

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ATMOS ENERGY)
CORPORATION TO MODIFY AND EXTEND)
ITS DEMAND-SIDE MANAGEMENT) CASE NO. 2008-00499
PROGRAM AND COST RECOVERY)
MECHANISM)

ORDER

BACKGROUND

On December 2, 2008, Atmos Energy Corporation (“Atmos”) filed an application seeking Commission approval to modify and extend its Demand-Side Management (“DSM”) program through December 31, 2011. Atmos also requested authority to modify its DSM tariff cost-recovery mechanism to recover the costs associated with the proposed program modifications. Finding that Atmos’ current DSM program was scheduled to expire on December 31, 2008 and that a decision on its proposed modifications could not be rendered by that date, the Commission issued an Order on December 18, 2008 continuing the existing program until a final decision is rendered in this proceeding, suspending Atmos’ proposed tariff through May 31, 2009, and establishing a procedural schedule. The Attorney General, by and through his Office of Rate Intervention (“AG”), was granted intervention in this proceeding on December 30, 2008.

Atmos' DSM program was first approved by the Commission as part of a settlement in Case No. 1999-00070.¹ The current DSM program and cost-recovery mechanism were last approved by the Commission in Case No. 2005-00515.² The program was designed to provide low-income households with annual funding of weatherization services. The day to day administration is provided by various community action organizations and Atmos is charged for that service on a per-household basis. Atmos reimburses the administering organization with funds collected under its DSM tariff.

DISCUSSION

Atmos contends that the cost of weatherization has dramatically increased since the program was initially approved and that it wants to provide more assistance to qualifying customers interested in making their homes more energy efficient. It proposes to: (1) increase the amount of assistance available per home from \$1,500 to \$3,000; (2) increase its weatherization budget from \$200,000 to \$300,000 annually; (3) add a rebate component to its program which would provide incentives to customers who purchase energy-efficient furnaces, boilers, and water heaters; and (4) add an educational component to the program to educate elementary school-aged children in Atmos' service area about energy-efficiency measures that could be implemented in their homes.

¹ Case No. 1999-00070, The Application of Western Kentucky Gas Company for an Adjustment of Rates (Ky. PSC Dec. 21, 1999).

² Case No. 2005-00515, The Application of Atmos Energy Corporation for Approval to Extend Its Demand-Side Management Program And Cost Recovery Mechanism for Three Years, (Ky. PSC Dec. 22, 2005).

The proposed program additions will increase annual program costs from \$200,000 to \$909,500. Rebates offered for efficient-appliance purchases by customers account for \$472,500 of the additional costs. California test results submitted with Atmos' application demonstrate that the proposed programs are cost effective.³ The proposed program enhancements are designed to help customers lower their monthly bills by becoming more energy efficient. In offering these programs, Atmos states that it is responding to customer inquiries regarding the availability of conservation programs, equipment upgrade incentives, and the possibility of lowering consumption through increased insulation measures.

Atmos recovers the costs associated with its DSM program through the DSM Cost Recovery Mechanism ("DSMRC"). The DSMRC is a billing adjustment designed to recover direct and indirect costs from all residential customers. Atmos is requesting approval to modify the DSMRC to recover the base rate revenues associated with the lost sales and to add an incentive component based upon the gas savings associated with the program. Atmos proposes an incentive in the amount of 15 percent of the participants' resource savings based on the Commission's approval of a 15 percent

³ The California tests are measures developed by the staff of the California PUC to determine cost effectiveness of DSM programs. Three of the four tests measure the cost for participants, ratepayers, and program administrator, respectively, while the fourth test, the Total Resource Cost test, measures cost-effectiveness for the three aforementioned groups on an aggregate basis.

incentive in other jurisdictional DSM programs.⁴ Cost recovery per residential bill is expected to be \$0.025 per Mcf.

The AG, through comments, expressed his approval of Atmos' efforts to improve its DSM program; however, he expressed some concerns with its proposal. He requested that, if the proposed program is approved, Atmos be required to increase its level of reporting on its DSM programs to the Commission. Atmos states that, while it does not agree with the expanded reporting the AG suggested, it concurs that the program should be continually monitored and reports should be made regularly to the Commission.

The AG also suggests that Atmos should be required to define its true-up process in detail and base the results on actual savings as well as engineering estimates. Atmos contends that its proposed balancing adjustment adequately addresses his concern. While the AG does not oppose the increase in the weatherization budget, he does not agree with the request to increase the per-household limit. In addition, he suggests that the weatherization program should not be limited to low-income customers but that some level of weatherization services should be made available to all customers. Atmos contends that it would be inappropriate to offer the assistance to all customers. It asserts that its DSM program was originally designed to specifically provide assistance to low-income families and that it should

⁴ Case No. 2006-00426, The Annual Cost Recovery Filing For Demand Side Management By The Union Light, Heat And Power Company D/B/A Duke Energy Kentucky; Case No. 2008-00252 Application of Louisville Gas And Electric Company For An Adjustment Of Its Electric And Gas Base Rates; Case No. 2008-00062, The Application Of Delta Natural Gas Company, Inc. For Approval Of A Customer Conservation/Efficiency Program And Demand Side Management Cost Recovery Mechanism.

continue to serve that purpose. The AG supports Atmos' proposed rebate program, but believes that the rebates offered should be based on the size of the furnace, boiler, or water heater installed. Atmos argues to the contrary that the rebate is proposed as an incentive to encourage its customers to purchase fully efficient equipment sized to meet their needs. It contends that the AG's suggestion would encourage customers to buy a larger furnace, boiler, or water heater than they need and, accordingly, use more energy than they need. The AG also contends that the education program funding could be better used elsewhere and refers to this program as goodwill for the company. He maintains that there is no way to measure the true benefits of this program. Atmos acknowledges that it did not endeavor to calculate savings that would result from this component, but argues that the \$20,000 program cost is *de minimus* and that there is great merit in the concept of educating young children to be more energy efficient.

SUMMARY

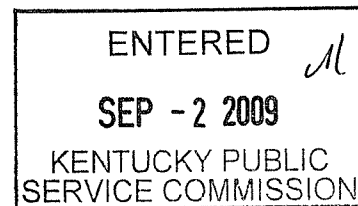
After careful review of the record, including the AG's comments and Atmos' response, and being otherwise sufficiently advised, the Commission finds that:

1. Atmos' request to modify and extend its DSM program through 2011 is reasonable and should be approved, with the additional requirement that Atmos should be required to file status reports as proposed by the AG.
2. Atmos' proposed revised tariff reflecting recovery of costs associated with the implementation of its DSM programs, including net lost revenues and incentives associated with the programs, is reasonable and should be approved.

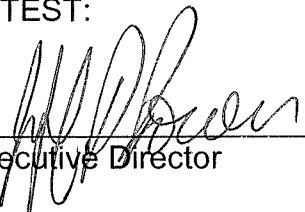
IT IS THEREFORE ORDERED that:

1. Atmos' DSM program modifications are approved as proposed and are extended through December 31, 2011.
2. Atmos' proposed revised tariff is approved as of the date of this order.
3. Atmos shall file an annual DSM program status report with its annual financial report. This status report shall include cumulative program participation totals, estimated savings per program, and costs associated with each program.
4. Within 10 days of the date of this Order, Atmos shall file its revised tariff showing the date of issue and that it was issued by authority of this Order.

By the Commission.



ATTEST:



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