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Rethinking Natural Gas Utility Rate Design

Washington, D.C. – Maintaining the status quo in natural gas utility rate design will be costly to consumers, utilities and society, according to a white paper from the American Gas Foundation (AGF). AGF and the National Association of Regulatory Utility Commissioners (NARUC) Foundation sponsored an all-day executive forum at Ohio State University that brought together state regulatory officials, consumer advocates, financial analysts and executives from the natural gas utility industry to discuss the role of rate design in an era where utilities are increasingly encouraging energy efficiency at the expense of their economic livelihood.

The white paper, ***Rethinking Natural Gas Utility Rate Design***, examines traditional rate design, which links natural gas utility profits to the volume of gas transported, and concludes that with today's increasingly energy conscious environment and higher energy prices, traditional designs will not benefit the customer or the utility. According to ***Rethinking Natural Gas Utility Rate Design***, innovative rate designs and true-up mechanisms can break this cycle and align the interests of consumers, regulators, utilities and shareholders.

The white paper presents the views of a broad range of forum participants, including Ohio Public Utility Commissioner Don Mason, who also is chair of the NARUC gas committee; Wm. Michael Warren, Chairman of the AGF and Chairman and CEO of Energen Corp. of Birmingham, Ala.; Kenneth Costello, senior economist, National Regulatory Research Institute; and Russell Feingold of Navigant Consulting.

Among the white paper's highlights:

- Energy efficiency and conservation can provide relief for customers from high natural gas prices, and innovative rate designs such as the decoupling mechanism in place with NW Natural in Portland, Ore., can align the diverse interests of stakeholders.
- Consumers need to see clear benefits from new rate designs. Many customers seem to be price-sensitive, but most do not understand that natural gas utilities simply pass along the increases or decreases in gas commodity costs without any markup.

- A critically important, but often underemphasized element of any ratemaking approach linked to a conservation initiative is consumer education. Consumers would benefit from better understanding of potential rate design changes and how these can serve the best interest of the consumer.

The white paper examined several rate designs that further addressed the need to educate consumers and other key groups about the benefits of innovative rate designs.

Rethinking Natural Gas Utility Rate Design is available on the [American Gas Foundation web site](#). The forum took place on May 23, 2006.

Founded in 1989, the American Gas Foundation (AGF) is a 501(c)(3) organization that focuses on being an independent source of information research and programs on energy and environmental issues that affect public policy, with a particular emphasis on natural gas. Recently, the AGF has delivered key public policy reports such as ***Fueling the Future: Meeting the Gas Supply Challenge of the Next 20 Years*** (2005); ***Safety Performance and Integrity of the Natural Gas Distribution Infrastructure*** (2005) and ***Public Policy and Real Energy Efficiency*** (2005).

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Note to Journalists: *The American Gas Foundation plans to offer a briefing for journalists with some of the forum participants via audioconference in the August. If you are interested in being a part of this press briefing, please provide your name and contact information to Daphne Magnuson at dmagnuson@aga.org. Further details to follow.*

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