



# *Infrastructure Investment Tracking Mechanisms in Utility Rates: Accuracy, Equity, and Efficiency*

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# Natural Gas: Clean, Abundant, Efficient, Domestic



# American Gas Association

- National, nonprofit trade association serving 202 investor-owned and municipal natural gas utilities
- Provides a broad range of services for members and their customers, including compilation of national statistics and energy data
- Does not represent the interests of natural gas producers or interstate natural gas pipelines

# Traditional Rate Design

- 19<sup>th</sup> century rate design
- **Based on forecast costs** - rather than actual
- **Based on forecast volumes** – each volumetric unit of natural gas is assigned a pro-rata share of distribution costs
- **Forecast errors** – are assumed
- **Implies inequity** – either customer or company loses
- **Implies inefficiency** – only remedy is frequent rate case

# Innovative Rate Design: Non-volumetric Rates and Cost Trackers

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

- **45 million residential customers** in 36 states currently served under non-volumetric rates such as revenue decoupling
- Stimulus and cap and trade may require

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

- **62 million residential customers** have cost trackers (non-PGA) as part of their rates

**Only 4 states without either a cost tracker or a non-volumetric rate (AZ, FL, MT, NM)**

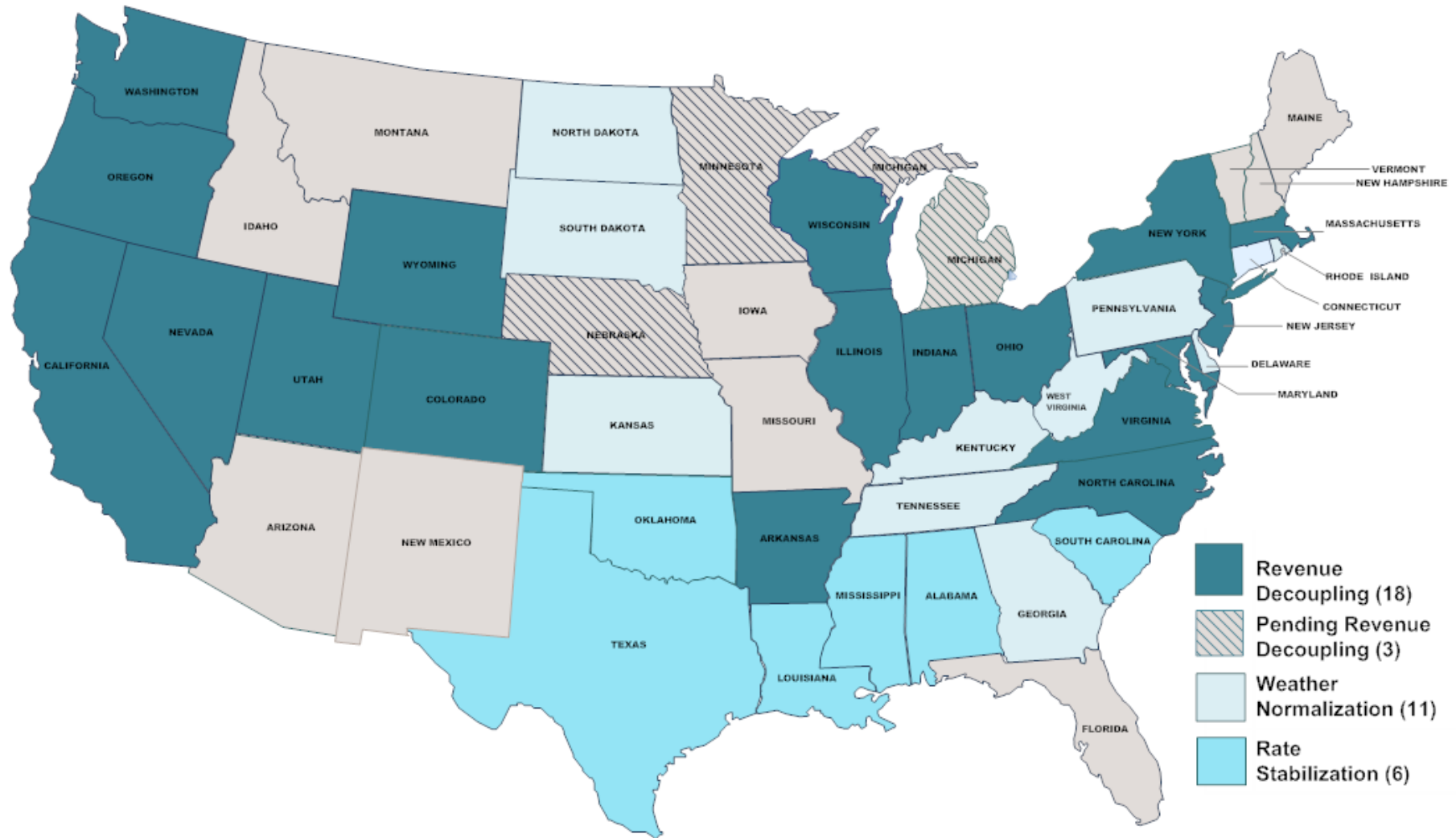
# What Are Tracking Mechanisms and Why Are They Used?

- Trackers are automatic adjustments to rates
- Trackers are approved in rate cases for specific future events, durations, and amounts
- The mechanisms track revenues or they track costs
- Trackers allow utilities to recover (or rebate) between rate cases the adjustments prospectively approved in the rate case
- Trackers have been in use since WWI



# States With Revenue Trackers

## 35 Approved and 3 Pending as of October 2009



# Revenue Tracker Summary

## Revenue Decoupling

- 18 states, 35 companies, 22 million residential customers

## Rate Stabilization Tariffs

- 6 states, 13 companies, 6 million customers

## Weather Normalization (Partial Decoupling)

- 26 states and Canada, 49 companies, 16 million US residential customers

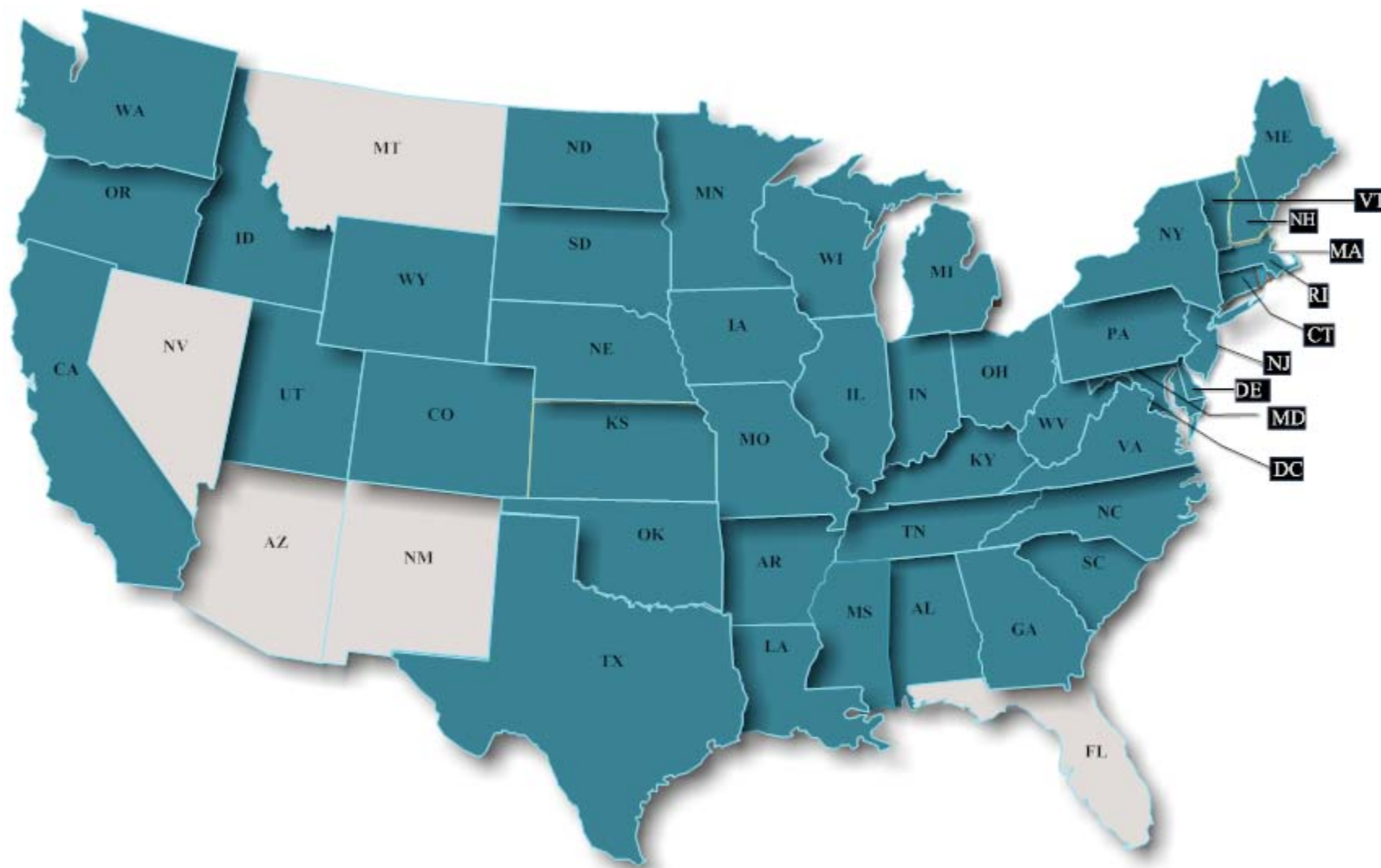
## All Revenue Trackers

- 78 companies, 35 states and Canada, 37 million US residential customers

**\* Of 65 Million (2007) US Residential Customers**



# States With Cost Trackers Other than PGAs as of October 2009



# Cost Tracker Summary

## **Gas Cost Tracker (PGA)**

- All states

## **Lost and Unaccounted For Tracker (LUAF)**

- 40 States

## **Bad Debt Cost Tracker**

- 20 states plus DC and Canada, 45 companies, 17 million US customers ; pending 8 companies, 9 million customers

## **Infrastructure Investment Cost Tracker**

- 13 states, 28 utilities, plus all in Texas, 16 million customers; pending 6 companies, 4 million customers

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

- Growing numbers

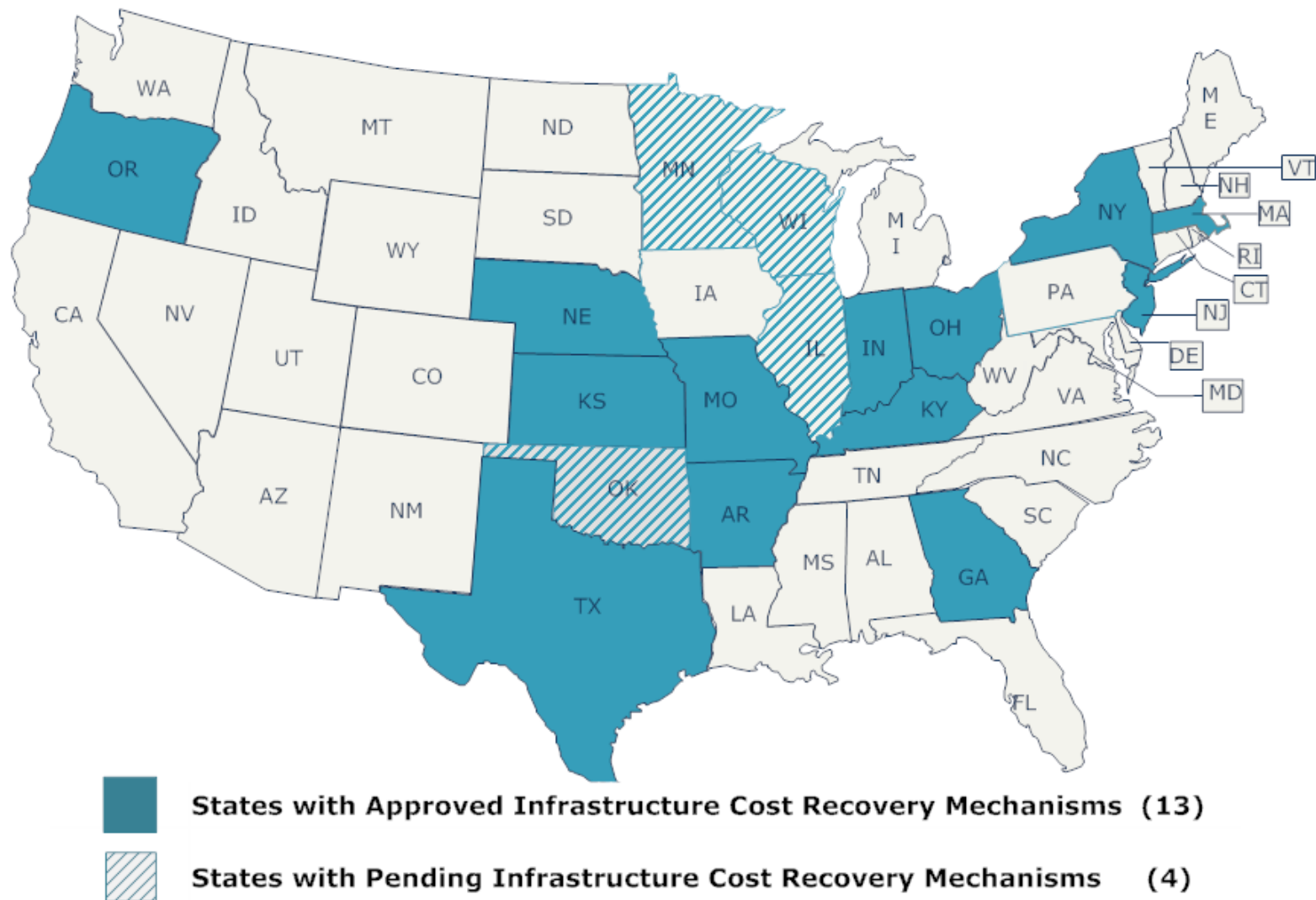
# Infrastructure Investment Tracking Mechanism Rationale

- States encouraging utilities to maximize safety and reliability investments
- Federal Pipeline Safety Act of 2002 requires increased maintenance and safety investments
- Rate Lag – Traditional rates do not recover costs until after investment made, sometimes several years
- Expenditures will not generate new sources of revenue

# Advantages of Infrastructure Investment Trackers

- Investments to ensure system safety and upgrade delivery reliability are made on a timely basis
- Expensive rate cases, whose costs are recovered from customers, are avoided
- Investments for replacement infrastructure do not lead to new sources of revenue that could otherwise help recover the costs
- Timely cost recovery for utilities and cost payment for customers
  - Cost incurrence over several years and small adjustments to rates avoids customer rate shock
  - Timely cost recovery leads to utility financial stability and reduced capital costs

# States With Infrastructure Cost Recovery Mechanisms As Of November 2009



# Infrastructure Cost Recovery Mechanisms as of November 2009

## APPROVED - 13 States

1. AR – CenterPoint Energy
2. GA – Atlanta Gas Light
3. IN – Vectren North – Indiana Gas
4. IN – Vectren South – SIGECO
5. KS – Atmos Energy
6. KS – Black Hills
7. KS – Kansas Gas Service
8. KY – Columbia Gas
9. KY – Duke Energy
10. MA – Bay State Gas
11. MO – Atmos Energy
12. MO – Laclede Gas
13. MO – Missouri Gas Energy
14. NE – Black Hills
15. NJ – Elizabethtown Gas
16. NJ – NJ Natural
17. NJ – Public Service Electric and Gas
18. NJ – South Jersey Gas
19. NY – Corning Natural Gas
20. NY – National Grid
21. OH – Duke Energy
22. OH – NiSource Columbia of Ohio
23. OH – Vectren Ohio

## APPROVED

24. OR – NW Natural
25. TX – Atmos Energy
26. TX – CenterPoint Energy
27. TX – Texas Gas Service
28. TX – All Natural Gas Utilities

***16 Million Residential Customers***

*\* Of 65 Million Customers in U.S. \**

## PENDING - 4 Additional States

1. IL – Integrys Peoples Gas Light & Coke
2. IL – Nicor
3. KY – Atmos Energy
4. MN – Minnesota Energy
5. NE – Source Gas
6. OK – Oklahoma Natural
7. WI – Madison Gas and Electric

***4 Million Residential Customers***



# National Grid NY Accelerated Main Replacement Program

- 5 year plan from 2008 to 2012
- Risk-based methodology identifies leak-prone pipes
- 150 miles cumulative to be replaced, 50 more than historic avg.
- Metric waived if pipe replacement due to city/state construction

# Duke Energy Ohio Accelerated Main Replacement Tracker

- Mechanism for all sales and transportation customers since 2000
- Customers assessed monthly charge in addition to usual customer charge
- Mechanism updated annually to reflect net plant additions

# Kansas Gas Service - Senate Bill 414: Gas Safety and Reliability Policy Act of 2006

- Surcharge mechanism for all Kansas natural gas utilities
- Utilities may surcharge between 0.5% and 10% of revenues to recover new infrastructure replacement costs
- Rates adjusted annually

# Summary of Tracking Mechanisms in Natural Gas Rate Design

- Trackers are used for events and costs over which the utility has little or no control: weather, cost of gas, infrastructure replacement , etc.
- Trackers are not used for events and costs over which the utility has control; O&M, labor, etc.
- Trackers are more accurate than forecasts
- **Trackers are equitable:** authorized and allowed costs are recovered as incurred and rebates provide rate relief in real time
- Trackers lead to the efficient use of commission and utility resources while still providing a mechanism for oversight and review of costs, revenues, and rates
- **Only 4 states without a non-PGA tracker: AZ, FL, MT, NM**



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