PROPOSED NEW 16 TAC §7.480	**§**	**RAILROAD COMMISION**
RELATING TO ENERGY	**§**	**OF TEXAS**
CONSERVATION PROGRAMS	**§**	

CITY OF HOUSTON'S INITIAL COMMENTS

The City of Houston (Houston) respectfully submits the following initial comments regarding the Railroad Commission's (Commission) proposed new 16 Texas Administrative Code (TAC) §7.480 relating to Energy Conservation Programs (ECP) for local distribution company (LDC) gas utilities and related cost recovery known as the energy conservation program rate (ECP rate). Houston appreciates the opportunity to provide the Commission with its comments. Houston supports energy conservation programs administered by utilities when the programs and measures are proven to be cost effective, costs are recovered equitably, and programs are offered and available to all customers. Houston submits comments on the following issues. Houston reserves the right to respond to other issues as may be raised by interested parties in this docket.

Require Notice to Participants. The rule requires the LDC to provide notice to consumers but does not include notice requirements for other interested parties. Therefore, Houston recommends that the rule include the requirement to provide notice of the ECP application or subsequent annual reports to the intervenors in LDC's most recent general rate proceeding.

Require a Volumetric Charge Versus a Fixed Charge. The ECP rate and cost recovery mechanism for the ECP is regressive to smaller customers. The rule requires the development of a separate ECP rate to be charged to each customer class. The ECP rate for each customer class is a fixed monthly charge versus volumetric or therm charge. Based on the formula provided in the proposed rule, the costs of the ECP are recovered on a monthly bill basis from customers within each class. However, natural gas conservation programs reduce consumption, or the volumes/therms sold to customers. Thus, the costs should be recovered on a volumetric or therm rate basis by the ECP rate. The Energy Efficiency Cost Recovery Factor (EECRF) is a similar program applied by electric utilities and is recovered through a volumetric or energy kilowatt-hour rate, not monthly customer charge. Maintaining the monthly customer rate for cost recovery would penalize or shift more costs to smaller consumers in the classes and unduly benefit larger customers within each customer class. For example, residential customers using 5 therms per month would pay the same for the EDC programs as customers using 200 therms per month. Combined with the potential for recovery of lost marginal revenues, some customers will be paying for a program, whose consumption is too small to equitably receive the benefits. Houston recommends that the Commission require the ECP rate to be designed as a volumetric consumption rate and charged to customers on a volumetric or therm basis per month.

Require Measurement, Verification and Quantification of Proposed Programs. The proposed new rule does not include a provision for the measurement, verification, and quantification of the proposed programs once implemented to monitor actual gas savings or conservation or benefits to customers that would inform future ECP measure and program choices. Without any measurement and verification of the program measures for their performance, there is no way to ensure the measures included in a LDC's ECP are effectively reducing gas consumption or cost effective in reducing consumption. Similar to the EECRF evaluation measurement, and verification (EM&V) requirements, the ECP should require program evaluation by a third party to verify and report on performance of the program and measures and ensure the cost effectiveness and efficacy of the program.

Clearly Define Lost Revenue Provisions. Texas Utilities Code, §104.403 (c) states the LDC may apply for additional cost recovery if the LDC does not earn above the rate of return established in the current rates. If the LDC is earning less than its approved rate of return, the

Commission may allow the company to recover an amount equal to the reduction in the company's marginal revenues due to lower sales or demand resulting from the ECP. The section and rule do not provide any formula or detailed instructions for quantifying the possible margin lost from conservation. While decoupling is an industry practice that allows the utility to support conservation and reductions in sales while maintaining an approved return or margin for the utility, it is not defined in detail by the rule. While this is not an uncommon practice, this decoupling mechanism and allowance for increased cost recovery should be quantified and a detailed formula should be provided for calculating the lost margin directly due to the ECP.

Houston appreciates the opportunity to submit comments on the proposed new rule regarding energy conservation programs for gas utilities.

Respectfully Submitted,

CITY OF HOUSTON, TEXAS

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