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, 2009

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STATE CORPORATION COMMISSION

December 1, 2009

To: The Honorable Timothy M. Kaine
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,

Mark C. Christie
Chairman

Judith Williams Jagdmann
Commissioner

James C. Dimitri
Commissioner

Table of Contents

Executive Summary

In 2008, the General Assembly enacted the Natural Gas Conservation and Ratemaking Efficiency Act (the "Natural Gas Conservation 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.

Thus far, three natural gas utilities have filed conservation and ratemaking efficiency plans with the Commission. Virginia Natural Gas ("VNG") filed an application seeking approval of its plan on July 3, 2008, in Case No. PUE-2008-00060. 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. Columbia's filing was assigned Case No. PUE-2009-00051 and WGL's request was assigned Case No. PUE-2009-00064. VNG's proposed plan was approved with modifications on December 23, 2008 and VNG was permitted to place its proposed decoupling rate adjustment mechanism into effect on January 1, 2009. The Columbia and WGL proposals are currently pending before the Commission.

All three natural gas utilities examined their respective 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, ignoring 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 various cost benefit tests, it should be noted that the tests rely on a number of projections that are likely to vary from actual experience. Some of these estimates are very difficult to predict with any significant degree of accuracy. Consequently, actual cost benefit results will likely vary, perhaps significantly, from the utilities' estimates. It is also important to note that the cost benefit tests do not consider any increases or decreases in the utility's non-gas revenue that might arise as a result of the implementation of decoupling mechanisms.

Generally, the utilities' estimates indicate that their proposed programs will fail the RIM test and pass the other cost benefit 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 propose decoupling rate adjustment clauses that are designed to

produce average non-gas revenues[1] per customer that are 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 Natural Gas Conservation Act's definition of "allowed distribution revenue." The test years used in the respective filings, as also required by the Natural Gas Conservation Act, were calendar 2005 or earlier. These somewhat dated test years effectively provide adjustment 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 any number of factors. These factors include changing customer life styles, customer demographics, housing sizes, furnace and appliance efficiencies, customer price and inflation elasticities, customer awareness, and other factors that have nothing to do with 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 customer driven efficiency gains that have occurred since 2005 and will continue to adjust for changing conditions, including those changes actually driven by the consumer and not just changes attributable to utility sponsored efficiency programs.

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

[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 & 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.

Sufficient evidence does not yet, however, 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 efficiency 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, it is quite likely that the decoupling mechanisms adopted pursuant to the Natural Gas Conservation Act will increase 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 serve as the basis for decoupling mechanisms. To illustrate this point, at this point in time, the current actual results indicate that VNG's decoupling mechanism will compensate the Company for energy reductions of approximately 10 million Ccfs, although VNG's own estimates indicate that its programs have generated reductions of less than 116,000 Ccfs. The Commission will continue to monitor actual results and report to the Governor and General Assembly as directed. 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.

Introduction

In 2008, the General Assembly enacted the Natural Gas Conservation and Ratemaking Efficiency Act (the "Natural Gas Conservation Act") authorizing natural gas utilities to file conservation and ratemaking efficiency plans that are intended to promote improved energy efficiency and increased conservation and 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 tendered by the Commission in compliance with that requirement.

The Natural Gas Conservation Act

The Natural Gas Conservation Act authorizes natural gas utilities to file conservation and ratemaking efficiency plans that 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) cost-effective conservation and energy efficiency programs, (iv) provisions to address the needs of low-income or low-usage residential consumers, and (v) provisions to ensure that rates and service to nonparticipating classes of customers are not adversely impacted. Such plans may include one or more residential, small commercial, or small general service classes, but shall not

apply to large commercial or large industrial customer classes. The SCC is required to allow a utility that implements a plan to recover, through its regulated rates, its costs associated with cost-effective conservation and energy efficiency programs. Utilities that demonstrate reductions in annualized, weather-normalized usage per customer are given the opportunity to earn an incentive of up to 15 percent share of the independently verified net economic benefits created by the conservation and energy efficiency 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 natural gas conservation and ratemaking efficiency 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 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 further 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 Natural Gas Conservation Act contains a number of key provisions regarding the filing and consideration of efficiency 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 component to normalize the effects of weather in determining efficiency plan results, (ii) a decoupling mechanism, (iii) one or more energy efficiency programs, (iv) provisions addressing the needs of low-income or low usage residential customers, and (v) provisions to assure that the rates and service of non-participating customer classes are not impacted;

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

- 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; 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 conservation and ratemaking efficiency plan.

Conservation and Ratemaking Efficiency Plans Filed with the Commission

Thus far, three natural gas utilities have filed conservation and ratemaking efficiency plans with the Commission. Virginia Natural Gas ("VNG") filed an application seeking approval of its plan on July 3, 2008, in Case No. PUE-2008-00060. 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. Columbia's filing was assigned Case No. PUE-2009-00051 and WGL's request was assigned Case No. PUE-2009-00064. These filings and the related Commission proceedings will be described in greater detail as follows.

Virginia Natural Gas

VNG's Filing

VNG filed its energy conservation and ratemaking efficiency plan on July 3, 2008. In its filing, VNG proposed to spend $7.5 million to implement various efficiency and conservation programs for its residential customers over a three year period. These initiatives included the Community Outreach and Consumer Education Program, the Seasonal Checkup program, the Low-Income Weatherization program, the ENERGY STAR® Residential New Construction pilot program, and three other customer incentive 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 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, ignoring 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 various cost benefit tests, it should be noted that the tests rely on a number of projections that are likely to vary from actual experience. Some of these estimates are very difficult to predict with any significant degree of accuracy. Consequently, actual cost benefit results will likely vary, perhaps significantly, from VNG's estimates. It is also important to note that the cost benefit tests do not consider any 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 are summarized in the following table:

Program	**Participant**	**RIM**	**TRC**	**PA**
	Test	Test	Test	Test
	B/C Ratio	B/C Ratio	B/C Ratio	B/C 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®	2.52	0.90	2.26	8.82
Summary of All Programs	2.32	0.66	1.32	1.92

A benefit to cost ("B/C") ratio greater than 1.00 indicates that a program's expected benefits are greater than the expected costs. Ratios less than 1.00 indicate that the program's expected costs exceed its expected benefits. As can be seen from these

results, the various efficiency measures examined each passed all tests with the exception of the RIM test. None of VNG's proposed programs passed the RIM test. This indicated that VNG's customers that do not participate in the proposed programs would be negatively impacted by the proposed 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 the residential customers would be adversely impacted by VNG's offering of these programs. Based on VNG's estimates, all of the proposed programs were expected to pass the TRC test. Consequently, the expected benefits to participants in the programs were expected to 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 10-year period.

VNG also proposed to implement a revenue decoupling adjustment, Rider D, in conjunction with the above initiatives. Rider D would be applicable to VNG's residential rate schedules and would consist of monthly rate adjustments with an annual true-up. These rate adjustments were designed to produce average non-gas revenues per customer that are equal to the average non-gas revenue per customer produced by the rates and test year conditions established in Case No. PUE-2005-00057. [2] 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 test year for that case was the 12 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 is offering. VNG ignored any changes in average weather-normalized usage that may have occurred since

[2] The proceeding establishing VNG's performance-based regulation plan.

March, 2005. Average weather-normalized usage and non-gas revenue is, in reality, impacted by any number of factors. These factors include changing customer life styles, customer demographics, housing sizes, furnace and appliance efficiencies, customer price and inflation elasticities, customer awareness, and other factors that have nothing to do with VNG's offering of efficiency programs. As such, Rider D would adjust for changes that had occurred since March, 2005 and would continue to adjust for changing conditions, and not just for those changes actually driven by the Company's 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.

Commission's Final Order

On December 23, 2008, the Commission issued its "Order Approving Natural Gas Conservation and Ratemaking Efficiency Plan," which approved VNG's plan with modifications and authorized VNG to implement its decoupling mechanism to be effective January 1, 2009. A copy of that order is attached as Appendix A to this report. The Commission's order included specific discussion of the following topics:

- applicability of VNG's energy conservation plan ("ECP");
- the plan's normalization component to remove the effect of weather from the determination of the plan's results;
- plan provisions to address the needs of low-income or low-usage customers;
- the cost effectiveness of VNG's conservation and efficiency programs;

- the proposed sales adjustment clause;
- the meaning of "customer classes" within the Natural Gas Conservation Act;
- whether the proposed plan was revenue neutral within the context of the Natural Gas Conservation Act;
- efficiency targets and penalties for poor performance;
- the presentation of the decoupling mechanism on customer bills;
- reporting requirements for VNG;
- potential conflicts between the proposed plan and VNG's existing performance based regulation plan ("PBR Plan"); and,
- VNG's projected savings from the proposed plan.

The Commission's order included detailed discussion of two of the more controversial elements of VNG's proposed plan; the impact of the plan on non-participants in the ECP programs and, a related subject, the impact of the plan on VNG's recovery of non-gas revenues. In discussing the impact of VNG's plan on non-participants, the Commission's order stated:

> *Section 56-602 A (iii) of the Code states that the Plan "shall include . . . one or more cost-effective conservation and energy efficiency programs" (emphasis added). As noted above, the Act includes a definition for a "cost-effective conservation and energy efficiency program."* [Footnote omitted] *That definition, among other things, requires the Commission to determine whether such program is cost-effective after analyzing the program using several named tests "and any other test the Commission reasonably deems appropriate." In addition, the Act does not require that a program pass any or all of the tests and, further, provides that "[the Commission may determine the weight to be given to a test."* [Footnote omitted]
>
> *In this regard, the ECP passes all the named tests except the Rate Impact Measure Test ("RIM Test").* [Footnote omitted] *The RIM Test generally measures the rate impact on residential customers that do not participate in the ECP and, thus, is sometimes referred to as the "Non-Participant*

Test." [Footnote omitted] *Staff explained that, under VNG's own analysis included in its Application, approximately 96% of residential customers will be negatively impacted by the ECP in any given year - i.e., 96% could pay higher bills than they otherwise would have absent the ECP.* [Footnote omitted] *Indeed, Consumer Counsel explains that the ECP requires "non-participating [residential] ratepayers to pay for the monetary benefits received only by the program's participants . . . ."* [Footnote omitted]

This disparity, however, highlights one of the ratemaking premises reflected in the Act: customers in a rate class who do not conserve (i.e., assumed non-participants) may pay more in order for the Company to recoup the revenue lost from those who conserved. This policy, built into the statute, will necessarily make it difficult for many conservation programs to meet the RIM Test. Consumer Counsel explains this by noting that, under the Act, there will be "disparate impact" between participants and non-participants in a rate class, and that the Commission should determine whether such impact "is reasonable or not." [Footnote omitted] *Thus, Consumer Counsel "cautions the Commission against applying the RIM Test in a manner that could result in adopting a policy that no conservation and energy efficiency programs as envisioned by the Act would ever be approved."* [Footnote omitted]

The Act also permits the Commission to analyze the ECP using "any other test the Commission reasonably deems appropriate." [Footnote omitted] *The results of the RIM Test highlight the limited number of residential customers that are expected to take part in the ECP as proposed in the Application. Thus, we find 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.* [Footnote omitted] *In this regard, we conclude as follows: (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....*[3]

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 be participants.

[3] Virginia State Corporation Commission, in the matter regarding Virginia Natural Gas- Case No. PUE-2008-00060, Order Approving Natural Gas Conservation and Ratemaking Efficiency Plan, December 23, 2008, pages 11-13.

The order also addressed the impact of VNG's proposed decoupling mechanism on the company's non-gas revenues by stating:

> *At the same time, we must also acknowledge that the Plan will necessarily change the amount that VNG's customers otherwise would have paid for non-gas service under the PBR Plan as approved by the Commission.* [Footnote omitted] *In the PBR and Rate Case Order, the Commission found that VNG's annual revenues needed to be reduced by approximately $9.83 million in order for rates to be considered "just and reasonable."* [Footnote omitted] *The Commission, however, did not order a rate decrease but, rather, approved the existing PBR Plan that, among other things (1) requires VNG to construct a pipeline from its northern system that will cross the James River/Hampton Roads Channel and tie into VNG's distribution system in Norfolk to allow for the physical flow of gas from the northern system to the southern system ("HRX Pipeline"); and (2) freezes VNG's non-gas rates for five years (August 1, 2006, to July 31, 2011).* [Footnote omitted]
>
> *The Commission approved the rates in the PBR Plan* [Footnote omitted] *because we found that those rates complied with the specific requirements of the PBR statute; to wit, we found that the PBR Plan did "not result in excessive rates" under § 56-235 .6 B of the Code "when compared to the benefits" to customers under the PBR Plan, which included the Company's commitment to construct the HRX Pipeline (a commitment that VNG has kept)* [Footnote omitted] *and the projected long-term cost savings to customers over the life of the HRX Pipeline.* [Footnote omitted] *Thus, having found that VNG's annual non-gas revenues should be reduced by $9.83 million, allowing non-gas rates to remain unchanged through the five-year PBR Plan period was a necessary and obviously critical component of our approval of that plan.*
>
> *Indeed, in seeking approval of the PBR Plan, the Company repeatedly assured the Commission that VNG's customers would be assured of "rate certainty" for the non-gas portion of service for the five-year life of the PBR Plan.* [Footnote omitted] *The Commission relied upon such representations in approving the PBR Plan and, further, explained that rates would be reduced by $9.83 million if the PBR Plan was ever withdrawn or terminated.* [Footnote omitted] *That reliance, however, apparently was misplaced since, upon implementation of the Plan, the price paid by many - if not all - residential customers for non-gas service may likely increase.*
>
> *First, as discussed above, the Plan is structured so that the Company is guaranteed to recover the average, weather-normalized non-gas utility revenue per customer that is reflected in the PBR Plan. While we conclude*

that the RNA Rider is "revenue-neutral" as that term is defined by the Act, the Rider is by no means "revenue-neutral" in terms of its likely actual effect on individual customers. The Plan is structured so that VNG is guaranteed to recover a certain amount of revenue from the residential class, regardless of how much natural gas the class uses as a whole. This is accomplished, through the Rider, by effectively increasing rates to all members of the residential class, via a "sales adjustment" when sales volumes decline, in order to meet VNG's guaranteed revenue for that class. [Footnote omitted] *As a result, all customers - whether or not they decrease their individual natural gas usage - end up paying more to VNG for the non-gas portion of their bills.*

The Company acknowledges that, under its Plan, the bill increases to individual customers are not directly tied to any particular conservation targets or savings, such as, e.g. when VNG states that "decoupling revenue [to VNG] should not be directly tied to conservation" [Footnote omitted] *savings to customers, and "[decoupling revenue to VNG] is not a reward for conservation"* [Footnote omitted] *Moreover, when VNG states that the Act "allows cost shifting on an intra-class basis,"* [Footnote omitted] *it recognizes that individual VNG residential ratepayers may pay more than they are currently paying under the PBR Plan rate structure, even if they reduce their consumption of natural gas or already use relatively little gas.*

Second, and as also explained above, the RNA Rider is based on the usage and revenue reflected by the PBR Plan. This PBR Plan revenue is based on historical customer usage for the 12 months ending March 2005, and Staff explains that "there has been no single consecutive 12-month period when actual usage conditions were higher than the [RNA Rider] targets since March 2005 ." [Footnote omitted] *For example, in 2006 and 2007 the average usage was less than that for the 12 months ending March 2005. As a result, if the RNA Rider was in effect during 2006 and 2007, residential customers would have seen a "sales adjustment" under the Rider in order to increase VNG's revenues. In other words, if the RNA Rider was in effect during 2006 and 2007, residential customers' bills would have been higher than they actually were in 2006 and 2007 under the PBR Plan - and this is without any ECP programs.* [Footnote omitted] *Thus, the implementation of the RNA Rider clearly may increase residential customers' bills from what they otherwise would have been under the PBR Plan.*

VNG asserts, however, that this result from the Rider is not technically a rate increase but, rather, represents a sales adjustment as permitted by the Act. VNG claims that a "sales adjustment clause" - such as the RNA Rider - which increases a customer's bill pursuant to the Act is not the same thing as a rate increase because the "sales adjustment clause allows

> *[VNG] to obtain its 'allowed distribution revenue' without changing its rates."* [Footnote omitted] *While we find that VNG is technically correct in its legal interpretation of a "sales adjustment clause" under the Act, we also recognize that this technical ratemaking distinction is likely of little comfort to ratepayers. If a customer's bill goes up, calling it a sales adjustment - as opposed to a rate increase - does not change the fact that the customer's bill is higher than it otherwise would have been.* [Footnote omitted] *As a result, we must acknowledge that while customers' "rates" technically may not change as a matter of legal analysis under the Act, the actual effect of VNG's sales adjustment clause (i.e., the RNA Rider) may be increases in many customers' bills versus what they would have been under the PBR Plan, which we approved in 2006 with the expectation that we were ensuring "rate certainty" as represented by VNG.*
>
> *Accordingly, while we approve the Plan herein pursuant to the Act, we must acknowledge that the ultimate price that VNG's residential customers will pay for non-gas service under the Plan may be higher than the frozen rates established by the Commission in the PBR Plan. This is especially relevant at a time of economic hardship when many of VNG's customers are struggling to pay their monthly bills and may be facing tremendous uncertainty about their employment security.* [Footnote omitted] [4]

As noted in the Order, the Commission found that the actual effect of the decoupling mechanism may actually increase customers' bills in comparison to what they would have been under the PBR plan. Any such increase would increase VNG's earnings. The Natural Gas Conservation Act allows gas 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.

Preliminary Results of VNG's Plan

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

[4] Ibid, pages 21-25.

permission to modify certain aspects of its conservation and energy efficiency programs for the first year of its 3-year plan. The requested modifications include: i) expanding the eligibility requirements for the low-income weatherization program to match the eligibility requirements of the Company'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, as described above, from the low-income weatherization and programmable thermostat programs. That request was approved by the Commission on November 10, 2009.

VNG began offering incentives under its plan in March, 2009. Based on preliminary information submitted by VNG to the Commission Staff, the numbers of incentives provided to customers from March through September, 2009 are as follows:

Program	Mar	Apr	May	Jun	Jul	Aug	Sept	TOTAL
90%+ Furnace		75	99	39	55	281	67	616
Free Thermostat	727	711	589	793	17	852	435	4124
Programmable Thermostat Rebate		40	40	21	27	184	47	359
Seasonal Check Up		22	31	1	0	4	65	123
Tank Style Water Heater		4	16	2	5	43	24	94
Tankless Water Heater		49	46	17	17	100	28	257
Low Income Weatherization	6	18	16	14	9	14	2	79
TOTALS:	733	919	837	887	130	1478	245	5229

VNG also provided the following estimated annual natural gas usage reductions associated with the above measures:

Program	Quantity	CCF Saving per Rebate	Total CCF Savings
90%+ Furnace	616	-60	-36,960
Free Thermostat	1,267	-13	-16,471
Programmable Thermostat Rebate	312	-13	-4,056
Seasonal Check Up	123	-109	-13,407
Tank Style Water Heater	94	-43	-4,042
Tankless Water Heater	257	-100	-25,700
LI Weatherization	79	-196	-15,500
Energy Star Homes		-103	0
TOTALS:	2,669		-116,136

VNG also provided its year-to-date program expenditures. Those expenditures are detailed in the following table:

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Total
Seasonal Checkup	$0	$0	$0	$550	$775	$25	$0	$100	$1,625	$3,075
Programmable Thermostats Rebates	$0	$0	$0	$1,000	$1,000	$525	$675	$4,600	$1,175	$8,975
Low Income Weatherization	$0	$80,000	$0	$0	$0	$0	$40,000	$0	$0	$120,000
Tank Water Heater	$0	$0	$0	$600	$2,400	$300	$750	$6,450	$3,600	$14,100
Tankless Water Heater	$0	$0	$0	$24,500	$23,000	$8,500	$8,500	$50,000	$14,000	$128,500
Space Heating	$0	$0	$0	$37,500	$49,500	$19,500	$27,500	$140,500	$33,500	$308,000
Free Programmable Thermostats	$0	$0	$13,473	$13,175	$10,914	$14,694	$315	$15,788	$8,061	$76,420
Community Ed & Outreach	$0	$631	$13,146	$11,217	$16,109	$13,186	$11,851	$12,417	$15,813	$94,370
Air Filter Coupon	$0	$0	$0	$0	$0	$0	$0	$0	$2,192	$2,192
Administrative Costs	$0	$0	$2,622	$1,992	$3,486	$2,873	$2,955	$3,738	$86	$17,752
Other Expenses	$3,900	$3,900	$11,062	$11,062	$24,075	$24,075	$24,075	$24,075	$24,075	$150,299
Total	$3,900	$84,531	$40,303	$101,596	$131,259	$83,679	$116,621	$257,667	$104,127	$923,683

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

	Revenue Deficiency To be Collected Thru. Adj. Factor	Targeted Sales Ccf	Booked Sales Ccf	Sales Difference Ccf
Jan	$ 1,526,271	36,831,558	36,302,500	(529,058)
Feb	$ 942,456	29,721,803	26,661,280	(3,060,523)
March	$ (19,848)	19,529,199	22,262,870	2,733,671
Apr	$ 1,211,770	13,461,446	9,061,550	(4,399,896)
May	$ 541,755	6,374,643	4,103,150	(2,271,493)
June	$ 187,784	3,275,567	2,682,620	(592,947)
July	$ 85,616	3,261,364	2,445,740	(815,624)
August	$ 110,491	2,909,196	2,475,681	(433,515)
Sept	$ 94,729	3,624,844	3,239,170	(385,674)
Total	$ 4,681,024	118,989,618	109,234,561	(9,755,057)

As can be seen from this table, the operation of VNG's decoupling mechanism as already enabled the company to collect additional non-gas revenue of nearly $4.7 million from its ratepayers. The calculations supporting this collection effectively assume that VNG's energy efficiency efforts have produced usage reductions of almost 10 million Ccf during the January through September, 2009 period. This is in contrast to VNG's estimates, which indicated that the measures installed pursuant to its plan would produce annual savings of roughly only 116,000 Ccfs. This contrast is even greater considering that the actual Ccf reductions generated by VNG's plan in 2009 will likely be much less than 116,000 Ccfs since those measures will only be in place for a fraction of the year. This disparity could potentially grow even more during October, November and December.

This result can be attributed to the use of a stale test year for establishing the "allowed distribution revenue" as dictated by § 56-600 of the Natural Gas Conservation Act. As noted earlier, § 56-600 specifies that "the average annual, weather-normalized, non-gas 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" be the basis for

VNG's decoupling mechanism. In VNG's case, the test year used in establishing the average annual, weather normalized nongas commodity revenue per customer was the twelve months ending March, 2005. VNG'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, VNG's decoupling mechanism will compensate the Company for energy reductions of approximately 10 million Ccfs while VNG's own estimates indicate that its programs have generated reductions of less than 116,000 Ccfs. As such, use of the specified non-gas revenue as required by the Natural Gas Conservation Act provides significant additional revenue to VNG over and above compensation needed to offset lost revenues attributable solely to VNG's efficiency efforts. In accordance with the Natural Gas Conservation Act, VNG proposed its plan and decoupling mechanism outside of the context of a comprehensive rate proceeding in which an examination takes place of the justness and reasonableness of a utility's revenues and earnings.

Columbia Gas of Virginia

Columbia's Filing

On June 8, 2009, Columbia filed a conservation and rate making efficiency plan to offer a number of incentives to its residential and small commercial customers. Columbia estimated that its plan would save its customers $41 million over 20 years and that individual customers who participate in the various measures could save from $90 to $350 annually. Columbia's proposed conservation and ratemaking efficiency plan has 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 those 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 states that at the end of the three year period, it would return to the Commission seeking further approvals to continue or modify the Plan.

Columbia's proposed plan is made up of a portfolio of six conservation and energy efficiency programs, including the Residential Low-Income Program. A brief description of these programs is provided below:

Education and Outreach. Columbia's education and outreach efforts will include Company employee and customer education; general community outreach programs; the "Utiliwize" program branding effort; customer bill presentation; and the coordination of the communication of common information with various state and local stakeholders. Specifically, Columbia will create a dedicated web page to provide information about the programs, and utilize a variety of 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. The Home Savings Program provides specified financial incentives to residential customers who purchase qualifying high efficiency

natural gas equipment for their newly constructed or existing home or take certain steps to weatherize an existing home. To receive an incentive, customers must submit a completed application form and all required supporting documentation. The following measures are 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. This program is intended to provide an opportunity for residential customers, including low-income residential customers, to participate in an energy audit of their own home. The audit may be completed electronically or in hard copy via mail. Upon completion of the audit, the customer will receive a customized report recommending home improvements that can be implemented to reduce natural gas usage. Energy efficiency measures may include recommendations which require little or no customer investment, recommendations requiring an investment by the customer as long as the savings are sufficient to justify the investment, recommendations that do not generate sufficient savings but are available for a customer's review, and other energy efficiency tips. Examples of energy efficiency measures that may be recommended in the customized report include water heater blankets, low flow showerheads, faucet aerators and hot water pipe insulation.

Business Savings Program. This program will provide financial incentives to existing Columbia small general service customers who purchase qualifying high efficiency natural gas equipment for their newly constructed (except where noted) or

existing facilities, or take steps to improve efficiency of certain equipment. To receive an incentive, customers must submit a completed application form and all required supporting documentation. The following measures are proposed for the initial program offering:

- 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 Customer Program. This program is intended to provide an avenue for small general service customers to propose projects and receive incentives for measures that are not contained in the Business Savings Program. Participants 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 must be installed at small general service customer facilities. The Business Customer Program requires customers to submit specific information for each project and to conduct energy engineering and savings verification at their own cost. This project information will be provided in two reports: the Pre-Installation Report and Post-Installation Report. Incentives are paid directly to participating customers who meet the program requirements.

Residential Low-Income Program. Columbia's Residential Low-Income Program is 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 proposes to fund, in collaboration with the Virginia Department of Housing and Community Development ("DHCD") and other appropriate agencies, technical training for qualified energy auditors and will communicate information about the availability of low-income weatherization funding programs through its communication channels. The DHCD maintains a list of weatherization providers[5] located throughout the Commonwealth of Virginia with whom low-income customers may apply for home weatherization benefits. Columbia intends to utilize energy auditors trained through the DHCD funded program to provide assessments for customers eligible for participation in its program, including low-income customer assessments.

Columbia examined its efficiency programs utilizing various cost benefits tests. Columbia's results are summarized as follows:

Program	**Participant**	**RIM**	**TRC**	**PA**
	Test	Test	Test	Test
	B/C Ratio	B/C Ratio	B/C Ratio	B/C Ratio
Home Savings Program	2.3	0.8	1.0	1.2
Business Savings Program	2.3	0.9	1.0	1.4
Business Customer 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

Results for individual measures within these programs will vary from the above results. Columbia's estimates indicate that four out of eighteen individual measures in the Business Savings Program and one of the eight individual measures in the Home Savings

[5] http://www.dhcd.virginia.gov/HousingPreservationRehabilitation/PDFs/weatherization_providers.pdf

Programs have TRC ratios less than 1.00. A TRC ratio less than 1.00 indicates that the costs outweigh the benefits for these measures. Additionally, Columbia's estimates indicate that its plan will as a whole fail the RIM test. As such, the plan would raise Columbia's average non-gas rates.

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

In addition, after the first year, the Company will compare actual program costs with the costs recovered via the rate adjustment clause, and calculate a true-up or reconciliation of the prior year's under- or over-recovered expenses. This amount, which will include the Company's actual short term interest costs or income associated with timing differences between collections and program spending, will 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, will be divided by the applicable customer class' estimated volumes for the applicable year to determine the rate adjustment factor for that year.

Columbia also proposed a Revenue Normalization Adjustment ("RNA"), which is 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 is based on a revenue study derived from Columbia's most recent rate

proceeding and was based upon average weather-normalized customer usage in 2005. As such, Columbia's proposed RNA will, like VNG's, adjust for changes in a number of factors that are 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 15% of the net present value of the cumulative projected gas cost savings summed over the life of each measure minus the net present value of the recovered conservation and energy efficiency costs. The proposed incentive is a flat rate shared-savings mechanism that is intended to allow Columbia's shareholders to share in the net benefits created by its energy efficiency programs.

Status of Proceeding

The Commission issued its Order for Notice and Hearing regarding Columbia's application on June 23, 2009. That Order assigned the case to a Hearing Examiner, scheduled a public hearing, and set forth dates for the submittal of testimony by the Commission Staff and participating parties. The Office of the Attorney General, Division of Consumer Services and the Virginia Industrial Gas Users' Association filed notices of participation in Columbia's proceeding on July 20, 2009 and August 4, 2009, respectively. The Commission Staff submitted its testimony on September 28, 2009. The Hearing Examiner conducted a public hearing for the purpose of hearing public comments on October 19, 2009, and an evidentiary hearing on October 28, 2009. During

the evidentiary hearing, Columbia, the Commission Staff and the other parties to the proceeding submitted a comprehensive stipulation setting forth modifications to Columbia's 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 level of incentive in accordance with the achievement of specified goals and actual savings generated by the incentive 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 assigned to the Columbia proceeding issued a report finding that the proposed Stipulation represents a reasonable compromise of the interests of Columbia and its customers and recommended that the Commission adopt the Stipulation. That recommendation is currently pending before the Commission.

Washington Gas Light Company

WGL's Filing

On September 29, 2009, WGL filed a conservation and rate making efficiency plan to offer a number of incentives to its residential customers, small commercial and industrial customers, and small group metered apartment customers. WGL estimated that its plan would save its customers $12.8 million over three years and that individual residential customers who participate in the various measures could save $106 annually.

WGL's proposed conservation and ratemaking efficiency plan has 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 that adjusts 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 an effective date for the plan to be the first day of the billing cycle month immediately after the Commission issues a Final Order approving the plan. WGL states that at the end of the three year period, it would return to the Commission seeking further approvals to continue or modify the plan.

WGL's proposed plan is made up of a portfolio of eight conservation and energy efficiency programs, including the Low Income Energy Assistance Program and Residential Essential Service Program. A brief description of these programs is provided below:

Energy Efficiency Education Program. The Energy Efficiency Education Program is intended to raise the general awareness of the importance of energy conservation among WGL customers and to teach customers how they can take advantage of the program offerings in order to conserve natural gas and lower their energy bills.

Heating System Check-up Program with Programmable Thermostat Option. This program will 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 will provide customers with information on low-cost and easy to implement energy efficiency measures. According to WGL, a programmable thermostat can decrease a household's energy expenditure by about 8% on average.

Boiler/Furnace Replacement Program. This program will 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. Further, this program will 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 will provide residential customers with an incentive to replace existing water heaters with more energy efficient natural gas water heaters. WGL will provide a $50 financial incentive for the installation of a standard natural gas water heater with an energy factor of 0.62 or greater. Further, WGL will provide 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 is intended to encourage residential customers to install highly energy efficient Energy Star rated natural gas equipment in residential new construction. In addition to the water heater and natural gas furnace incentives, an additional $250 incentive will be applied towards the cost of the Energy Star inspections, testing and modeling. 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. To be eligible for the program, a residential customer will be required to have natural gas for both heating and water heating.

Commercial Efficiency Program. WGL's Commercial Efficiency Program will provide commercial customers with incentives to offset the costs of weatherization and high efficiency equipment installation. A financial incentive of up to $10,000 may be provided to commercial customers' energy efficiency proposals that meet the standard of 80% of Total Resource Cost Test. Examples of energy efficiency measures that could be funded under this program include high-efficiency natural gas equipment – including water heaters, booster heaters, food service equipment, and hydronic heaters. In addition, installation of attic/roof insulation, windows, duct sealing, and other weatherization measures could be funded under this program.

Low Income Energy Assistance Program. This program provides funding to state agencies that administer the federal weatherization assistance programs. For WGL, the specific agency is the Community Housing Partners Corporation. The Community Housing Partners Corporation has indicated the need to develop and increase the number of energy auditors that work 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 Community Housing Partners Corporation, such as the training of energy efficiency auditors.

Residential Essential Service Program. WGL is proposing to spend $100,000 on this program that will assist low income residential customers with their winter gas bills by providing a credit to eligible low-income customers during the months of November through April.

WGL examined its efficiency programs utilizing various cost benefits tests. WGL's results are summarized as follows:

Program	**Participant**	**RIM**	**TRC**	**PA**
	Test	Test	Test	Test
	B/C Ratio	B/C Ratio	B/C Ratio	B/C 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

Results for individual measures within these programs will vary from the above results. Thus, WGL's estimates indicate that its plan will as a whole fail the RIM test. As such, the plan would raise WGL's average non-gas rates.

WGL is proposing 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 surcharge factors would be billed on a monthly basis thereafter.

In addition, after the first year, the Company will compare actual program costs with the costs recovered via the rate adjustment clause, and calculate a true-up or reconciliation of the prior year's under- or over-recovered expenses. This amount will be added or subtracted from the estimated costs for the next year.

WGL also proposed a decoupling mechanism, which is intended to align WGL's annual actual billed non-gas distribution revenue with a pre-established level of annual distribution revenue. The pre-established annual distribution revenue is based on a revenue study calculated in WGL's most recent rate proceeding and was based upon average weather-normalized customer usage in 2005. As such, WGL's proposed decoupling mechanism will, like VNG's and Columbia's, adjust for changes in a number of factors that are unrelated to WGL's proposed efficiency programs.

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

Status of Proceeding

The Commission issued its Order for Notice and Hearing regarding WGL's application on October 21, 2009. That Order scheduled a public hearing to be convened on February 1, 2010, and required that notices of participation be filed by December, 1, 2009. Interested parties may file copies of any pre-filed testimony regarding WGL's request by December 30, 2009. Commission Staff testimony is due on January 15, 2010.

Conclusion

The Commonwealth's three largest natural gas utilities have developed and proposed energy conservation 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. One such plan, VNG's, has been approved in a modified form and placed into effect. These preliminary results 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 efficiency 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, it is quite likely that the decoupling mechanisms adopted pursuant to the Natural Gas Conservation Act will increase 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 serves as the basis for decoupling mechanisms. To illustrate this point, at this point in time actual results indicate that VNG's decoupling mechanism will compensate the Company for energy reductions of approximately 10 million Ccfs, although VNG's own estimates indicate that

its programs have generated reductions of less than 116,000 Ccfs. The Commission will continue to monitor actual results and report to the Governor and General Assembly as directed. 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.