

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

IN RE:  INQUIRY INTO THE EFFECT OF REDUCED USAGE ON RATE- REGULATED NATURAL GAS UTILITIES	DOCKET NO. NOI-06-1
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**ORDER INITIATING INQUIRY**

(Issued February 9, 2006)

The Utilities Board (Board) is initiating an inquiry to investigate the effect of reduced natural gas usage resulting from increased energy efficiency and other factors over the next five years and the effect of this reduced usage on the non-gas revenues of Iowa's rate-regulated natural gas utilities. Iowa has joined seven other states, Michigan, Minnesota, Missouri, Wisconsin, Ohio, Illinois, and Indiana, to form the Joint Natural Gas Price Reduction Initiative (JNGPRI) to support regional and individual state actions to create downward pressure on natural gas prices by reducing demand for natural gas by 5 percent over the next five years. The states recognize that the high cost of natural gas creates a financial hardship on many consumers and represents millions of dollars exported from these state economies. Greater use of energy efficiency to reduce demand for natural gas in Iowa will reduce energy costs for Iowa consumers and will retain money within Iowa to support continued economic growth, but it may adversely affect utility earnings. The Board is

opening this docket to consider this issue. The inquiry has been identified as Docket No. NOI-06-1.

The state of Iowa has long supported energy conservation and the Board has helped develop programs for implementation by Iowa public utilities. Additional, cost-effective energy efficiency programs could further reduce the current demand for natural gas and even a moderately aggressive program, such as the one considered by JNGPRI, could offset a significant portion of the anticipated overall growth in natural gas usage. Utilizing untapped efficiency is generally considered one of the most effective steps that natural gas utilities and their customers can take to reduce the demand for natural gas and, in turn, reduce environmental pollution, power costs, and price volatility.

Adoption of more effective energy efficiency programs that meet the goals of JNGPRI could have a significant effect on the non-gas revenues of Iowa's rate-regulated natural gas utilities. In conventional "cost plus" utility regulation, utility revenues and profits are linked to unit (Mcf or therm) sales. Under this system, loss of sales due to successful implementation of energy efficiency can reduce a utility's regulated non-gas revenues. This creates tension between the utility's normal business incentive and the requirement for utilities to invest in cost-effective energy efficiency measures.

Under traditional regulation, a rate-regulated natural gas utility is not insulated from the economic pressures that other businesses experience. Through the rate

case process, approved rates are designed to provide the utility an opportunity to earn a fair return on the investments it has made to provide safe and adequate utility service. Under this system, the Board acts as a substitute for competition in setting rates and must judge whether there are conditions, other than normal business risks, that might undermine a utility's opportunity to earn its authorized rate of return.

In the past, the Board has made adjustments to a utility's revenue requirement because of exogenous factors outside management's control, such as large required capital investments, tax law changes, or Board-imposed initiatives. The Board is now proposing to support an expanded energy efficiency initiative intended to substantially reduce natural gas usage.

Through this inquiry, the Board will investigate the potential effects of this initiative and other factors in reducing natural gas usage, the resulting effect on regulated non-gas utility revenues, and will consider whether traditional regulation is flexible enough to address these effects or whether alternative mechanisms or approaches might be needed. In order to establish the scope of the inquiry and a procedural schedule, the Board has set out some initial questions for responses from interested persons. Once the responses to these initial questions are received, the Board will issue an order further defining the scope of the inquiry and establishing a procedural schedule, which may include workshops or presentations by outside consultants.

Persons interested in participating in this inquiry should file in this docket the following information: Name of the participant/organization, contact person, mailing address, phone number, facsimile number, and electronic mail address. If more than one person from any entity is planning to participate, the confirmation should include the names of all participants, but should designate a single contact person. Those persons indicating they wish to participate in this inquiry should respond to the following questions.

1. Is the goal of a 5 percent reduction in individual customer natural gas usage over the next five years achievable under current energy efficiency programs?
2. If additional or intensified energy efficiency programs are necessary to achieve this five-year goal, does the Board have the statutory authority to implement those programs?
3. Should these additional or intensified programs include all natural gas customers or only those with temperature-sensitive usage?
4. If additional or intensified energy efficiency programs are implemented to reach the five-year goal, are previously-established regulatory principles sufficient to address the effect of reduced usage on regulated non-gas utility revenues?

5. Aside from the five-year energy efficiency goal, what other changes in usage are projected for Iowa's natural gas utility customers over the next five years?

6. What are the main factors expected to drive these other projected usage changes and how are the influences of these factors quantified?

7. How do these projected changes compare with previous usage changes over the past ten years (excluding changes due to weather)?

8. Are previously-established regulatory principles sufficient to address the effect of these other projected usage changes on regulated non-gas utility revenues?

9. Should the Board consider adopting alternative regulatory mechanisms or approaches to address the effects of additional or intensified energy efficiency programs, or other projected usage changes, on regulated non-gas utility revenues? Provide examples of alternative mechanisms or approaches that might be considered.

The Board has appointed Bob LaRocca as inquiry manager. Mr. LaRocca's telephone number and email address are 515-281-5898 and

[Bob.LaRocca@iub.state.ia.us](mailto:Bob.LaRocca@iub.state.ia.us).

**IT IS THEREFORE ORDERED:**

1. An inquiry, identified as Docket No. NOI-06-1, is initiated to investigate the effect of reduced natural gas usage on rate-regulated natural gas utilities.
2. Interested persons wishing to participate in this inquiry shall file the information described in this order within 20 days of the date of this order.
3. The Records and Information Center shall send copies of this order to all rate-regulated natural gas utilities offering service in Iowa.

**UTILITIES BOARD**

/s/ John R. Norris

/s/ Diane Munns

ATTEST:

/s/ Judi K. Cooper  
Executive Secretary

/s/ Curtis W. Stamp

Dated at Des Moines, Iowa, this 9<sup>th</sup> day of February, 2006.