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July 6, 2009

EFILE

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
P. O. Box 3265
Harrisburg, PA 17105-3265

In re: Docket No. I-2009-2099881
Compliance of Commonwealth of Pennsylvania with Section 410(a) of the
American Recovery and Reinvestment Act of 2009

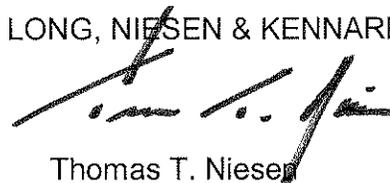
Dear Secretary McNulty:

Enclosed for filing on behalf of Equitable Gas Company, LLC is the original of its Comments to the Public Utility Commission's Investigation Order entered May 6, 2009 in the above matter.

Very truly yours,

THOMAS, LONG, NIESEN & KENNARD

By



Thomas T. Niesen

cc: Steven Bainbridge, Esquire (by email w/encl.)
Ed Berzonsky (by email w/encl.)
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090706-McNulty (Comments).wpd

**Before the
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Compliance of Commonwealth :
Of Pennsylvania with Section : **Docket No. I-2009-2099881**
410(a) of the American Recovery :
And Reinvestment Act of 2009 :

**EQUITABLE GAS COMPANY'S
COMMENTS TO THE INVESTIGATION ORDER
ENTERED MAY 6, 2009**

AND NOW, comes Equitable Gas Company, LLC (“Equitable” or “Company”), by its attorneys, and, submits the following Comments in accordance with the Public Utility Commission’s (“Commission”) Investigation Order (“Order”) entered May 6, 2009 in the above captioned proceeding:

1. On March 23, 2009, in a letter to U.S. Department of Energy Secretary Steven Chu, Governor Rendell applied for additional state energy grants available at the discretion of the Secretary of Energy pursuant to the American Recovery and Reinvestment Act of 2009. The additional state grants were made available only if the Secretary of Energy received written notification that Governor Rendell has obtained necessary assurances. One such assurance included the following:

The applicable State regulatory authority will seek to implement, in appropriate proceedings for each electric and gas utility, with respect to which the State regulatory authority has ratemaking authority, a general policy that ensures that utility financial incentives are aligned with helping their customers use energy more efficiently and that provide timely cost recovery and timely earnings opportunity for utilities associated with cost-effective measurable and verifiable efficiency savings, in a way that sustains or enhances utility customers’ incentives to use energy more efficiently.

2. Consistent with the aforementioned condition, on March 23, 2009, Governor Rendell, in a letter addressed to Chairman Cawley, requested that the Commission consider additional steps that the Commonwealth should undertake to establish appropriate incentives in electric and natural gas utility rates for energy efficiency programs. The steps should include policies to align interests of utilities to support conservation without raising the cost of conservation and increasing the cost to ratepayer of measurable verifiable efficiency savings.

3. On May 6, 2009, the Commission entered an Order adopted at its Public Meeting of April 16, 2009, initiating an investigation regarding the policies and actions that should be implemented to ensure compliance with the requirements of Section 410(a) of the American Recovery and Reinvestment Act of 2009 (“ARRA”).

4. The Order invites interested parties to submit initial comments addressing any appropriate actions, orders, policy statements, or regulations that the Commission should adopt to ensure compliance with Section 410(a) of the ARRA or to respond to the potential effect of proposed federal energy legislation, including the issue of rate decoupling and all such measures that have the potential to encourage utility energy efficiency and conservation while ensuring the financial viability of the utilities.

5. Equitable is pleased to have the opportunity to comment on the Investigation Order at Docket No. I-2009-2099881. Equitable's Comments are presented in the Appendix A attached hereto for discussion purposes in response to the Commission's invitation and without prejudice to any position Equitable might take in any subsequent proceeding or proceedings involving these or any other matters. Equitable is also joining in comments being filed by the Energy Association of Pennsylvania.

WHEREFORE, Equitable Gas Company, LLC submits these Comments to the Public Utility Commission's Investigation Order entered May 6, 2009.

Respectfully submitted,

By



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Date: July 6, 2009

APPENDIX A

EQUITABLE GAS COMPANY, LLC
("Equitable" or "Company")
Comments to the Public Utility Commission's
Investigation Order Addressing the
American Recovery and Reinvestment Act of 2009

Comments to Suggested Topics Identified Ordering Paragraph 1

Ordering Paragraph 1 of the Investigation Order entered May 6, 2009, advises that the Commission is seeking to implement, in appropriate proceedings, general rate making policies that ensure that utility financial incentives are aligned with helping customers use energy more efficiently and that provide timely cost recovery and a timely earnings opportunity for utilities associated with cost-effective measurable and verifiable efficiency savings, in a way that sustains or enhances utility customers' incentives to use energy more efficiently.

"Appropriate Proceedings"

Equitable recommends that the Commission initiate a proceeding to develop and establish a general policy and identify filing requirements by which Natural Gas Distribution Companies ("NGDCs") thereafter would propose revenue neutral rate design changes to ensure that utilities' financial incentives are aligned with helping customers use energy more efficiently. Equitable believes that this type of generic proceeding would be preferable to individual NGDC base rate case proceedings. Pilot programs by individual NGDCs might also be considered in this type of generic proceeding.

General Rate Making Policies That Ensure That Utility Financial Incentives Are Aligned With Helping Customers Use Energy More Efficiently

As addressed further below in these Comments, Equitable supports the consideration of new and innovative rate making policies that align utility financial incentives with efficient customer usage.

Timely Cost Recovery and Timely Earnings Opportunities

Equitable supports timely cost recovery and timely earnings opportunities for utilities associated with cost-effective, measurable and verifiable efficiency savings. Several related issues may need to be addressed. For example, how will NGDCs be able to verify efficiency savings? Act 129 requires Electric Distribution Companies ("EDCs") to propose conservation programs as well.

- NGDCs will not be able to identify spill-over impacts of electric conservation programs to gas customers unless information is shared.
- Verifiable efficiency savings requires an evaluation to distinguish between program-specific reductions in customer usage and other causes of reduced consumption. This issue could lead to adversarial regulatory proceedings due to the uncertainty in measuring lost margins unless it is properly addressed.

Comments to Suggested Topics Identified in Ordering Paragraph 2

Ordering Paragraph 2 of the Investigation Order entered May 6, 2009, advises that Comments should address any appropriate actions, orders, policy statements, or regulations that the Commission should adopt to ensure compliance with Section 410(a) or to respond to the potential effect of proposed federal energy legislation, including the issue of rate decoupling and all such measures that have the potential to encourage utility energy efficiency and conservation while ensuring the financial viability of the utilities.

Rate Decoupling and Other Measures, Including Energy Efficiency and Conservation Programs

a) Rate Decoupling - Traditional Pennsylvania rate design principles provide utilities with the opportunity to recover the majority of fixed delivery service costs (costs of providing distribution service) and natural gas supply costs via commodity or throughput based rates. Within Equitable's total residential delivery service revenue requirement, for example, approximately 27.5% is recovered through a fixed monthly service charge while 72.5% is recovered through a throughput based delivery service charge. Through the application of existing rate design principles, increased customer usage enhances return, whereas decreased customer usage negatively impacts return. At a minimum, the Commission should review reversing the revenue recovery mechanisms so that a majority of revenue is recovered through fixed monthly charges.

Equitable supports the consideration of new and innovative rate design principles and policies consistent with Section 410(a) of the ARRA. The principles and policies considered should provide a vehicle for utilities to recover the cost of energy conservation programs provided by and through NGDCs and lost revenues resulting from the programs and customer conservation. The principles and policies considered should encourage a partnership between NGDCs and their customers promoting energy conservation. With existing principles and policies, there is a disconnect between the programs and utility revenue. As an example, current Pennsylvania regulations mandate the submission of a low-income usage reduction program to assist low-income customers conserve energy and reduce residential energy bills. While the cost to provide the LIURP programs may be recovered, lost revenue due to customer conservation is not.

b) Gas-On-Gas Competition - Equitable submits further that the matter of gas-on-gas competition by Western Pennsylvania NGDCs should also be addressed by the

Commission as part of its review of rate design principles and policies. Presently, Western Pennsylvania NGDCs have an incentive to capture load by waiving or reducing various charges and/or discounting Commission approved delivery rates below those charged by neighboring NGDCs in order to enhance rate of return by adding incremental load. Many times, the load taken is uneconomic for the acquiring utility. Shifting more of the cost recovery to fixed monthly charges could reduce the incentive to raid another utility's customer base solely to increase the rate of return through volumetric measures.

c) Energy Efficiency and Conservation Programs – As of May 2009, energy efficiency and conservation programs had been implemented in 34 states. In those states, it is widely recognized that utility incentives must be aligned with helping customers reduce usage. An effective program must have a mechanism to allow the utility to recover its direct program costs and lost revenues and earn a profit on energy efficiency services.

Typical direct costs of energy efficiency programs offered by natural gas utilities in other states include cash rebates and low-interest financing for high-efficiency natural gas appliance purchases, home energy audits, weatherization kits and providing web-based energy calculators, information to consumers on insulation, programmable thermostats and high-efficiency appliances. These direct costs are generally recovered in base rates, tracked and recovered through a rate rider, or deferred and recovered later as a surcharge. Many utilities have a stand-alone energy efficiency tariff, or rate rider, to recover direct program costs.

Lost margins due to decreased throughput can have a significant revenue impact on utilities with traditional volumetric rates. As discussed previously, rate decoupling can negate this impact and provide the proper alignment of customer friendly programs with the utilities' need to remain viable. Measures, other than rate decoupling, that the Commission might consider that would have the potential to encourage energy efficiency and conservation while ensuring the financial viability of utilities are:

- Straight-fixed variable rates which would provide for the recovery of distribution service costs through a flat monthly fee and commodity related natural gas costs through the variable portion of a customer's bill similar to other services such as cable TV, internet and cellular telephone, and which is the FERC-approved rate design for many interstate pipelines.
- Revenue stabilization mechanisms which would provide for Commission review and approval of periodic utility rate adjustments based on a comparison of achieved versus approved rate of return earned.

Finally, various states have explored making energy efficiency a profitable service rather than a break-even (or losing) proposition. Generally, the traditional incentives offered utilities require that capital be committed to supply-side projects, recognizing that increasing throughput should positively impact return. To encourage utilities to abandon this methodology, clear signals need to be provided to the utility that the regulators will

incentivize utility adoption of energy efficiency and conservation incentives. Three methods of sending such signals are performance target incentives, shared savings incentives and a rate of return adder. Performance target incentives would reward the utility for achieving certain energy efficiency goals or benchmarks. Shared savings incentives would allow the utility to share in a portion of the measured savings its customers experience through the implementation of energy efficiency and conservation programs. Finally, a rate of return adder is a mechanism premised on the ability of a utility to capitalize and earn a return on energy conservation and efficiency programs in the same way that other utility investments are treated for ratemaking purposes.