

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 REQUESTING ADDITIONAL RESPONSES**

(Issued July 11, 2006)

On February 9, 2006, the Utilities Board (Board) initiated an inquiry into the effect of reduced natural gas usage resulting from increased energy efficiency and other factors on the non-gas revenues of Iowa's rate-regulated natural gas utilities. The Board indicated that the inquiry would investigate the potential effects of reduced natural gas usage on regulated non-gas utility revenues and whether traditional regulation is flexible enough to address these effects or whether alternative mechanisms or approaches might be needed.

On April 25, 2006, the Board issued an order scheduling a workshop to be presented by the Regulatory Assistance Project (RAP) to discuss the various mechanisms that have been adopted in other jurisdictions for addressing the effect of reduced usage of natural gas on regulated natural gas utilities. The workshop was held on May 10, 2006, and consisted of a presentation by RAP and a round table discussion among the participants.

Increased emphasis on energy efficiency from the Joint Natural Gas Price Reduction Initiative (JNGPRI) and the rising price of natural gas are considered major factors in reduced consumption of natural gas. It was suggested at the workshop and in comments from participants that factors other than increased energy efficiency may also cause customers to reduce usage of natural gas. The combination of these factors will increase pressure on the revenue recovery of natural gas utilities in Iowa. Several different mechanisms have been adopted or proposed in other jurisdictions to address this problem. Some of these mechanisms are not suitable in the Iowa regulatory environment. Some of the other mechanisms may be suitable for Iowa.

After reviewing the comments and the presentation by RAP, the Board has some additional questions for the participants. The responses to these questions will provide the Board with additional information about mechanisms that may be acceptable for Iowa utilities. The Board continues to consider the possible regulatory responses to the pressure on natural gas utilities' revenues of reduced usage and the appropriate mechanisms that could be adopted outside of the traditional rate case process.

The questions to be addressed by the participants are as follows:

1. Should the Board consider a rate design, such as the fixed-variable rate design, that moves fixed costs to a customer charge or other fixed charges and away from fixed costs being recovered in a variable rate?
2. Should the rate design described in Question 1 be considered regardless of whether it is supported by a class-cost-of-service study?

3. Please address any benefits or detriments that might result from adoption of the type of rate design described in Question 1.

4. Could the Board adopt a revenue normalization mechanism under traditional regulation in Iowa?

5. If a revenue normalization mechanism could be adopted, should the Board consider a revenue normalization mechanism similar to the one presented by RAP? A revenue normalization mechanism as described by RAP would require the establishment of an approved revenue requirement and then would allow an adjustment of rates as needed over time to sustain the revenue requirement based upon a "revenue per customer" amount. The mechanism would measure actual revenue variations due to weather, conservation, economic changes, and other causes and would include a true-up over future months or a future year.

6. Address whether it is possible to establish an accurate "revenue per customer" amount and describe what you see as the benefits and detriments to adopting a revenue normalization mechanism similar to the type described by RAP.

7. Iowa Code § 476.97 allows a rate-regulated public telephone utility to file a price regulation plan that removes the telephone utility from rate regulation for the term of the plan. Many of the components of the price regulation plan in § 476.97 relate specifically to the operations of telephone utilities. However, the concept may have some viability for rate-regulated natural gas utilities faced with declining natural gas usage.

Would a revenue stabilization plan for natural gas utilities similar to the price regulation plan in Iowa Code § 476.97 with the following components be a reasonable solution to address declining revenues for natural gas utilities?

a. A plan would be in effect for three to five years after it was approved in a general rate case proceeding.

b. The plan would provide for increases in non-gas rates for natural gas service reflecting annual reduction in sales of natural gas adjusted for a productivity factor of 2 percent. Calculations to determine the amount of any revenue increase would be adjusted for weather.

c. The plan would provide that increases for non-gas rates could be deferred and accumulated for two years and implemented as a single rate increase.

d. The plan would provide that the utility could recover expenses, and investment, that had become used and useful and in-service and that were required to meet new federal pipeline safety regulations or homeland security regulations beyond the control of the natural gas utility.

8. Would the Board need statutory authority to implement a revenue stabilization plan as described in Question 7?

9. Describe any other components of a natural gas utility revenue stabilization plan that would be reasonable or necessary.

10. RAP discussed several other mechanisms that had been implemented or were being considered in other jurisdictions. If a mechanism that has not been described or addressed might be preferable, please describe the mechanism and how it should be implemented.

Participants should file their responses and replies in this docket and serve the other participants. Participants may serve the other participants by email and should send a copy of responses and replies to the Inquiry Manager Bob LaRocca at [Bob.LaRocca@iub.state.ia.us](mailto:Bob.LaRocca@iub.state.ia.us).

**IT IS THEREFORE ORDERED:**

1. Responses to the additional questions set out in this order shall be filed within 30 days of the date of this order.

2. Replies to the responses shall be filed within 15 days of the date the responses are due.

**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 11<sup>th</sup> day of July, 2006.