Emission Reduction through Fuel Efficiency Incentives and Voluntary Cost Recovery Mechanisms

Natural Gas STAR Annual Implementation Workshop

Transmission and Distribution Panel

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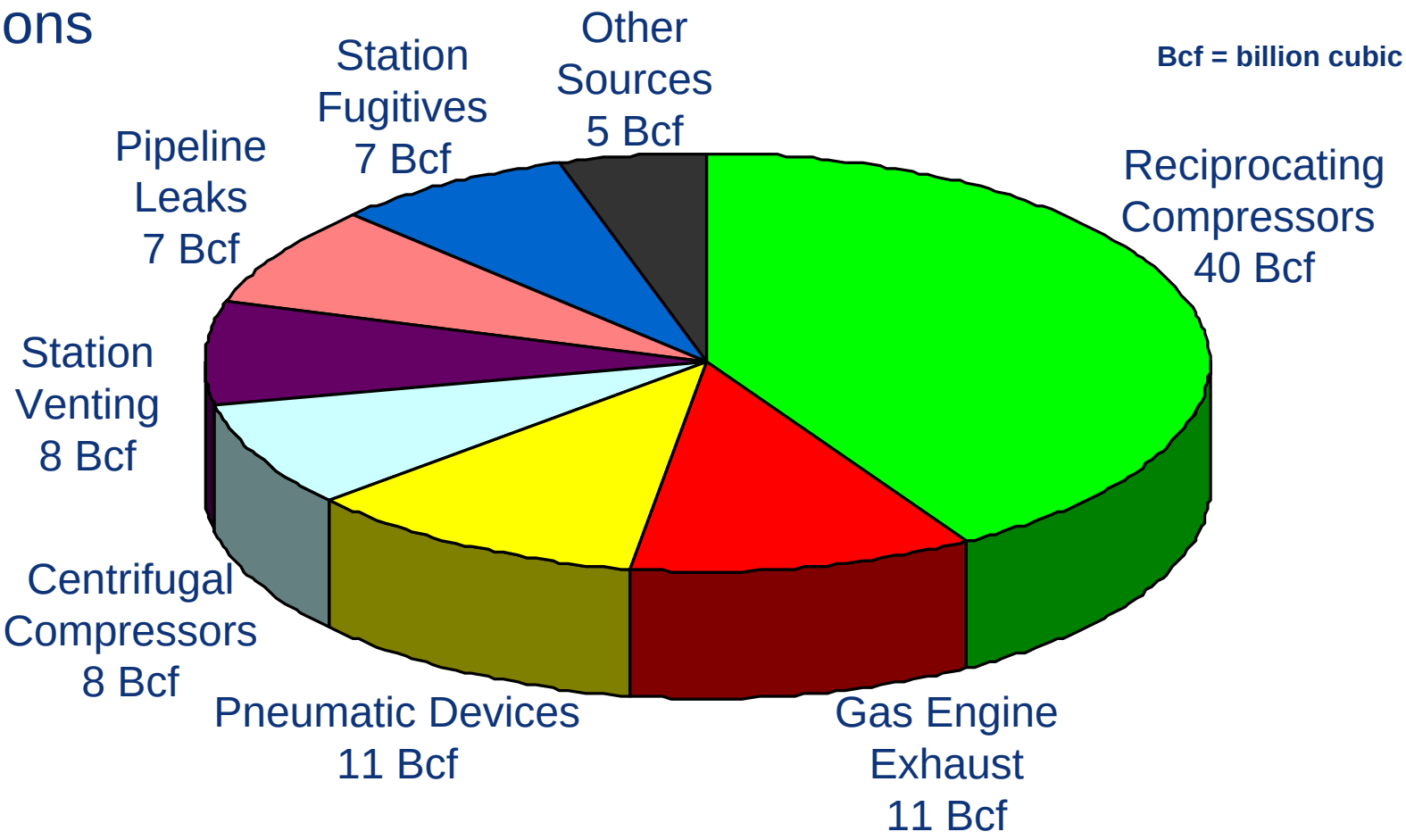
Why Focus on Gas Transmission and Distribution?

2008 Transmission Sector Methane Emissions (97 Bcf)

- Majority of emissions from fugitives and venting at compressor stations

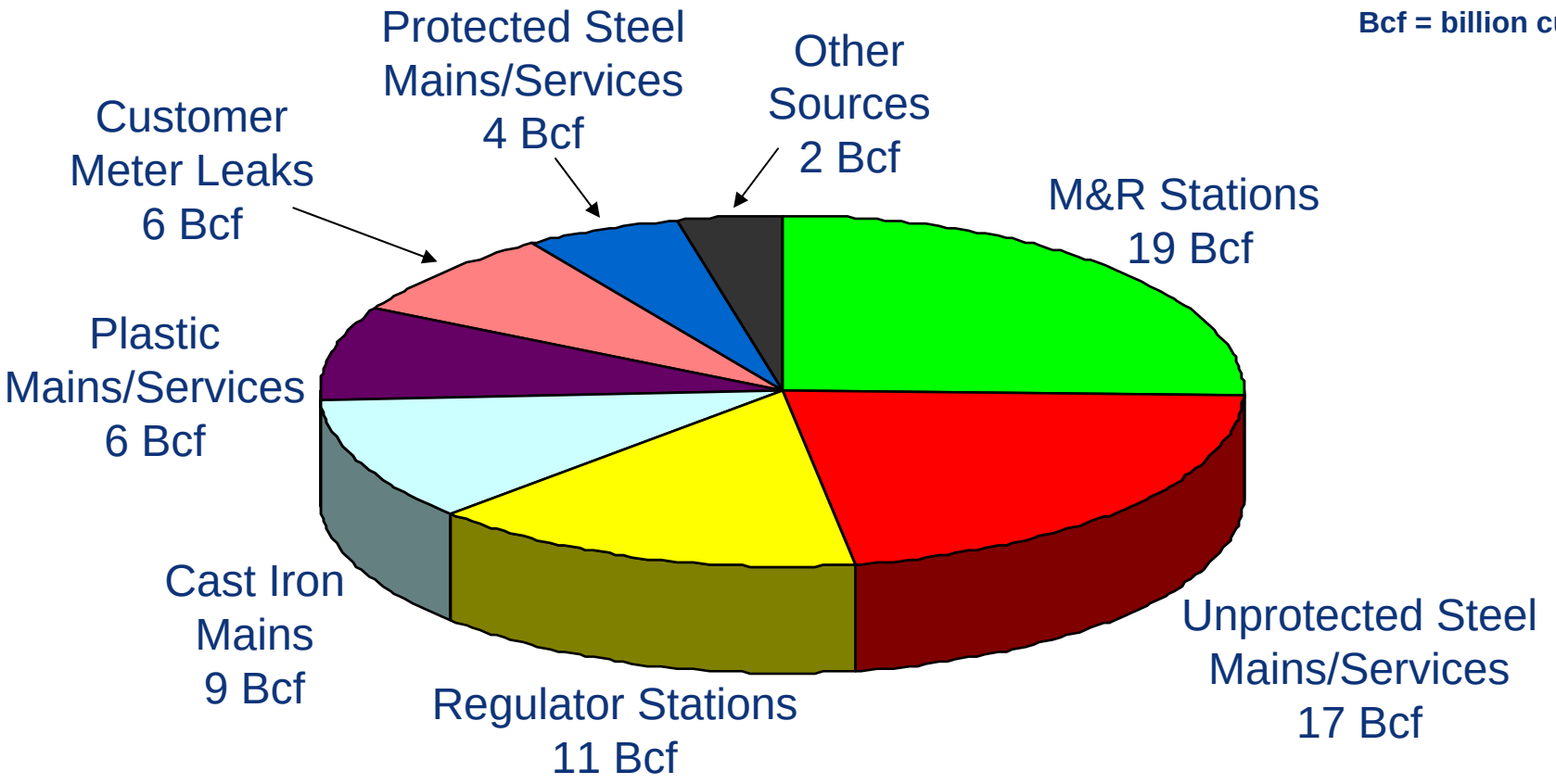


EPA. *Inventory of U.S. Greenhouse Gas Emissions and Sinks 1990 – 2008.* April, 2010. Available on the web at: epa.gov/climatechange/emissions/usinventoryreport.html.

2008 Distribution Sector Methane Emissions (74 Bcf)

- Majority of emissions from underground pipe leaks and fugitives from metering and regulator stations

Bcf = billion cubic feet



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Technologies Exist

Why aren't they more widely deployed?

- Financing Projects
  - How do these projects compete with other opportunities?
  - What are the constraints?
- Competitiveness
  - Do these projects impact the competitiveness of gas to consumers or between competing pipelines?
- Cost recovery and return on investment
  - What are the implications of "Cost of Service" rate regulation on the adoption & deployment of technologies?

Cost of Service Regulation
Overview of a Rate Case

- Step 1: **Annual Revenue Requirement** – the total revenue that must be received each year to recover costs and earn a fair return.
  - Return on "Rate Base" plus "known and measurable expenditures" (O&M, taxes, etc.)
- Step 2: **Functionalization** – Allocating costs to the services and customers that are responsible for these costs. (Cost Causation)
- Step 3: **Calculating Rates** – Divide the costs that are allocated to each service by the amount of service that is expected to be sold.

Rate Cases are quasi-judicial proceedings and like court proceedings. They take a considerable amount of resources. They can be adversarial!