gas from an interstate pipeline on a dekatherm (one million Btu) basis, for redelivery to Customer's facilities on an Mcf basis, Company will make a heat content adjustment:

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(continued)

- (vii) An adjustment for net revenues received by the Company during the period from rate schedule CSPA Optional Services EBS and SIS per Section 10(b); and
- (viii) The commodity based penalties and charges collected by the Company pursuant to Section 10.6 of the General Terms and Conditions.
- (ix) An adjustment applicable only to Rate Schedules RS, RTS, SGS, and SGTS for the Company's share of any performance based incentives for delivering conservation and energy efficiency benefits calculated pursuant to Section 17.13.

(b) Application to Next PGA

The amount derived in Section 17.6(a) shall be divided by estimated Mcf quantities of gas to be sold during the next twelve months for each firm sales rate schedule specified in Section 17.1(a) and the resulting unit rate shall be reflected in the Purchased Gas Adjustment for a twelve-month period commencing with the second PGA quarter after the ending month of the Determination Period specified in Section 17.6(a) (December quarter), or for such period of less than twelve months as may be required to fully refund or recover the amount described in Section 17.6(a) above. The demand amount derived in Section 17.6(a) shall be divided by the total estimated Mcf quantities of gas to be sold during the next twelve months for each firm rate schedule including the estimated transportation volumes for transportation rate schedules RTS, SGTS, and UGLTS.

Any customer electing service under Rate Schedules RS, RTS, SGS, SGTS, UGLS or UGLTS shall be subject to the entire ACA factor as derived in Section 17.6(a) for only a period equivalent to the number of months of the prior 12 month period during which such customer was served under Rate Schedules RS, SGS, or UGLS. The Customer shall be subject to the demand portion of the ACA as derived in 17.6(a) months for only a period equivalent to the number of months of the prior twelve month period during which the Customer was served under Rate Schedule RTS, SGTS, or UGLTS.

17.7 Revenues From Off-System Sales and Capacity Release

(a) Definitions

- (i) "Off-System Sales Margin" shall mean revenues received by the Company from the sale of unbundled or re-bundled gas supply and capacity products plus savings generated by the transaction(s) in the form of costs avoided as a result of the transaction(s) ("Avoided Costs"), less the costs caused by the transaction. Off-System Sales Margin excludes Operational Transaction Cost as defined in Section 17.7(a)(iv) below. Off-System Sales arrangements include flowing gas sales, incremental gas sales, exchanges, and asset management arrangements.

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(continued)

17.13 CARE Program Performance Incentive ("CPPI")

- (a) The CPPI as computed in Section 17.13(b) below will be recovered from customers served under Rate Schedules RS, RTS, SGS, SGTS and EDS pursuant to Sections 17.6(a)(ix).
- (b) For the twelve months ending December 31 of each year in which measures implemented pursuant to the CARE Plan are generating benefits and usage reductions meet one of the targets set forth in Section 12.8(d), the CPPI will be equal to a percentage of the net economic benefits for the year, as set forth below. Net economic benefits will be calculated by totaling the monetized energy benefits for the year and subtracting a pro-rated share of the recovered CARE Program costs pursuant to Section 12.8. The total energy benefits are defined as the sum of the usage reductions attributed to all participants in CARE Plan programs in that year measured from the date of installation through the end of the measure's deemed operational lifetime, valued at the actual cost of gas for that year. The CPPI will be calculated separately for each applicable CARE Program Customer Class as defined in Section 12.7, following the formula contained in Section 17.13(c).
- (c) The CPPI mechanism for each year that the benefits are achieved from the CARE Program pursuant to 17.13(b) is shown mathematically as follows:

$$CPPI_t = Rate_t \cdot \left(\sum_{i=1}^X (MCF_{t,i}) \times WACCOG_t - C_{pa.alloc,t} \right) \quad \text{Eq. (1)}$$

Where:

$CPPI_t$ = the performance incentive for year t . The performance incentive will be calculated for each year that a measure installed in a CARE Program year is operating within its deemed operational lifetime. (\$)

$Rate_t$ = the percent share of the net benefits as described in 17.13(d) (%)

$MCF_{t,i}$ = the verified natural gas savings for any measure i installed during a CARE Program year delivering savings in year t as described in 17.13 (e). (MCF)

$WACCOG_t$ = the Company's jurisdictional weighted average commodity cost of gas in year t (\$/MCF)

X = the number of individual measures in the CARE program

$C_{pa.alloc,t}$ = the allocated Care Program costs for year t as described in 17.13(f) amortized over a 16 year period. (\$)

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 (continued)

- (d) The rate is a function of the company's program-to-date annual savings (on a volumetric basis) targets for that program year. The rate increases based upon the company's level of achievement toward the target as follows:
- At less than 50%, no incentive will be earned for that year.
 - At 50 percent to 59.9 percent of the savings target, the rate equals 5 percent.
 - At 60 percent to 69.9 percent of the savings target, the rate equals 10 percent.
 - At 70 percent and above of the savings target, the rate equals 15 percent.

The usage reduction targets for the CARE Plan are based upon the savings attributed to all participants in the CARE Program measured from the year of installation to year *t* as follows:

2010: 53,785 mcf
 2011: 123,192 mcf
 2012: 208,298 mcf

The rate for all subsequent years (2013 and beyond) will equal the rate determined in 2012.

- (e) The natural gas savings is calculated for all measures participating in the CARE Program from the month of installation through year *t*, within the measure's deemed operational lifetime. Natural gas savings attributed to the measure's first year and last year will be pro-rated to account for the level of natural gas savings achieved in that year based upon the month of the measure's installation and the measure's deemed operational lifetime; respectively.

Measure impacts will be based upon the Company's annual measurement and verification report (M&V Report) conducted in each of the three CARE Plan program years. The impacts documented in the annual M&V Report will be stipulated for years beyond the three year CARE program period. M&V activities will not be conducted after the third CARE Program year.

- (f) The annual Care Program Cost allotment ($C_{pa,alloc,t}$) is calculated by amortizing the recovered program costs in each program year pursuant to Section 12.8 over a 16-year period. The calculation is as follows:

Program Year (<i>t</i>)	Equation
1	$C_{pa,alloc,t} = \frac{C_{pa,1}}{16}$
2	$C_{pa,alloc,t} = \frac{C_{pa,1}}{16} + \frac{C_{pa,2}}{16}$
3-16	$C_{pa,alloc,t} = \frac{C_{pa,1}}{16} + \frac{C_{pa,2}}{16} + \frac{C_{pa,3}}{16}$
17	$C_{pa,alloc,t} = \frac{C_{pa,2}}{16} + \frac{C_{pa,3}}{16}$
18	$C_{pa,alloc,t} = \frac{C_{pa,3}}{16}$

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Where :

$C_{p.a.t}$ = the program costs recovered in CARE Program year (t) pursuant to Section 12.8 (\$)

ATTACHMENT 3

Example Performance-based Incentive Calculation

Amount shown for Performance-based Incentive

Step 1: Adjust the Performance-based Incentive Rate on a jurisdiction of the measured annual savings and the cumulative usage reduction target. (The usage reduction targets for the CARC Plan are based upon the savings achieved in all performance in the CARC Program measured from the year of installation to Year 1. The rate for all subsequent years (Year 4 and beyond) will equal the rate achieved in Year 3.)

	Year 1	Year 2	Year 3
Instrumental Usage Reduction Target (MCF)	53,783	68,402	81,206
Instrumental Reported Annual Program Savings (MCF)	25,099	27,216	35,209
Cumulative Usage Reduction Target (MCF)	53,783	122,185	203,391
Cumulative Reported Annual Program Savings (MCF)	25,099	52,315	87,524
Performance Incentive Rate	46%	39%	23%

Step 2: Calculate the Achieved Annual Program Savings for each measure for each year based upon the size of the measure installation and the measure's useful lifetime. (The Expected Annual Program Savings has been provided for illustration.)

(*Final gas savings reported in the measure's first year and second year will be prorated to account for level of natural gas savings achieved in that year based upon the hours of the measure installation and the measure's designed operational lifetime, respectively. For illustration, 60% savings is attributed to the first year of each program year.)

Measure	1			2			3			4			5			6			7			8			9			10		
	Reported Annual Program Savings (MCF) Year 1	Reported Annual Program Savings (MCF) Year 2	Reported Annual Program Savings (MCF) Year 3	Expected Annual Program Savings (MCF) Year 1	Expected Annual Program Savings (MCF) Year 2	Expected Annual Program Savings (MCF) Year 3	Expected Annual Program Savings (MCF) Year 4	Expected Annual Program Savings (MCF) Year 5	Expected Annual Program Savings (MCF) Year 6	Expected Annual Program Savings (MCF) Year 7	Expected Annual Program Savings (MCF) Year 8	Expected Annual Program Savings (MCF) Year 9	Expected Annual Program Savings (MCF) Year 10	Expected Annual Program Savings (MCF) Year 11	Expected Annual Program Savings (MCF) Year 12	Expected Annual Program Savings (MCF) Year 13	Expected Annual Program Savings (MCF) Year 14	Expected Annual Program Savings (MCF) Year 15	Expected Annual Program Savings (MCF) Year 16	Expected Annual Program Savings (MCF) Year 17	Expected Annual Program Savings (MCF) Year 18	Expected Annual Program Savings (MCF) Year 19	Expected Annual Program Savings (MCF) Year 20	Expected Annual Program Savings (MCF) Year 21	Expected Annual Program Savings (MCF) Year 22	Expected Annual Program Savings (MCF) Year 23	Expected Annual Program Savings (MCF) Year 24	Expected Annual Program Savings (MCF) Year 25		
Commercial Water Heating (Water Heating Only)	479	718	877	31	287	431	516	567	609	1,770	2,112	2,139	2,166	2,193	2,220	2,247	2,274	2,301	2,328	2,355	2,382	2,409	2,436	2,463	2,490	2,517	2,544	2,571	2,598	
Commercial Water Heating (Water Heating Only)	30	24	19	3	6	9	12	15	18	21	24	27	30	33	36	39	42	45	48	51	54	57	60	63	66	69	72	75	78	
Commercial Water Heating (Water Heating Only)	20	17	14	2	4	6	8	10	12	14	16	18	20	22	24	26	28	30	32	34	36	38	40	42	44	46	48	50	52	
Commercial Water Heating (Water Heating Only)	210	218	227	15	171	257	327	397	467	537	607	677	747	817	887	957	1,027	1,097	1,167	1,237	1,307	1,377	1,447	1,517	1,587	1,657	1,727	1,797	1,867	
Commercial Water Heating (Water Heating Only)	211	219	228	15	172	258	328	398	468	538	608	678	748	818	888	958	1,028	1,098	1,168	1,238	1,308	1,378	1,448	1,518	1,588	1,658	1,728	1,798	1,868	
Commercial Water Heating (Water Heating Only)	113	783	331	11	109	336	220	106	331	849	781	789	797	799	799	799	799	799	799	799	799	799	799	799	799	799	799	799	799	
Commercial Water Heating (Water Heating Only)	91	123	162	20	49	78	97	116	135	270	364	364	364	364	364	364	364	364	364	364	364	364	364	364	364	364	364	364	364	364
Commercial Water Heating (Water Heating Only)	0	1,168	1,293	20	0	809	1,077	-	809	1,077	1,345	1,613	1,881	2,149	2,417	2,685	2,953	3,221	3,489	3,757	4,025	4,293	4,561	4,829	5,097	5,365	5,633	5,901	6,169	
Commercial Water Heating (Water Heating Only)	0	769	908	20	0	497	627	-	497	627	757	887	1,017	1,147	1,277	1,407	1,537	1,667	1,797	1,927	2,057	2,187	2,317	2,447	2,577	2,707	2,837	2,967	3,097	
Commercial Water Heating (Water Heating Only)	773	410	167	20	164	246	228	164	246	1,012	1,280	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320
Commercial Water Heating (Water Heating Only)	42	87	128	20	37	51	74	97	117	228	277	277	277	277	277	277	277	277	277	277	277	277	277	277	277	277	277	277	277	277
Commercial Water Heating (Water Heating Only)	175	283	300	20	105	257	310	322	322	322	322	322	322	322	322	322	322	322	322	322	322	322	322	322	322	322	322	322	322	322
Commercial Water Heating (Water Heating Only)	114	177	225	20	71	128	141	171	221	271	321	321	321	321	321	321	321	321	321	321	321	321	321	321	321	321	321	321	321	321
Commercial Water Heating (Water Heating Only)	28	118	153	17	47	71	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84
Commercial Water Heating (Water Heating Only)	0	1,187	2,490	17	0	1,187	1,940	-	1,187	1,940	2,693	3,446	4,199	4,952	5,705	6,458	7,211	7,964	8,717	9,470	10,223	10,976	11,729	12,482	13,235	13,988	14,741	15,494	16,247	
Commercial Water Heating (Water Heating Only)	1,207	1,488	2,241	11	724	1,018	1,312	1,606	1,900	2,194	2,488	2,782	3,076	3,370	3,664	3,958	4,252	4,546	4,840	5,134	5,428	5,722	6,016	6,310	6,604	6,898	7,192	7,486	7,780	
Commercial Water Heating (Water Heating Only)	412	601	789	10	248	361	474	588	701	814	928	1,041	1,155	1,268	1,382	1,495	1,609	1,722	1,836	1,949	2,063	2,176	2,289	2,403	2,516	2,630	2,743	2,857	2,970	
Commercial Water Heating (Water Heating Only)	0	2,047	2,236	20	0	1,174	1,358	-	1,174	1,358	1,542	1,726	1,910	2,094	2,278	2,462	2,646	2,830	3,014	3,198	3,382	3,566	3,750	3,934	4,118	4,302	4,486	4,670	4,854	
Commercial Water Heating (Water Heating Only)	1,013	2,468	2,226	20	1,118	1,271	1,424	1,577	1,730	1,883	2,036	2,189	2,342	2,495	2,648	2,801	2,954	3,107	3,260	3,413	3,566	3,719	3,872	4,025	4,178	4,331	4,484	4,637	4,790	
Commercial Water Heating (Water Heating Only)	11,430	10,277	77,499	20	3,298	5,732	15,188	0	3,298	20,083	40,797	51,481	62,165	72,849	83,533	94,217	104,901	115,585	126,269	136,953	147,637	158,321	169,005	179,689	190,373	201,057	211,741	222,425	233,109	
Commercial Water Heating (Water Heating Only)	1,421	2,422	1,242	20	877	1,618	2,359	0	877	1,618	2,359	3,100	3,841	4,582	5,323	6,064	6,805	7,546	8,287	9,028	9,769	10,510	11,251	11,992	12,733	13,474	14,215	14,956	15,697	
Commercial Water Heating (Water Heating Only)	421	88	139	10	38	51	64	77	90	103	116	129	142	155	168	181	194	207	220	233	246	259	272	285	298	311	324	337	350	
Commercial Water Heating (Water Heating Only)	27	124	233	20	44	93	142	191	240	289	338	387	436	485	534	583	632	681	730	779	828	877	926	975	1,024	1,073	1,122	1,171	1,220	
Commercial Water Heating (Water Heating Only)	2,404	2,404	2,404	20	2,140	2,242	2,344	2,446	2,548	2,650	2,752	2,854	2,956	3,058	3,160	3,262	3,364	3,466	3,568	3,670	3,772	3,874	3,976	4,078	4,180	4,282	4,384	4,486	4,588	4,690
Commercial Water Heating (Water Heating Only)	1,131	1,131	1,131	10	490	490	490	490	490	490	490	490	490	490	490	490	490	490	490	490	490	490	490	490	490	490	490	490	490	
Commercial Water Heating (Water Heating Only)	1,276	1,276	1,276	10	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	
Commercial Water Heating (Water Heating Only)	0	1,478	2,732	11	0	1,084	1,071	-	1,084	1,071	1,071	1,071	1,071	1,071	1,071	1,071	1,071	1,071	1,071	1,071	1,071	1,071	1,071	1,071	1,071	1,071	1,071	1,071	1,071	
Commercial Water Heating (Water Heating Only)	0	0	0	20	0	0	0	-	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Commercial Water Heating (Water Heating Only)	31,838	47,864	63,890	20	0	0	0	-	31,838	63,676	95,514	127,352	159,190	191,028	222,866	254,704	286,542	318,380	350,218	382,056	413,894	445,732	477,570	509,408	541,246	573,084	604,922	636,760	668,598	

11	12	13	14	15	16	17	18	19	20	21	22	23	24
Cumulative Achieved Annual Program Savings (MCF) Year 11	Cumulative Achieved Annual Program Savings (MCF) Year 12	Cumulative Achieved Annual Program Savings (MCF) Year 13	Cumulative Achieved Annual Program Savings (MCF) Year 14	Cumulative Achieved Annual Program Savings (MCF) Year 15	Cumulative Achieved Annual Program Savings (MCF) Year 16	Cumulative Achieved Annual Program Savings (MCF) Year 17	Cumulative Achieved Annual Program Savings (MCF) Year 18	Cumulative Achieved Annual Program Savings (MCF) Year 19	Cumulative Achieved Annual Program Savings (MCF) Year 20	Cumulative Achieved Annual Program Savings (MCF) Year 21	Cumulative Achieved Annual Program Savings (MCF) Year 22	Cumulative Achieved Annual Program Savings (MCF) Year 23	Cumulative Achieved Annual Program Savings (MCF) Year 24
-	-	-	-	-	-	-	-	-	-	-	-	-	-
48	38	35	8	-	-	-	-	-	-	-	-	-	-
177	177	177	190	79	15	-	-	-	-	-	-	-	-
847	843	842	843	843	843	842	842	842	842	842	842	842	842
509	507	507	507	507	507	507	507	507	507	507	507	507	507
789	789	789	789	789	789	789	789	789	789	789	789	789	789
384	384	384	384	384	384	384	384	384	384	384	384	384	384
3,141	3,141	3,141	3,141	3,141	3,141	3,141	3,141	3,141	3,141	3,141	3,141	3,141	3,141
1,747	1,747	1,747	1,747	1,747	1,747	1,747	1,747	1,747	1,747	1,747	1,747	1,747	1,747
1,330	1,330	1,330	1,330	1,330	1,330	1,330	1,330	1,330	1,330	1,330	1,330	1,330	1,330
277	277	277	277	277	277	277	277	277	277	277	277	277	277
788	788	788	788	788	788	788	788	788	788	788	788	788	788
330	330	330	330	330	330	330	330	330	330	330	330	330	330
313	313	313	313	313	313	313	313	313	313	313	313	313	313
4,637	4,637	4,637	4,637	4,637	4,637	4,637	4,637	4,637	4,637	4,637	4,637	4,637	4,637
5,146	5,146	5,146	5,146	5,146	5,146	5,146	5,146	5,146	5,146	5,146	5,146	5,146	5,146
3,808	3,808	3,808	3,808	3,808	3,808	3,808	3,808	3,808	3,808	3,808	3,808	3,808	3,808
16,287	16,287	16,287	16,287	16,287	16,287	16,287	16,287	16,287	16,287	16,287	16,287	16,287	16,287
8,608	8,608	8,608	8,608	8,608	8,608	8,608	8,608	8,608	8,608	8,608	8,608	8,608	8,608
31,841	31,841	31,841	31,841	31,841	31,841	31,841	31,841	31,841	31,841	31,841	31,841	31,841	31,841
7,295	7,295	7,295	7,295	7,295	7,295	7,295	7,295	7,295	7,295	7,295	7,295	7,295	7,295
227	227	227	227	227	227	227	227	227	227	227	227	227	227
443	443	443	443	443	443	443	443	443	443	443	443	443	443
14,992	14,992	14,992	14,992	14,992	14,992	14,992	14,992	14,992	14,992	14,992	14,992	14,992	14,992
8,648	8,648	8,648	8,648	8,648	8,648	8,648	8,648	8,648	8,648	8,648	8,648	8,648	8,648
7,238	7,238	7,238	7,238	7,238	7,238	7,238	7,238	7,238	7,238	7,238	7,238	7,238	7,238
20,122	20,122	20,122	20,122	20,122	20,122	20,122	20,122	20,122	20,122	20,122	20,122	20,122	20,122
9,078	9,078	9,078	9,078	9,078	9,078	9,078	9,078	9,078	9,078	9,078	9,078	9,078	9,078
107,373	149,141	127,765	111,514	109,970	107,647	104,008	98,167	91,143	85,143	82,754	80,132	78,774	78,774

Step 3:
Find the Annual Jurisdictional WACCDO for each year. (Example shows each year's costs for illustration)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17
Annual Jurisdictional WACCDO (MCT)	6.36	6.50	7.13	7.30	7.47	7.82	7.74	7.76	8.17	8.30	8.41	8.74	8.84	9.12	9.31	9.50	9.70

Step 4:
Calculate the annual measure benefits based upon the cumulative measure savings and the initial WACCDO

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17
Program Benefits	131,814.62	439,675.20	947,237.20	1,217,503.81	1,259,186.01	1,335,875.87	1,793,206.48	1,384,600.36	1,348,808.77	1,384,437.51	1,349,634.24	1,252,132.31	1,093,268.29	1,017,136.42	928,231.09	827,180.06	708,483.62

Step 5:
Assign each year's portfolio costs and proportion the costs over a 16 year period

	PROGRAM BUDGET (Year 1)	PROGRAM BUDGET (Year 2)	PROGRAM BUDGET (Year 3)
Program Cost Total	2,000,000	3,200,000	4,000,000

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17
Year 1 Annual Allocation	125,000.00	124,000.00	123,000.00	121,000.00	120,000.00	120,000.00	120,000.00	120,000.00	120,000.00	120,000.00	121,000.00	120,000.00	119,000.00	117,000.00	115,000.00	113,000.00	110,000.00
Year 2 Annual Allocation	0	187,500.00	187,500.00	187,500.00	187,500.00	187,500.00	187,500.00	187,500.00	187,500.00	187,500.00	187,500.00	187,500.00	187,500.00	187,500.00	187,500.00	187,500.00	187,500.00
Year 3 Annual Allocation	0	0	740,000.00	740,000.00	740,000.00	740,000.00	740,000.00	740,000.00	740,000.00	740,000.00	740,000.00	740,000.00	740,000.00	740,000.00	740,000.00	740,000.00	740,000.00
Program Cost Total	125,000	187,500	863,500	862,500	862,500	862,500	862,500	862,500	862,500	862,500	862,500	862,500	862,500	862,500	862,500	862,500	862,500

Step 6:
Calculate the net economic benefits by subtracting the benefits from the program costs

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17
Differences between benefits and costs	1,875	257,175	784,237	646,504	639,186	615,776	773,206	716,000	767,309	822,934	791,134	689,632	540,766	454,874	381,731	308,660	210,983

Step 7:
Calculate the performance incentive by multiplying each year's incentive rate by the net benefits

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17
Performance Incentive Rate	3%	10%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Performance Incentive	6,225	25,717.5	23,529.1	19,365.1	19,186.8	18,473.3	23,166.2	21,480.0	23,251.7	24,688.0	23,734.0	20,689.0	16,223.0	13,345.2	11,311.9	9,259.8	6,329.5

Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30
9,000	10,000	10,275	10,625	11,050	11,540	12,095	12,715	13,395	14,130	14,920	15,765	16,665

Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30
270,218,411	282,470,512	294,926,208	307,592,212	320,470,212	333,561,812	346,868,612	360,392,212	374,133,212	388,092,212	402,260,212	416,637,212	431,224,212

Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24
250,000,000	250,000,000	250,000,000	250,000,000	250,000,000	250,000,000	250,000,000

Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24
270,218,411	282,470,512	294,926,208	307,592,212	320,470,212	333,561,812	346,868,612

Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24
308,827	324,277	339,927	355,777	371,827	388,177	404,827

ATTACHMENT D

Application of Columbia Gas of Virginia, Inc.,
For authority to amend its natural gas
conservation and ratemaking efficiency plan
Case No. PUE-2010-00099
Order for Notice and Comment
dated August 27, 2010.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, AUGUST 27, 2010

CLERK'S OFFICE

2010 AUG 27 P 3:20

100870705

APPLICATION OF

COLUMBIA GAS OF VIRGINIA, INC.

CASE NO. PUE-2010-00099

For authority to amend its natural gas
conservation and rate making efficiency plan

ORDER FOR NOTICE AND COMMENT

On December 4, 2009, the State Corporation Commission ("Commission") entered a Final Order in Case No. PUE-2009-00051,¹ which approved a three-year Conservation and Ratemaking Efficiency ("CARE") Plan for residential and small general service classes of customers of Columbia Gas of Virginia, Inc. ("Columbia" or the "Company"), effective December 31, 2009, pursuant to Chapter 25 of Title 56 (§§ 56-600 *et seq.*) of the Code of Virginia ("Code").

On August 23, 2010, Columbia, by counsel, filed an application to amend its CARE Plan, together with a request for the provisional waiver of the requirement to refile the information required by the instructions pertaining to Schedule 48 in 20 VAC 5-201-90, *Instructions for schedules and exhibits for Chapter 201*, or in the alternative, a request for the Commission to take judicial notice of the information responsive to Schedule 48 filed in Case No. PUE-2009-00051, and a request for expeditious consideration of the application without a hearing ("Application"). In its Application, Columbia advises that its proposed amendment to its CARE Plan has the limited effect of suspending the free water heater insulation blanket measure within the Company's Web-Based Home Audit Program. According to the Application, the Web-Based Home Audit Program, which is targeted to residential customers, includes an on-line

¹ See *Application of Columbia Gas of Virginia, Inc., For approval to implement a natural gas conservation and ratemaking efficiency plan including a decoupling mechanism*, Case No. PUE-2009-00051, 2009 S.C.C. Ann. Rept. 484, Final Order (Dec. 4, 2009).

home energy audit. Columbia explains that the on-line home energy audit results in the generation of a customized report recommending home improvements that can reduce the customer's energy usage, including a number of measures that can be implemented without cost to the customer. The measures provided by the Company that may be implemented without cost to the customer currently include natural gas storage water heater insulation blankets, low-flow shower heads, faucet aerators, and pipe insulation. Columbia's Application alleges that the Company's experience to date with the distribution of water heater insulation blankets indicates that customers will not likely install significant numbers of the water heater insulation blankets because the installation of water heater insulation blankets on natural gas storage water heaters can be complex and requires ongoing maintenance in order to function properly. Columbia further notes that the complexity of installation raises potential safety concerns with water heater insulation blankets that are installed incorrectly.

Columbia states in its Application that 136 water heater insulation blankets have been issued to CARE Plan participants to date, representing a cost of \$1,926. The Company's Application proposes that the expenditures for these water heater insulation blankets, as well as the cost of all other water heater insulation blankets purchased to date as part of Columbia's WarmWise Program, will be absorbed by the Company and will not be passed through to the Company's ratepayers through the CARE Program Adjustment ("CPA")² and will not otherwise be included in the Company's base rates or Purchased Gas Adjustment mechanism.

The Company's Application states that, as permitted by the Commission's Final Order in Case No. PUE-2009-00051, up to 33.3% of the funds budgeted for the water heater insulation blanket measure are eligible to be allocated to support other measures within the CARE Plan.

² According to Columbia's Application, the incremental costs associated with the Company's conservation and energy efficiency programs are recovered by means of the CPA surcharge pursuant to § 56-602 D of the Code.

Columbia advises that it plans to reallocate 33.3% (\$37,625) of the funds budgeted for the water heater insulation blanket measure equally between the free low-flow shower head measure and the free faucet aerator measure, each of which are within the Web-Based Home Audit Program. Columbia proposes that the remaining 66% of the funds budgeted for use as part of the water heater insulation blanket measure will not be spent, resulting in a reduction of the CPA and corresponding savings for all ratepayers of \$75,250.

Columbia avers that the proposed amendment to its CARE Plan does not address any other Conservation and Energy Efficiency Programs within the previously approved CARE Plan. Therefore, Columbia maintains that the materials filed in support of the CARE Plan approved in Case No. PUE-2009-00051 will not change as a result of its proposed amendment. Columbia's Application includes a revised Stipulation relating to the suspension of the water heater insulation blanket measure that is supported by the Company, the Office of the Attorney General, the Commission Staff, and the Virginia Industrial Gas Users' Association. The Stipulation also includes as Attachment 1 thereto a revised cost effectiveness analysis as required by Schedule 48(7) of 20 VAC 5-201-90.

The Company requests that the Commission take judicial notice of the information responsive to Schedule 48 filed in Case No. PUE-2009-00051 or, in the alternative, that the Commission grant a waiver of the requirement to refile such information in this proceeding to the extent that such information would be duplicative of that filed in Case No. PUE-2009-00051. Columbia also asserts that publication of notice of its Application would significantly diminish the benefits resulting from the reduced expenditures on water heater insulation blankets. The Company therefore proposes that it be permitted to satisfy any public notice requirements by

means of a bill insert that would be directed to residential and small general service customers in the event that public notice is deemed necessary.

The Company represents in its Application that Schedule 48(1) though (6) and (8) through (12) required by 20 VAC 5-201-90, filed in Case No. PUE-2009-00051, would not change as a result of the proposed amendment to the CARE Plan. It maintains that, if amended, Columbia's CARE Plan will continue to satisfy § 56-602 B of the Code, which requires a CARE Plan to include: (i) a normalization component that removes the effect of weather from the determination of conservation and energy efficiency results; (ii) a decoupling mechanism; (iii) one or more cost-effective conservation and energy efficiency programs; (iv) provisions to address the needs of low-income or low-usage residential customers; and (v) provisions to ensure that the rates and service to non-participating classes of customers are not adversely impacted.

NOW THE COMMISSION, having considered the Company's Application and the applicable law, is of the opinion and finds this matter should be docketed; that Columbia should provide public notice of its Application via bill inserts to Columbia's residential and small general service customers; that an opportunity should be afforded for interested persons to file comments on the Company's Application; and that Columbia should be afforded an opportunity to respond to any comments filed by interested persons in this proceeding.

Accordingly, IT IS ORDERED THAT:

- (1) Columbia's Application shall be docketed and assigned Case No. PUE-2010-00099.
- (2) Columbia's request for a waiver of the requirements of Schedule 48 of 20 VAC 5-201-90 is hereby granted to the extent that the information necessary to satisfy the requirements of 20 VAC 5-201-90, Schedule 48, is duplicative of the information filed in Case No. PUE-2009-00051.

(3) On or before October 19, 2010, Columbia shall complete the notice to the public of its Application via bill inserts, employing the following notice, which shall be sent to all of Columbia's residential and small general service customers in the Company's service territory within the Commonwealth of Virginia:

NOTICE TO THE PUBLIC OF AN APPLICATION BY
COLUMBIA GAS OF VIRGINIA, INC., TO AMEND ITS
NATURAL GAS CONSERVATION AND RATEMAKING
EFFICIENCY PLAN
CASE NO. PUE-2010-00099

On December 4, 2009, the State Corporation Commission ("Commission") entered a Final Order in Case No. PUE-2009-00051, which approved a three-year Conservation and Ratemaking Efficiency ("CARE") Plan for residential and small general service classes of customers of Columbia Gas of Virginia, Inc. ("Columbia" or the "Company"), effective December 31, 2009, pursuant to Chapter 25 of Title 56 (§§ 56-600 *et seq.*) of the Code of Virginia ("Code").

On August 23, 2010, Columbia, by counsel, filed an application to suspend the free water heater insulation blanket measure within the Company's Web-Based Home Audit Program. According to the Application, the Web-Based Home Audit Program, which is targeted to residential customers, includes an on-line home energy audit. The on-line home energy audit results in the generation of a customized report recommending home improvements that can reduce the customer's energy usage, including a number of measures that can be implemented without cost to the customer. The measures provided by the Company that may be implemented without cost to the customer currently include natural gas storage water heater insulation blankets, low-flow shower heads, faucet aerators, and pipe insulation.

Columbia's Application maintains that the Company's experience to date with the distribution of water heater insulation blankets indicates that customers will not likely install significant numbers of the water heater insulation blankets because the installation of water heater insulation blankets on natural gas storage water heaters can be complex and requires ongoing maintenance in order to function properly. The Company noted that the complexity of installation raises potential safety concerns with water heater insulation blankets that are installed incorrectly.

Columbia explains in its Application that 136 water heater insulation blankets have been issued to CARE Plan participants to date, representing a cost of \$1,926. The Company proposes that the expenditures for these water heater insulation blankets, as well as the cost of all other water heater insulation blankets purchased to date as part of Columbia's WarmWise Program, will be absorbed by the Company and will not be passed through to Columbia's ratepayers through the CARE Program Adjustment ("CPA"), a charge that recovers the incremental costs associated with the Company's conservation and energy efficiency program, and will not be included in the Company's base rates or Purchased Gas Adjustment mechanism.

Columbia proposes to reallocate 33.3% (\$37,625) of the funds budgeted for the water heater insulation blanket measure equally between the free low-flow shower head measure and the free faucet aerator measure, each of which are within the Web-Based Home Audit Program. Columbia proposes that the remaining 66% of the funds budgeted for use under the water heater insulation blanket measure will not be spent, resulting in a reduction of the CPA and corresponding savings for all ratepayers of at least \$75,250.

Columbia filed an updated cost effectiveness analysis as Attachment 1 to Attachment A to its Application, reflecting the suspension of the free water heater insulation blanket measure and the reallocation of 33.3% of the funds previously earmarked for the water heater insulation blanket measure to the free low-flow shower head measure and the free faucet aerator measure. The details of Columbia's proposal with respect to the suspension of the water heater insulation blanket measure are set forth in the Company's Application. Interested parties are encouraged to review Columbia's Application and supporting documents for all the details of the Company's proposal.

The Commission entered an Order for Notice and Comment that, among other things, directed the Company to provide notice to the public and provided interested persons an opportunity to comment on the Company's Application.

A copy of the Company's Application may be obtained at no charge by requesting a copy of the same from the Company's counsel, James S. Copenhaver, Esquire, Columbia Gas of Virginia, Inc., 1809 Coyote Drive, Chester, Virginia 23836. The Application and related documents are also available for review in

the Commission's Document Control Center, Tyler Building, First Floor, 1300 East Main Street, Richmond, Virginia, between the hours of 8:15 a.m. and 5:00 p.m., Monday through Friday, excluding holidays. Interested persons may also download unofficial copies of the Application and associated documents from the Commission's website: <http://www.scc.virginia.gov/case>.

On or before November 3, 2010, interested persons may file written comments on Columbia's Application with Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118. Interested persons desiring to submit comments on the Company's Application electronically may do so by following the instructions on the Commission's website: <http://www.scc.virginia.gov/case>. Comments shall refer to Case No. PUE-2010-00099.

COLUMBIA GAS OF VIRGINIA, INC.

(4) On or before September 17, 2010, Columbia shall serve a copy of this Order for Notice and Comment on the chairperson of the board of supervisors and county attorney of each county, and upon the mayor or manager (or upon equivalent officials) of every city and town in which Columbia provides service in the Commonwealth of Virginia. Service shall be made by personal delivery or by first class mail, postage prepaid, to the customary place of business or residence of the person served.

(5) Columbia shall promptly make a copy of the Application available to the public, who may obtain a copy of the Application at no charge by requesting a copy of the same in writing from the Company's counsel, James S. Copenhaver, Esquire, Columbia Gas of Virginia, Inc., 1809 Coyote Drive, Chester, Virginia 23836. The Application and related documents shall also be available for interested parties to review in the Commission's Document Control Center, Tyler Building, First Floor, 1300 East Main Street, Richmond, Virginia, between the hours of 8:15 a.m. and 5:00 p.m., Monday through Friday, excluding holidays. Interested persons may also

download unofficial copies of the Application and related documents from the Commission's website: <http://www.scc.virginia.gov/case>.

(6) On or before November 3, 2010, interested persons may file written comments concerning Columbia's Application with Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118. Interested persons desiring to submit comments on the Company's Application electronically may do so by following the instructions on the Commission's website: <http://www.scc.virginia.gov/case>. Comments shall refer to Case No. PUE-2010-00099.

(7) On or before November 10, 2010, the Company may file with the Clerk of the Commission any response it intends to offer to the comments filed by interested persons in this proceeding.

(8) On or before November 10, 2010, the Company shall provide the Commission with proof of the notice and service required by Ordering Paragraphs (3) and (4).

(9) The Company shall respond to written interrogatories or requests for the production of documents within seven (7) business days after the receipt of the same. Except as so modified, discovery shall be in accordance with Part IV of the Commission's Rules of Practice and Procedure.

(10) This matter is continued generally pending further order of the Commission.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:

James S. Copenhaver, Assistant General Counsel, Columbia Gas of Virginia, Inc., 1809 Coyote Drive, Chester, Virginia 23836; Bernard L. McNamee, Esquire, and Elaine S. Ryan, Esquire, McGuireWoods LLP, One James Center, 901 East Cary Street, Richmond, Virginia 23219; Ashley B. Macko, Assistant Attorney General, Division of Consumer Counsel, Office of the

Attorney General, 900 East Main Street, Second Floor, Richmond, Virginia 23219; Michael J. Quinan, Esquire, Christian & Barton, L.L.P., 909 East Main Street, Suite 1200, Richmond, Virginia 23219; and a copy shall be delivered to the Commission's Office of General Counsel and Divisions of Energy Regulation, Economics and Finance, and Public Utility Accounting.

100870705

ATTACHMENT E

Application of Washington Gas Light Company
For approval of natural gas conservation
and ratemaking efficiency plan
including a decoupling mechanism
Case No. PUE-2009-00064
Order Approving Natural Gas Conservation
and Ratemaking Efficiency Plan
dated March 26, 2010.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, MARCH 26, 2010

CLEARING OFFICE

2010 MAR 26 A 10:32

APPLICATION OF

WASHINGTON GAS LIGHT COMPANY

CASE NO. PUE-2009-00064

For approval of natural gas conservation
and ratemaking efficiency plan including
a decoupling mechanism

ORDER APPROVING NATURAL GAS
CONSERVATION AND RATEMAKING EFFICIENCY PLAN

On September 29, 2009, Washington Gas Light Company ("WGL" or "Company") filed with the State Corporation Commission ("Commission") an application ("Application") pursuant to Chapter 25 of Title 56 (§§ 56-600 *et seq.*) ("Act") of the Code of Virginia ("Code") seeking approval to implement a natural gas conservation and ratemaking efficiency plan ("CARE Plan").

The Company's proposed CARE Plan includes: (1) various programs to encourage energy efficiency and conservation by residential customers, certain small commercial and industrial ("C&I") customers, and certain small group metered apartment ("GMA") customers; and (2) a decoupling mechanism that adjusts the Company's actual non-gas distribution revenues to the level of non-gas distribution revenues approved by the Commission in the Company's most recent rate case proceeding, Case No. PUE-2006-00059,¹ for those customer classes eligible to participate in the programs.²

¹ *Application of Washington Gas Light Company, For a general increase in rates, fees, charges and revisions to the terms and conditions of service as well as approval of a performance-based rate regulation methodology under Va. Code § 56-235.6*, Case No. PUE-2006-00059, 2007 S.C.C. Ann. Rept. 315, Final Order (Sept. 19, 2007).

² See Report of Howard P. Anderson, Jr., Hearing Examiner, at 1 (Feb. 19, 2010) ("Hearing Examiner's Report").

The Company proposes that its CARE Plan be approved for a three-year period. Over the first three years of the proposed CARE Plan, the Company estimates spending \$7.8 million in conservation-related activities on behalf of customers. Based on the Company's calculations, customers can expect to save more than \$12.8 million over the lifetime of the efficiency measures offered through the proposed programs.³

The proposed CARE Plan has four major components: (i) a portfolio of conservation and energy efficiency programs (in addition to a customer outreach and education program) and programs targeted at residential low income customers; (ii) the CARE Cost Adjustment ("CCA"), which is designed to track and to recover the expenses associated with implementation of the above programs; (iii) a decoupling mechanism, the CARE Ratemaking Adjustment ("CRA"), which is in the form of a sales adjustment clause; and (iv) an annual performance-based incentive mechanism for delivering conservation and energy efficiency benefits.⁴

The proposed CARE Plan includes eight distinct conservation and energy efficiency programs and low income programs: (1) an Energy Efficiency Education Program; (2) a Heating System Check-up Program with a Programmable Thermostat Option; (3) a Boiler/Furnace Replacement Program; (4) a Water Heater Replacement Program; (5) a Natural Gas New Homes Program with ENERGY STAR[®]; (6) a Commercial Efficiency Program; (7) a Low Income Energy Assistance Program; and (8) a Residential Essential Service Program.⁵

³ *Id.* (citation omitted).

⁴ *Id.* at 2.

⁵ *Id.* at 2-3.

The Heating System Check-up Program with Programmable Thermostat Option would provide residential customers with a \$30 incentive towards either the cost of a seasonal check-up of their heating system or a credit towards the purchase and installation of a programmable thermostat.⁶ The Company's projected annual costs for this program are \$278,800.⁷

The Boiler/Furnace Replacement Program would provide residential customers with a \$250 incentive to cover a portion of the incremental cost for the installation of a high efficiency natural gas boiler with an efficiency of 85% or greater ("85% efficiency"). A customer that installs a natural gas boiler or furnace with an efficiency of 90% or greater ("90% efficiency") would receive a \$500 incentive.⁸ The Company's projected annual costs for this program are \$480,468.⁹

The Water Heater Replacement Program would provide a \$50 incentive for the installation of a standard natural gas water heater with an energy factor of 0.62 or greater, or a \$250 incentive for the installation of a high efficiency natural gas water heater with an energy factor of 0.82 or greater.¹⁰ The Company's projected annual costs for this program are \$433,952.¹¹

The Natural Gas New Homes Program is intended to encourage residential customers to install highly energy efficient Energy Star-rated natural gas equipment in residential new

⁶ *Id.* at 5. Customers would be notified of this program through bill inserts, direct mail, contractors, and the Company's website. *Id.*

⁷ Ex. 8 at CGS-1 (Shay direct).

⁸ Hearing Examiner's Report at 5.

⁹ Ex. 8 at CGS-1 (Shay direct). This amount is allocated as follows: (a) \$53,088 to the 85% efficiency program; and (b) \$427,380 to the 90% efficiency program. Ex. 9 at PHR-I, Stmt. 2, Pages 4-5 (Raab direct).

¹⁰ Hearing Examiner's Report at 5.

¹¹ Ex. 8 at CGS-1 (Shay direct).

construction. The customer would be required to have natural gas for both space heating and water heating to participate in the program and to receive the full \$250 incentive. This program would be limited to the first 1,000 participants.¹² The Company's projected annual costs for this program are \$250,000.¹³

The Commercial Efficiency Program is an incentive program for commercial customers to offset the costs of weatherization and high efficiency equipment installation. The Company would evaluate commercial customers' energy efficiency proposals and provide an incentive if the proposal is cost-effective, *i.e.*, meets the standard of 80% of the Total Resource Cost Test ("TRC"). Incentives would be capped at the greater of 80% of TRC benefits or a maximum of \$10,000.¹⁴ The Company's projected annual costs for this program are \$500,000.¹⁵

The Energy Efficiency Education Program is intended to provide customers with information on the importance of energy conservation and the various programs in which they may participate.¹⁶ The Company's projected annual costs for this program are \$291,780.¹⁷

The Low Income Energy Assistance Program would provide funding to agencies that administer the federal weatherization assistance programs. The Company assumed, for

¹² Hearing Examiner's Report at 5-6. The Company would inform potential participants through builders, bill inserts, direct mail, contractors, and a website. *Id.*

¹³ Ex. 8 at CGS-1 (Shay direct).

¹⁴ Hearing Examiner's Report at 6.

¹⁵ Ex. 8 at CGS-1 (Shay direct).

¹⁶ Hearing Examiner's Report at 6.

¹⁷ Ex. 8 at CGS-1 (Shay direct).

budgeting purposes, that it would spend \$165,000 annually on this program to be applied to activities agreed upon with the Community Housing Partners Corporation.¹⁸

The Residential Essential Service Program would provide a per therm credit to be applied to the usage of eligible low income customers during the months of November through April. To be eligible for the Residential Essential Service Program, customers must use gas as their principal source of space heating, be certified by the Department of Social Services to be eligible for the Low Income Home Energy Assistance Program, and be current on their bill payments. The Company's projected annual costs for this program are \$100,000.¹⁹

In sum, the Company anticipates an annual expenditure of \$2.6 million divided among all energy efficiency and low income programs. The Company plans to outsource the administrative function of each program, with a Company staff position responsible for the daily activities of each program and any vendor relationships. At the completion of each year of implementation, the Company would hire an independent third party to analyze the programs' performance.²⁰

On October 21, 2009, the Commission issued an Order for Notice and Hearing that, among other things, directed the Company to provide notice of its Application, established a procedural schedule, and assigned this matter to a Hearing Examiner.

An evidentiary hearing was held before the Hearing Examiner on February 1 and 9, 2010.

¹⁸ Hearing Examiner's Report at 5. The Community Housing Partners Corporation, which serves all of Northern Virginia and the Company's customers in the Shenandoah region, would disseminate information about the Low Income Energy Assistance Program, and the Company would also use its communications channels to inform and educate customers of the program. *Id.*

¹⁹ *Id.* at 3-5.

²⁰ *Id.* at 6.

On February 19, 2010, Hearing Examiner Howard P. Anderson, Jr., issued the Hearing Examiner's Report, which included the following findings:

1. The Company's CARE Plan set forth in the Application, as modified [by the Hearing Examiner's Report], should be approved;
2. Due to insufficient notice, the Company's entire Shenandoah C&I and GMA classes must be excluded from the Company's CARE Plan at this time;
3. The Company should be directed to ensure that net present value benefits of the proposed programs are not shared or transferred between rate classes;
4. The Company should perform a second earnings test that will ensure [that the excess earnings under the Company's existing performance-based regulation plan that would otherwise accrue to] non-participants in the CARE Plan are not affected by the CRA;
5. The Company's annual reconciliation of its [Weather Normalization Adjustment ('WNA')] and CRA should be performed simultaneously and reflected in customers' August bills;
6. The Company should explain the CRA and CCA to customers by bill notice and post relevant information on the Company website;
7. The Company should provide an explanation of the mechanics of the performance incentive mechanism in its tariffs;
8. The Company's proposed decoupling mechanism (CRA) and CCA are appropriate and should be approved; and
9. The Company's proposed [Residential Essential Service] plan should not be approved for the reasons stated [in the Hearing Examiner's Report], and the funds designated for this program should be applied to the Company's weatherization plan for low-income customers.²¹

On or before March 2, 2010, the following participants filed comments on the Hearing Examiner's Report: WGL; the Commission's Staff ("Staff"); and the Office of the Attorney General, Division of Consumer Counsel ("Consumer Counsel").

²¹ *Id.* at 25-26.

NOW THE COMMISSION, having considered this matter, is of the opinion and finds that the Company's CARE Plan, as modified in accordance with the findings made herein and subject to the requirements in this Order, satisfies the statutory provisions of the Act and is therefore approved.

Code of Virginia

Section 56-602 A of the Code provides in part as follows:

Notwithstanding any provision of law to the contrary, each natural gas utility shall have the option to file a conservation and ratemaking efficiency plan as provided in this chapter. Such a plan may include one or more residential, small commercial, or small general service classes, but shall not apply to large commercial or large industrial classes of customers. Such plan shall include: (i) a normalization component that removes the effect of weather from the determination of conservation and energy efficiency results; (ii) a decoupling mechanism; (iii) one or more cost-effective conservation and energy efficiency programs; (iv) provisions to address the needs of low-income or low-usage residential customers; and (v) provisions to ensure that the rates and service to non-participating classes of customers are not adversely impacted. Such plan may also include provisions for phased or targeted implementation of rate or tariff design changes, if any, or conservation and energy efficiency programs.

Section 56-602 B of the Code directs in part as follows:

The Commission shall approve or deny, within 180 days, a natural gas utility's initial application for any revenue-neutral conservation and ratemaking efficiency plan that allocates annual per-customer fixed costs on an intra-class basis in reliance upon a revenue study or class cost of service study supporting the rates in effect at the time the plan is filed. A plan filed pursuant to this subsection shall not require the filing of rate case schedules The Commission shall approve such a plan . . . if it finds that the plan's . . . proposed decoupling mechanism is revenue-neutral and is otherwise consistent with this chapter.

Section 56-600 of the Code includes definitions of some of the terms used above, including the following:

'*Allowed distribution revenue*' means the average annual, weather-normalized, nongas commodity revenue per customer associated with the rates in effect as adopted in the applicable utility's last Commission-approved rate case or performance-based regulation plan, multiplied by the average number of customers served.

'*Conservation and ratemaking efficiency plan*' means a plan filed by a natural gas utility pursuant to this chapter that includes a decoupling mechanism.

'*Cost-effective conservation and energy efficiency program*' means a program approved by the Commission that is designed to decrease the average customer's annual, weather-normalized consumption or total gas bill, for gas and nongas elements combined, or avoid energy costs or consumption the customer may otherwise have incurred, and is determined by the Commission to be cost-effective after analyzing such program using the Total Resource Cost Test, the Societal Test, the Program Administrator Test, the Participant Test, the Rate Impact Measure Test, and any other test the Commission reasonably deems appropriate. The Commission may determine the weight to be given to a test. Without limitation, rate designs or rate mechanisms, customer education, customer incentives, and weatherization programs are examples of conservation and energy efficiency programs that the Commission may consider.

'*Decoupling mechanism*' means a rate, tariff design or mechanism that decouples the recovery of a utility's allowed distribution revenue from the level of consumption of natural gas by its customers, including (i) a mechanism that adjusts actual nongas distribution revenues per customer to allowed distribution revenues per customer, such as a sales adjustment clause, (ii) rate design changes that substantially align the percentage of fixed charge revenue recovery with the percentage of the utility's fixed costs, such as straight fixed variable rates, provided such mechanism includes a substantial demand component based on a customer's peak usage, or (iii) a combination of clauses (i) and (ii) that substantially decreases the relative amount of nongas distribution revenue affected by changes in per customer consumption of gas

'*Revenue-neutral*' means a change in a rate, tariff design or mechanism as a component of a conservation and ratemaking efficiency plan that does not shift annualized allowed distribution revenue between customer classes, and does not increase or decrease the utility's average, weather-normalized nongas utility revenue per customer for any given rate class by more than 0.25 percent when compared to (i) the rate, tariff design or mechanism in effect at the time a conservation and ratemaking efficiency plan is filed pursuant to this

chapter or (ii) the allocation of costs approved by the Commission in a rate case using the cost of service methodology set forth in § 56-235.2 or a performance-based regulation plan authorized by § 56-235.6, where a plan is filed in conjunction with such case.

Section 56-602 E of the Code mandates as follows:

The Commission shall require every natural gas utility operating under a conservation and ratemaking efficiency plan approved pursuant to this chapter to file annual reports showing the year over year weather-normalized use of natural gas on an average customer basis, by customer class, as well as the incremental, independently verified net economic benefits created by the utility's cost-effective conservation and energy-efficiency programs during the previous year.

Section 56-602 F of the Code requires a performance-based incentive as follows:

The Commission shall grant recovery, on an annual basis, of a performance-based incentive for delivering conservation and energy efficiency benefits, which shall be included in the utility's respective purchased gas adjustment mechanism. The incentive shall be calculated as a reasonable share of the verified net economic benefits created by the utility's cost-effective conservation and energy efficiency programs, and may be recovered over a period of years equal to the payback period or discounted to net present value and recovered in the first year. In structuring this incentive, the Commission shall create a reasonable opportunity for a utility to earn up to a 15 percent share of such independently verified net economic benefits upon meeting target levels of such benefits set forth in a plan approved by the Commission. The level of net economic benefits to be used as the basis for such calculation shall be the sum of customer savings less utility costs recovered through subsection D, measured over the number of years of the payback period, rounded up to the next highest year. The incentives authorized by this subsection shall be in addition to any other revenue requirements or rates established pursuant to § 56-235.2 or 56-235.6 and independent of any computation of shared revenues under an approved performance-based regulation plan.

CARE Plan

We approve, subject to the requirements set forth herein, the following six residential programs: (1) Energy Efficiency Education Program; (2) Heating System Check-up Program

with a Programmable Thermostat Option; (3) the 85% efficiency portion of the Boiler/Furnace Replacement Program; (4) Water Heater Replacement Program; (5) Natural Gas New Homes Program with ENERGY STAR[®]; and (6) Low Income Energy Assistance Program.²²

We conclude that the CARE Plan shall be modified in order to be found cost effective under the Act. Staff testified that when all residential program costs are considered, the estimated costs could significantly exceed the estimated benefits.²³ We find that Staff's analysis is sufficient to establish that the residential programs are not cost effective as originally proposed by WGL. The cost impact on customers – particularly those not eligible or otherwise not participating in these programs – is of concern. We also conclude, however, that the following changes – which are further discussed below – enable the CARE Plan as limited herein to meet the relevant statutory requirements at this time: (i) rejection of the Residential Essential Service Program; (ii) rejection of the 90% efficiency portion of the Boiler/Furnace Replacement Program; and (iii) implementation of a performance-based incentive plan incorporating all utility program costs that would be recovered from ratepayers, which reduces the maximum potential performance-based incentive.

In addition, the CARE Plan is limited to a three-year period beginning on May 1, 2010. On or before August 1, 2011, and each August 1 thereafter, the Company shall file an annual

²² We further note that this is WGL's first request to implement a CARE Plan, and none of the participants in this case have objected to these specific programs on an individual basis.

²³ See, e.g., Ex. 13 at MKC-2 and MKC-3 (Carsley direct). Moreover, contrary to WGL's assertions, we find that it is reasonable to consider performance-based incentive costs when evaluating the cost effectiveness of the CARE Plan. As noted by Staff, performance-based incentive costs are actual costs that will be recovered from customers for implementing the CARE Plan. See, e.g., Staff's March 2, 2010 Comments at 7-10. This is also consistent with the more recent CARE plans approved by the Commission. While the CARE Plan approved for Virginia Natural Gas (Case No. PUE-2008-00060) did not include any performance-based incentive for the utility, the CARE Plan approved for Columbia Gas of Virginia ("Columbia Gas") (Case No. PUE-2009-00051), which includes a performance-based incentive, was found by Staff to be cost effective – even considering performance incentive costs – due to Columbia Gas' receipt of federal stimulus funds. See, e.g., Hearing Examiner's Report at 25; Tr. 309.

report that measures and verifies the actual results of the CARE Plan. As required by § 56-602 E of the Code, such reports shall also show "the year over year weather-normalized use of natural gas on an average customer basis, by customer class, as well as the incremental, independently verified net economic benefits created by the utility's cost-effective conservation and energy-efficiency programs during the previous year." We will specifically evaluate whether there is a showing of demonstrated savings from the programs. We also note that while there is no assurance that customers as a whole will benefit from implementation of these programs, the limited scope of the CARE Plan approved herein will assist in subsequent evaluations of whether to continue these or related programs in the future.

Further, in this regard, the Company shall maintain strict and detailed identification and accounting of its program-specific and common costs and shall identify program-specific benefits as well.²⁴ For example, the Company shall specifically identify how – and what portion of – the costs of the Low Income Energy Assistance Program are achieving actual, verifiable energy use reductions in the homes of low income consumers. Moreover, all costs should be scrutinized to ensure that such expenditures are closely and definitely related to the programs approved herein and are not used, for example, to serve general marketing or public relations purposes. The annual reports required herein will provide significant information in evaluating whether certain programs are cost effective and warrant continuation or modification thereof. Indeed, any subsequent request from WGL to amend or to extend its CARE Plan shall incorporate the results from these annual reports.

Next, as recommended by the Hearing Examiner, WGL shall: (a) ensure that net present value benefits of the proposed programs are not shared or transferred between rate classes;

²⁴ In addition, the annual report shall identify the number of participants in each of the programs approved herein.

(b) perform a second earnings test to ensure that the CRA neither positively nor negatively impacts non-participants' sharing of excess earnings under the Company's existing performance-based regulation plan; (c) perform annual reconciliation of its WNA and CRA simultaneously, which shall be reflected in customers' August bills; (d) explain the CRA and CCA to customers by bill notice and by posting relevant information on the Company's website; and (e) provide an explanation of the mechanics of the performance-based incentive mechanism in its tariffs.²⁵

We reject WGL's proposed performance-based incentive proposal and, rather, approve the same performance-based incentive plan methodology as approved by the Commission as part of Columbia Gas' CARE Plan.²⁶ As required for Columbia Gas, WGL's usage reduction targets shall be based upon the cumulative gas usage savings, calculated for all participants in the programs measured from the year of installation as determined from the Company's cost/benefit analysis. As we explained in approving Columbia Gas' incentive plan, this incentive mechanism incorporates the use of actual natural gas prices in calculating net economic benefits by multiplying the cumulative gas usage reductions by the jurisdictional weighted average commodity costs of gas for each year – and this approach, in our view, avoids the vagaries inherent in any long-term projection of natural gas prices. Furthermore, we find that all utility program costs (which are ultimately borne by ratepayers) should be netted against customer

²⁵ See, e.g., Hearing Examiner's Report at 26. We also find that the CRA shall be listed as a separate line on customers' bills, and that the bill shall contain a notation that non-gas billing rates contain additional CARE Plan charges (with a reference to a Company website where customers can get more information on the CARE Plan and on the calculation of non-gas billing charges). See, e.g., Ex. 15 at 41 (Abbott direct).

²⁶ Hearing Examiner's Report at 23. The Company did not object to this recommendation. WGL's February 26, 2010 Comments at 7-8.

savings to determine the net economic benefits upon which to apply the performance-based incentive.²⁷

We reject WGL's proposed Residential Essential Service Program and the projected costs associated therewith.²⁸ This program is not designed to promote conservation; rather, this program "would provide a per therm credit applied to the usage of eligible low-income customers during the months of November through April."²⁹ In addition, Consumer Counsel states that "[n]ot only would a flat per therm credit not promote conservation, . . . it is directly at odds with conservation because [WGL's] program would reduce the cost of gas for certain customers, thereby sending the opposite price signal, contrary to efficient conservation."³⁰ Rejection of this program, however, does not mean that there are no low-income assistance programs as part of the CARE Plan. As noted above, we have approved the Low Income Energy Assistance Program, which is specifically designed to assist low-income customers. Moreover, as previously noted, the Low Income Energy Assistance Program approved above will continue to be evaluated – in accordance with the annual reports required herein – to determine whether specific reductions in energy consumption are actually accruing to low income consumers as a

²⁷ This would include, for example, total customer incentive costs, total utility costs, education program costs, program administration costs, and evaluation and measurement costs. *See, e.g.*, Ex. 13 at MKC-2 and MKC-3 (Carsley direct). Accordingly, WGL shall prepare a revised performance-based incentive plan that complies with the method approved for Columbia Gas and that reflects the specific details attendant to the programs approved herein for WGL.

²⁸ Contrary to the Hearing Examiner's recommendation, these costs shall not be reallocated elsewhere in the CARE Plan.

²⁹ Hearing Examiner's Report at 23.

³⁰ Consumer Counsel's March 2, 2010 Comments at 3. Furthermore, we reject WGL's contention that the Act was intended "to allow for programs, other than conservation programs, to address the needs of [WGL's] low-income customers." WGL's February 26, 2010 Comments at 11.

direct result of this program and, thus, whether the program proves to be cost effective in practice.

We further conclude that the 90% efficiency portion of the Boiler/Furnace Replacement Program, and the projected costs attendant thereto, shall be rejected at this time. Staff notes that based on the \$500 credit proposed by WGL, "after the performance incentive for the program is taken into account, implementation of the Boiler/Furnace Replacement \geq 90% Program actually will raise the average cost of energy services for WGL customers."³¹ As a result, the Boiler/Furnace Replacement Program approved herein is limited to a \$250 incentive for equipment replacement with an efficiency of 85% or greater.

We also do not approve WGL's proposed Commercial Efficiency Program and the projected costs associated therewith. We agree with the Hearing Examiner and Staff that WGL has not established that this program satisfies the statutory requirements for the CARE Plan.³² The Company, however, asserts that the Commission previously approved a similar program as part of the CARE Plan for Columbia Gas, which "provides the precedent for Commission-approval of a custom commercial program (filed pursuant to the [Act]) in which energy efficiency proposals are evaluated by the *utility* (and not the Commission) on a case-by-case basis, using a methodology approved by the Commission."³³ Thus, WGL concludes that the Commission must approve its proposal because it is "the same type of custom

³¹ Ex. 13 at 17 (Carsley direct).

³² See, e.g., Hearing Examiner's Report at 24; Staff's March 2, 2010 Comments at 12-15.

³³ WGL's February 26, 2010 Comments at 4 (emphasis in original).

commercial program that the Commission has already approved for Columbia Gas."³⁴ We do not find, as suggested by the Company, that WGL's proposal is substantially the same as that approved for Columbia Gas.³⁵ In addition, we do not find that WGL's proposed Commercial Efficiency Program is cost effective under the Act; for example, Staff explains that the "proposed incentive awards under [this] program produce some rather bizarre results[, where the] incentive payments could potentially exceed the costs that a customer actually incurs to undertake a conservation and energy efficiency project."³⁶

Finally, while we find that the Company's proposed CARE Plan, as approved herein, satisfies the relevant statutory requirements, we note that the CRA decoupling mechanism mandated by § 56-602 A of the Code may produce a negative effect on non-participating customers who engage voluntarily in conservation or energy efficiency measures outside of the CARE Plan. Without the CRA, for example, customers who lower their thermostats to reduce their gas usage realize two separate and distinct benefits under the Company's current volumetric rates: (i) a reduction in their gas costs; and (ii) a reduction in their contributions to the Company's distribution costs. The proposed CRA, however, will reduce the savings or benefits that can be realized by such customers because the CRA will prevent customers from lowering

³⁴ *Id.* at 5. WGL further contends that "based on its approval of the Business Custom Program for Columbia Gas, the Commission has no basis for not approving [WGL's] commercial custom program because [WGL's] proposed program is also cost effective and consistent with § 56-600 [of the Code], as the Commission has interpreted that provision in the Columbia Gas proceeding." *Id.* at 7.

³⁵ For example, the Hearing Examiner concludes that "there is insufficient information in the record of this proceeding or in the Columbia Gas final order and Stipulation to make that determination." Hearing Examiner's Report at 24. WGL also identifies certain distinctions between the two programs. *See, e.g.*, WGL's February 26, 2010 Comments at 6. Moreover, the Company did not establish that its proposal would reasonably produce substantially the same results as the program previously approved for Columbia Gas.

³⁶ Staff's March 2, 2010 Comments at 11. Having rejected the only business program proposed by WGL, we need not reach the questions herein regarding: (1) potential rate discrimination among, and how to define, the Company's large commercial and industrial customers for purposes of the Act; and (2) WGL's defective notice to its Shenandoah C&I customers. *See, e.g.*, Hearing Examiner's Report at 22-23; Staff's March 2, 2010 Comments at 12-15.

their contributions to the Company's distribution costs by curtailing gas usage. Nevertheless, § 56-602 A of the Code mandates that a CARE Plan "shall include . . . a [CRA] decoupling mechanism," and the Commission is required to approve such decoupling mechanism if it meets the statutory standards.

Accordingly, IT IS HEREBY ORDERED THAT:

(1) A three-year conservation ratemaking and efficiency plan, as permitted by § 56-600 *et seq.* of the Code of Virginia, is approved as set forth in this Order Approving Natural Gas Conservation and Ratemaking Efficiency Plan and shall become effective on May 1, 2010.

(2) WGL shall forthwith file revised tariffs and terms and conditions of service, including a revised performance-based incentive mechanism, with the Commission's Division of Energy Regulation in accordance with this Order Approving Natural Gas Conservation and Ratemaking Efficiency Plan.

(3) This matter is dismissed.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Meera Ahamed, Esquire, Washington Gas Light Company, 101 Constitution Avenue, N.W., Washington, D.C. 20080; Ashley B. Macko, Assistant Attorney General, Division of Consumer Counsel, Office of Attorney General, 900 East Main Street, 2nd Floor, Richmond, Virginia 23219; and the Commission's Office of General Counsel and Divisions of Energy Regulation, Economics and Finance, and Public Utility Accounting.

ATTACHMENT F

**Application of Washington Gas Light Company
For authority to amend its natural gas
conservation and ratemaking efficiency plan
Case No. PUE-2010-00079
Order on Application to Amend Conservation
and Ratemaking Efficiency Plan
dated November 18, 2010**

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, NOVEMBER 18, 2010

2010 NOV 18 P 1: 14

UTILITY CONTROL

CASE NO. PUE-2010-00079

APPLICATION OF

WASHINGTON GAS LIGHT COMPANY

For authority to amend its natural
gas conservation and ratemaking
efficiency plan

ORDER ON APPLICATION TO AMEND
CONSERVATION AND RATEMAKING EFFICIENCY PLAN

On March 26, 2010, the State Corporation Commission ("Commission") entered an "Order Approving Natural Gas Conservation and Ratemaking Efficiency Plan" that approved a three-year Conservation and Ratemaking Efficiency ("CARE") Plan for the residential customers of Washington Gas Light Company ("WGL" or "Company"), effective May 1, 2010, pursuant to Chapter 25 of Title 56¹ of the Code of Virginia ("Code").²

On July 22, 2010, WGL filed an application ("Application")³ to amend its CARE Plan to allow the Company to extend its CARE Plan to small commercial and industrial ("C&I") customers and group metered apartment ("GMA") customers using 30,000 therms of gas or less per month.⁴ C&I customers and GMA customers using more than 30,000 therms of gas per

¹ Va. Code §§ 56-600 *et seq.* (hereinafter, "CARE Act").

² *Application of Washington Gas Light Company, For approval of natural gas conservation and ratemaking efficiency plan including a decoupling mechanism*, Case No. PUE-2009-00064, Doc. Con. Cen. No. 100360098, Order Approving Natural Gas Conservation and Ratemaking Efficiency Plan (Mar. 26, 2010).

³ The term "Application" as used herein refers to the Application as filed on July 22, 2010, as well as the revised direct testimony and exhibits of Paul H. Raab filed by WGL on August 27, 2010.

⁴ Section 56-602 A of the Code provides that a CARE Plan "shall not apply to large commercial or large industrial classes of customers." Since the Company does not have any separate rate schedules segregating any specific "large commercial or large industrial classes of customers," WGL proposes that its CARE Plan apply only to its C&I and GMA customers using 30,000 therms of gas or less per month.

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month, customers receiving service under WGL's interruptible rate schedules, and customers in the Shenandoah Division industrial firm classes will be excluded from the CARE Plan.

The Company's proposed CARE Plan for its small C&I and GMA customers consists of four (4) principal components: (1) a portfolio of seven (7) rebate programs, a commercial custom program, and a community outreach and education program to encourage conservation and the efficient use of natural gas by small C&I and GMA customers; (2) a CARE Ratemaking Adjustment ("CRA") that adjusts the actual non-gas distribution revenues per small C&I and GMA customer to the allowed level of distribution revenues per customer approved in WGL's most recent rate case before the Commission;⁵ (3) a CARE Cost Adjustment ("CCA") that will allow the Company to recover the costs of its CARE Plan for small C&I and GMA customers through a monthly surcharge to such customers' bills; and (4) a performance-based incentive mechanism that will allow WGL to retain a share of the verified net economic benefits produced by the CARE Plan for its small C&I and GMA customers.

The Company requests that its CARE Plan amendment be approved for a three-year period, effective November 1, 2010. The Company's total proposed expenditures for its CARE Plan for small C&I and GMA customers is \$2,221,530. For the portfolio of prescriptive rebate programs, WGL estimates that savings per participating commercial customer will be between \$71 and \$101,301. The Company further estimates a \$12,238 savings for every \$2,000 spent on the commercial custom rebates.⁶

⁵ *Application of Washington Gas Light Company, For a general increase in rates, fees, charges and revisions to the terms and conditions of service as well as approval of a performance-based rate regulation methodology under Va. Code § 56-235.6, Case No. PUE-2006-00059, 2007 S.C.C. Ann. Rept. 315, Final Order (Sept. 19, 2007).*

⁶ Application at 10.

The proposed CARE Plan for small C&I and GMA customers includes nine distinct conservation and energy efficiency programs: (1) a Low Flow Pre-Rinse Spray Valve Rebate Program; (2) an ENERGY STAR[®] Gas Storage Water Heater (< 75,000 Btu/hr) Program; (3) an ENERGY STAR Gas Storage Water Heater (\geq 75,000 Btu/hr) Program; (4) an ENERGY STAR Tankless Water Heater (\geq 200,000Btu/hr) Program; (5) a Direct Contact Gas Water Heater Program; (6) an Infrared Heater Program; (7) an Outside Air Reset Controls Program; (8) a Commercial Custom Program; and (9) a Community Outreach and Customer Education Program for small C&I and GMA customers.

WGL's Application further proposes that the CRA approved by the Commission for the Company's residential customers in Case No. PUE-2009-00064 be applied to those small C&I and GMA customers eligible to participate in the CARE Plan. The CRA is a decoupling mechanism that will adjust a small C&I or GMA customer's actual non-gas distribution revenues to the allowed level of distribution revenues per customer approved in the Company's most recent rate proceeding, Case No. PUE-2006-00059, adjusted for customer growth. A separate CRA factor will be computed each billing cycle month for the C&I and GMA rate schedules to establish a credit or surcharge to the distribution charges contained in those rate schedules, and the CRA will be shown as a separate line item on customers' bills.

WGL also proposes that the CCA approved by the Commission for the Company's residential customers in Case No. PUE-2009-00064 be applied to those small C&I and GMA customers eligible to participate in the CARE Plan. The CCA is designed to recover the incremental costs associated with the Company's implementation of the CARE Plan for its small C&I and GMA customers. According to WGL's Application, the Company will track the costs associated with the implementation and administration of the CARE programs for its small C&I

and GMA customers and recover those costs through a monthly surcharge. At the end of each twelve-month period of the CARE Plan, the Company will calculate the actual expenditures for the commercial programs, compare that to projected program costs recovered through the CCA, and provide a "true-up" for the amount recovered, if necessary, that will be applied to the CCA the following year. Based on the proposed expenditures of \$2,221,530 for conservation and energy efficiency programs over the proposed three-year period, the Company's Application represents that an annual CCA for a typical small C&I and GMA customer using 5,594 therms per year is projected to be \$30.30.⁷

Finally, WGL proposes to earn a performance-based incentive based on the independently verified net economic benefits produced by its CARE Plan for small C&I and GMA customers, as authorized by § 56-602 F of the Code. Accordingly, the Company proposes to include the costs and savings of the proposed CARE Plan for its small C&I and GMA customers in the calculation of the performance-based incentive mechanism approved by the Commission in Case No. PUE-2009-00064.⁸

On July 30, 2010, the Commission entered an Order for Notice and Comment that, among other things, directed WGL to provide notice of its Application; provided an opportunity for interested persons to submit written comments on the Application; and required the Commission Staff ("Staff") to investigate the Application and file a Staff Report containing its findings and recommendations on the Application.

On August 27, 2010, WGL filed a Petition for Leave to File Revised Testimony of Witness Paul H. Raab ("Witness Raab"), along with a copy of the revised direct testimony of

⁷ Application at 12.

⁸ *Id.*

Witness Raab.⁹ On September 13, 2010, the Staff filed its Staff Report on the Application.¹⁰ On that same date, the Office of the Attorney General's Division of Consumer Counsel ("Consumer Counsel") also filed comments ("Comments") on the Application. On September 24, 2010, the Company filed the Response of Washington Gas Light Company to the Staff Report ("Response").

Consumer Counsel raises three primary issues in its Comments: CARE program costs, customer classes, and the performance incentive target. First, Consumer Counsel notes that WGL's proposal includes a higher overall program cost for its seven proposed prescriptive rebate programs than was approved for the fifteen programs approved by the Commission for implementation by Columbia Gas of Virginia, Inc. ("CGV"). Consumer Counsel also comments, concerning the Commercial Custom Program, that WGL seeks to spend \$1.5 million, whereas CGV was approved to spend approximately \$205,000 for its Business Custom Program over a similar three-year period. Consumer Counsel further states that, unlike CGV, none of WGL's program costs are offset by funds from the American Recovery and Reinvestment Act.¹¹

Second, Consumer Counsel discusses § 56-602 A of the Code, which permits a CARE Plan to "include one or more residential, small commercial, or small general service classes," but does not permit participation by "large commercial or large industrial classes of customers." Consumer Counsel notes that, though the CARE Act speaks of "classes" of customers, WGL does not distinguish between small and large commercial and industrial classes in its tariff and thus proposes to determine eligibility for participation based on a usage cut-off of 30,000 therms

⁹ On September 3, 2010, the Commission entered an Order Granting Motion to File Revised Testimony that accepted for filing Witness Raab's revised direct testimony.

¹⁰ On September 16, 2010, Staff filed revised pages 23, 24, and 37 to its September 13, 2010 Staff Report.

¹¹ Consumer Counsel Comments at 3.

per month.¹² Consumer Counsel states, "[w]hile WGL's proposal appears to be a good-faith attempt to comply with the spirit of the CARE law, it is not clear that it complies with the letter of the law."¹³ Consumer Counsel also points out that, should the Commission allow WGL to define what are "small" and "large" customer classes outside of its current tariff for purposes of the CARE Act, the Commission would also have to determine whether the cut-off of 30,000 therms is the appropriate point of demarcation for program participation.¹⁴ Consumer Counsel further questions, among other things, whether WGL's GMA customers should be deemed residential or commercial customers for the purpose of applying the CARE Act.

Concerning performance incentives, Consumer Counsel recommends that the performance incentive targets in the Company's current tariff be raised to account for the additional savings potential of any CARE programs the Commission approves.¹⁵

In the Staff Report, Staff raises issues related to the definition of a customer class; the calculation of cost/benefit ratios; the incentives offered for the Outside Air Reset Controls Program, the Direct Contact Gas Water Heater Program, the ENERGY STAR Tankless Water Heater Program, and the Infrared Heater Program; the scale and scope of the Commercial Custom Program; the calculation of the CRA; the collection of the CCA; the need to update the usage reduction targets used in the calculation of the Performance Incentive; and concerns with the duration of the proposed CARE Plan amendments.

Staff first expresses the same concerns as Consumer Counsel about the use of the term "class" in the CARE Act and the lack of distinction between small and large C&I and GMA rate

¹² *Id.* at 4-5.

¹³ *Id.* at 5.

¹⁴ *Id.*

¹⁵ *Id.* at 6-7.

classes in WGL's existing tariff.¹⁶ Staff also evaluates the results of the Company's cost/benefit tests, noting that WGL did not calculate cost/benefit results for the Commercial Custom Program.¹⁷ For the seven prescriptive rebate programs, Staff notes that the calculations of cost/benefit tests do not include program costs such as administrative costs and costs for evaluation, measurement, and verification. According to Staff, "[i]gnoring these costs in the calculation of cost/benefit ratios will inflate most of the individual program ratios, thus making some programs appear cost-effective when they are not."¹⁸ Staff expresses specific concern with the ENERGY STAR Gas Water Heater (< 75,000 Btu/hr) and (≥ 75,000 Btu/hr) Programs, which have net present value benefits of \$22 and \$347, respectively, without any program costs.¹⁹ Staff further suggests that including program costs in cost/benefit ratio calculations only in the aggregate, as did WGL Witness Raab, "will have an effect of encouraging utilities to promote sub-optimal portfolios of energy efficiency programs designed to maximize their allowed performance incentive rather than the energy efficiency benefits to their customers."²⁰

Staff also suggests amending the incentives for four rebate programs. For the Outside Air Reset Controls Program, Staff claims that WGL's proposed incentive exceeds the incremental cost of installation and proposes the incentive be reduced from \$880 to \$208, or approximately 25% of the incremental cost of the equipment.²¹ For the Direct Contact Gas Water Heater Program, Staff recommends that the flat incentive of \$8,450 proposed by WGL be

¹⁶ Staff Report at 8-11.

¹⁷ *Id.* at 18.

¹⁸ *Id.* at 19.

¹⁹ *Id.* at 21.

²⁰ *Id.* at 22.

²¹ *Id.* at 23.

replaced with a variable amount, based upon the size of the unit, equal to one dollar per thousand Btu per hour.²² For the ENERGY STAR Tankless Water Heater and Infrared Heater Programs, Staff recommends that the \$500 and \$110 rebates be replaced with a variable amount, based upon the size of the unit, equal to two dollars per thousand Btu per hour.²³

Concerning the Commercial Custom Program, Staff expresses concern with the scale and scope of the program compared to CGV's Business Custom Program. Staff notes that WGL's proposed incentive budget is \$1.5 million over three years, compared to CGV's incentive budget of \$52,500 over a two-year period.²⁴ Staff further notes that WGL's Commercial Custom Program could include fifty or more participants per year, compared to CGV's total of fifteen participants over two years.²⁵ Staff claims that this WGL program alone could cost an average commercial customer \$70.86 over the program's three-year duration, in addition to administrative costs and the cost of performance incentives for the program.²⁶ Staff recommends that, if WGL is allowed to implement the Commercial Custom Program, the Commission limit the program to an annual incentive amount of \$26,250 and that WGL verify the installation of all equipment before incentives are awarded.²⁷

Staff also takes issue with WGL's proposed calculation of the CRA, the purpose of which is to adjust annual billed non-gas distribution revenue to what the CARE Act defines as the

²² *Id.*

²³ *Id.*

²⁴ *Id.* at 26.

²⁵ *Id.*

²⁶ *Id.* at 27.

²⁷ *Id.* at 28-29.

Allowed Distribution Revenue ("ADR") per customer class participating in the CARE Plan.²⁸ Staff explains that the basis for the ADR, as required by the CARE Act, is the class revenue numbers and class Cost of Service ("COS") Study from a utility's last rate case. According to Staff, the last COS Study, revenue apportionment, and rate design that WGL developed were based on the whole C&I and the whole GMA rate classes, with no numbers specifically calculated for "small" C&I and GMA customers.²⁹ Staff believes that WGL's approach, which backs out customer count and revenues associated with the "large" C&I and GMA customers from the monthly ADRs, is unsatisfactory because such a calculation would not necessarily result in "the same monthly ADRs that would have been computed in the last rate case had the [c]lass COS [S]tudy separated costs out to these newly defined subsets of customers, and the revenue apportionment and rate design been developed accordingly."³⁰ Staff urges that, if the Commission accepts WGL's plan to define subsets of existing C&I and GMA customers, the Commission also require the Company, in its next rate filing due by February 1, 2011, to develop an alternative class COS Study and alternative rate design using small C&I, small GMA, large C&I, and large GMA classes.³¹

Concerning the CCA, the sales adjustment clause, Staff suggests that the costs associated with any newly approved programs be collected through a separate CCA for C&I and GMA customers independent of that already approved for residential customers.³² Addressing the

²⁸ *Id.* at 29.

²⁹ *Id.* at 30.

³⁰ *Id.* at 30-31.

³¹ *Id.* at 32.

³² *Id.* at 33.

proposed performance incentive, Staff urges that the usage reduction targets be updated to reflect those programs the Commission approves for the small C&I and small GMA customers.³³

Finally, Staff comments on the duration of the CARE Plan amendments. Staff notes the current CARE programs for residential customers started May 1, 2010, and WGL requests the amended programs for eligible commercial and industrial customers begin November 1, 2010. Staff urges the Commission, if it approves the amended CARE programs, to move the effective date of the amendments to start upon Commission approval but end upon the expiration of the previously approved CARE programs.³⁴

WGL's Response opposes most of Staff's and Consumer Counsel's concerns and recommendations. The Company agrees to Staff's request to calculate separately the CCAs for residential customers and for small C&I and GMA customers eligible to participate in the CARE programs.³⁵ WGL argues that its definition of "large" C&I and GMA customers is consistent with a prior Commission Order approving a 30,000 therm threshold for Shenandoah Gas Company customers and is consistent with the intent of the CARE Act, which itself does not define what are "large" commercial and industrial customers.³⁶ The Company also claims that it is not creating a new "class" of customers because WGL's tariff already includes a block rate for customers that use 30,000 or more therms per month.³⁷ WGL asserts that its position is more in keeping with the language and intent of the CARE Act and would allow approximately 24,800

³³ *Id.* at 33-34.

³⁴ *Id.* at 35.

³⁵ WGL Response at 4.

³⁶ WGL Response at 5-6 (citing *Application of Shenandoah Gas Company, For authority to increase its rates and charges for gas service and to revise its tariffs*, Case No. PUE-1997-00616, 1998 S.C.C. Ann. Rept. 375, Final Order (July 16, 1998)).

³⁷ *Id.* at 8.

customers to participate in the CARE Plan, versus the Staff position that would exclude all C&I and GMA customers from participation.³⁸

The Company also objects to the suggestion that its proposal creates rate discrimination, stating that "there is no *unreasonable* difference in the rates between Washington Gas's small and large commercial customers."³⁹ The Company asserts that small and large commercial customers are not "like" customers because of differences in their usage, which can be seen in the use of different distribution charges for various customer rate blocks. Further, WGL claims that any distinction between customers is not rate discrimination but is consistent with the intent of the CARE Act.⁴⁰

WGL argues against Staff's suggestion that the Company defer consideration of the CARE amendment proposal until February 1, 2011, when WGL makes its next general rate filing. The Company claims that, as there is no period by which the Commission must make a decision on a rate filing, putting off consideration of the amendment "would thwart the 'time certain' 120-day period provided in the CARE Act" for a decision on the CARE amendment.⁴¹ Concerning Staff's request to align the annual true-up for the respective residential and commercial CARE programs, WGL suggests that there is no benefit to this suggestion since the true-ups will be calculated separately.⁴²

Finally, WGL defends its portfolio and proposed budget amounts as cost-effective. The Company agrees with the Staff's suggestion to alter the incentive for the Outside Air Reset

³⁸ *Id.*

³⁹ *Id.* at 9 (emphasis in original).

⁴⁰ *Id.* at 10.

⁴¹ *Id.* at 11.

⁴² *Id.* at 12.

Control Program to \$208, but it disagrees with the Staff's other proposals to make certain individual program incentives variable. WGL notes that its incentives "are based on the Company's expertise and marketing experience with its commercial customers" and argues that higher incentives encourage participation.⁴³ Similarly, concerning the Commercial Custom Program, WGL notes that the reduction in budget suggested by Staff would drastically limit customer participation.⁴⁴

NOW THE COMMISSION, based upon the record, is of the opinion and finds as follows:

The threshold issue in this case is whether WGL's proposed CARE Plan amendment meets the requirements of the CARE Act, specifically § 56-602 A, which allows CARE Plan participants to "include one or more residential, small commercial, or small general service classes" but excludes "large commercial or large industrial classes of customers." Further, § 56-602 B requires the Commission to approve or deny a CARE Plan "that allocates annual per-customer fixed costs on an intra-class basis in reliance upon a revenue study or class cost of service study supporting the rates in effect at the time the plan is filed." Section 56-602 C provides that "[t]he Commission shall approve such a plan or amendment if it finds that the plan's or amendment's proposed decoupling mechanism is revenue-neutral, is consistent with this chapter [Chapter 25 of Title 56], and is otherwise in the public interest, including any findings required by § 56-235.2 or 56-235.6."

WGL's approved tariff does not currently include separate rate schedules for "small" and "large" C&I and GMA classes of customers. Further, the class COS Study and revenue

⁴³ *Id.* at 13-14.

⁴⁴ *Id.*

apportionment performed in WGL's last rate case did not account for separate "small" and "large" commercial rate classes. WGL's proposed solution, backing out the customer count and revenue numbers associated with the subsets of large C&I and large GMA customers from the monthly allowed distribution revenues,⁴⁵ is not a sufficient substitute for a class COS Study including separate "small" and "large" classes of C&I and GMA customers. Such a calculation would not necessarily result in the same monthly ADRs produced using a class COS Study including the costs of these separate customer classes. Accordingly, we cannot approve WGL's proposed CARE Plan amendment at this time.⁴⁶ Our ruling will not inordinately delay small C&I and GMA customers from participation in CARE programs because WGL can amend its tariff to include distinctive "small" and "large" commercial customer classes, as required by the CARE Act, and perform a class COS Study including these additional rate classes in its next rate case, scheduled to be filed in a few months, by February 1, 2011.⁴⁷

⁴⁵ Section 56-600 defines "allowed distribution revenue" as "the average annual, weather-normalized, nongas commodity revenue per customer associated with the rates in effect as adopted in the applicable utility's last Commission-approved rate case or performance-based regulation plan, multiplied by the average number of customers served."

⁴⁶ This ruling is also consistent with our prior ruling in a case concerning Virginia Natural Gas, Inc's CARE Plan, where we found that "[t]he statute speaks in terms of the residential, small commercial, small general service, large commercial and large industrial classes of customers. . . . [T]he Act does not permit the Commission to create subsets of classes within the residential class as identified by statute." *Application of Virginia Natural Gas, Inc., For approval to implement a natural gas conservation and ratemaking efficiency plan including a decoupling mechanism and to record accounting entries associated with such mechanism*, Case No. PUE-2008-00060, 2008 S.C.C. Ann. Rept. 566, 572, Order Approving Natural Gas Conservation and Ratemaking Efficiency Plan (Dec. 23, 2008) (quoting, in part, the comments of Consumer Counsel).

⁴⁷ *Application of Washington Gas Light Company, For a general increase in rates, fees, charges and revisions to the terms and conditions of service as well as approval of a performance-based rate regulation methodology under Va. Code § 56-235.6*, Case No. PUE-2006-00059, 2007 S.C.C. Ann. Rept. 315, 318-19, Final Order (Sept. 19, 2007). As noted in the Final Order, the February 1, 2011 filing must include a class COS Study already, so it should not be burdensome to the Company to perform such a study including the "small" and "large" class designations.

The CARE Act requires, where the Commission is denying a proposed CARE amendment, that it state specifically the reasons for such denial.⁴⁸ Accordingly, we offer the following as guidance for future amendments.

As an additional preliminary matter, it is unclear whether the GMA class should be treated as a residential, commercial, or industrial class of customers under the CARE Act. We note that for this filing WGL appears to treat the GMA class as a form of commercial customer class. A future filing should clarify how GMA customers are being treated for purposes of the CARE Act, either as residential, commercial, or industrial customers, and the basis for this treatment.

In general, in any CARE filing we note a preference for each utility to provide its own assumptions and analysis. This provides a utility the opportunity to develop and recommend programs that are best suited to its customers and the dynamics of its service territory. The programs developed for one utility may not necessarily be the best choice or in the public interest for another. Further, more granularity in describing proposed programs and the assumptions behind them will assist the Commission in considering and making the findings required by the CARE Act.

In particular, concerning program cost allocation, WGL states that there are approximately \$600,000 in proposed program costs that it cannot allocate among the separate proposed programs, representing approximately 27% of the total cost WGL seeks to recover through this filing. However, failure to include program costs in cost/benefit calculations can tend to inflate individual program ratios. Where possible, program costs should be allocated or assigned to individual programs for inclusion in the cost/benefit tests. Where the Company

⁴⁸ Va. Code § 56-602 B.

believes this is not possible, it should provide a list of program costs by category with an explanation why these costs cannot be allocated to individual programs.⁴⁹

We also stress that cost/benefit tests must be performed for all proposed programs. We cannot find programs to be "cost-effective conservation and energy efficiency programs" unless we can analyze them "using the Total Resource Cost Test, the Societal Test, the Program Administrator Test, the Participant Test, the Rate Impact Measure Test, and any other test" we find appropriate.⁵⁰ The CARE Act mandates that CARE programs be cost-effective before they can be approved by the Commission. Moreover, the burden of proof is on the applicant to show its proposed CARE programs are cost-effective. In cases such as the Commercial Custom Program, no cost/benefit tests were performed by WGL even though the Company anticipated spending more than \$1.5 million on this program alone. Where proposed program costs are uncertain due to the flexible nature of the program, smaller trial programs that can be enlarged after proven effective may best ensure that customer dollars are spent wisely. The program costs incurred for the Commercial Custom Program should also be set at a level that prevents imposing an unreasonable cost burden on those commercial and industrial customers who do not participate in the CARE Plan. The impacts on participating and non-participating customers should also be clearly identified.

Additional concerns with the Commercial Custom Program include the Company's proposal for random auditing to verify that the customer has installed the equipment for which a

⁴⁹ We also note, with regard to cost/benefit tests, that a score of 1.0 means that the cost of a program does not exceed its benefits, *i.e.*, it is a break-even score. For a program with a cost/benefit result at or barely surpassing 1.0 without the inclusion of program costs, including such costs may render the program not cost effective.

⁵⁰ Va. Code § 56-600, definition of "Cost-effective conservation and energy efficiency program." See also *Commonwealth of Virginia, State Corporation Commission, Report to the Governor of the Commonwealth of Virginia and the Virginia General Assembly, "Report: Study to Determine Achievable and Cost-effective Demand-side Management Portfolios Administered by Generating Electric Utilities in the Commonwealth Pursuant to Chapters 752 and 855 of the 2009 Acts of the Virginia General Assembly"* at 33 (Nov. 15, 2009).

rebate application has been received. In such a program where each customer proposal is unique, all equipment installations and project savings should be verified before rebates are given. The programs should also analyze free ridership percentages and estimates of thermal savings, as well as the potential for excluding some customer-proposed energy efficiency measures that involve fuel switching and those that would result in customers meeting, rather than exceeding, applicable energy code criteria or standard industry practice.

As for rebates, in at least one proposed program, the Outside Air Reset Controls Program, the initial rebate of \$880 may exceed the incremental cost of installing the controls, providing participants a windfall. WGL agreed to reduce the proposed incentive to \$208, as recommended by Staff. We also agree with this recommendation. CARE programs should not be designed to provide windfalls to certain customers paid for by other customers, but rather to provide them "with long-term, meaningful opportunities to more efficiently consume natural gas and mitigate their expenditures for the natural gas commodity . . ." and to "enhance the utility bill savings that customers receive when they reduce their natural gas use."⁵¹ Additionally, for the Direct Contact Water Heater Program, ENERGY STAR Tankless Water Heater Programs, and Infrared Heat Program, WGL proposed flat rebate amounts for these programs. Since customer savings may vary based upon the size of the qualifying units installed through the programs, the size of the incentives for these programs should be similarly varied, as recommended by Staff. Where practicable, correlating rebates with energy savings is appropriate where those savings will vary.

Finally, the WGL-proposed CARE Plan amendment did not include updated usage reduction targets to reflect the additional CARE Plan programs in its performance incentive mechanism. These targets should be updated to reflect usage savings for any proposed CARE

⁵¹ Va. Code § 56-601 A 4 and A 6.

program in a future filing with the Commission. Implementation of amendments should also be in synchronization with CARE Plan programs already approved so that annual true-ups will coincide.

Based upon the foregoing, accordingly, IT IS ORDERED THAT:

- (1) WGL's Application is denied.
- (2) This matter is continued pending further order of the Commission.

AN ATTESTED COPY HEREOF shall be sent by the Clerk of the Commission to:

Beverly J. Burke, Esquire, Bernice K. McIntyre, Esquire, and Meera Ahamed, Esquire,
Washington Gas Light Company, 101 Constitution Avenue, NW, Washington, D.C. 20080; C.
Meade Browder, Jr., Esquire, and Ashley B. Macko, Esquire, Division of Consumer Counsel,
Office of the Attorney General, 900 East Main Street, Second Floor, Richmond, Virginia 23219;
and a copy shall be delivered to the Commission's Office of General Counsel and Divisions of
Energy Regulation, Public Utility Accounting, and Economics and Finance.