

# Reflections on Regulation

BY DON MASON

**EDITOR'S NOTE** Ohio utility regulator Don Mason sent out an e-mail upon announcing his retirement. In part it read:

*"Time has gone by so quickly since I have been a public servant since the day after I stepped off the wrestling mats in 1979 as an NCAA All American and began working as an intern for the city of Zanesville, Ohio.*

*"When I was a college wrestler, we had a motto, '8 minutes – no regrets!' The point was that it is important to put maximum effort into the task before you so that when you one day looked back at either success or failure, you would know that you did your best."*

*EnergyBiz invited him to reflect on his career and some of the issues that remain important to him.*

## I HAVE BEEN INVOLVED IN

environmental and energy regulation since the early 1990s. It is easy to think that life has not changed much since then. We remember the 1990s as the era of cheap energy, even though at the time we did not know it. Mainlines and distribution lines were being extended into new subdivisions and replacing other home heating fuels as rural America became increasingly populated with urban dwellers. In the last 10 years, natural gas use within the home increased from 57 million to over 64 million homes. At the same time independent power producers and regulated utilities were excited to build natural-gas-fired electric power generation because siting was quick, construction lead times were short and natural gas deregulation at the federal and state levels created alternative supplies of natural gas. The wellhead price of gas hovered near \$2 per thousand cubic feet of gas and increases in fuel prices were not a concern as the prior 10 years had seen natural gas go above \$2 and return below \$2 mcf with frequency. In Ohio, companies were able to stay out of rate cases as growth in residential customers more than made up for any home weatherization or equipment efficiencies that made their way into the system. Natural gas was proclaimed to be the cheap, environmentally friendly fuel that would assist our country and meet peak generation requirements while keeping our skies clean from pollutants.

A lot has changed since then as natural gas prices have tripled; our natural gas supply-demand balance is only possible with the importing of natural gas produced overseas. Meanwhile, the petrochemical industry is moving overseas to locations with cheaper energy while our consumers are feeling the heat of high electricity and natural gas bills.



Don Mason

In 1997, electric generation was fueled by slightly over 4 trillion cubic feet of natural gas, while last year power generation consumption rose to nearly 6.7 tcf. The discussion on climate policy is sure to lead to increased demand for natural gas-fueled generation while at the same time the domestic production is having difficulty meeting today's requirements. It seems that many in our country would rather send money overseas to purchase energy than invest in domestic onshore and offshore production.

Over the last 10 years, I have seen many regulatory tools successfully used to make the existing distribution and transportation system more efficient and improve the process to replace aging and unsafe pipe. In Ohio, we have used accelerated mainline replacement and project preapproval to reduce investor risk and allow for a timely return on investment. Natural gas hedging has become an often-used tool to reduce volatility. Capacity release and asset management programs have reduced waste and increased shared revenues between ratepayers and shareholders.

The most meaningful trend that has developed is the increased discussion of revenue decoupling, recognizing that the perfect rate case should, among many other things, fairly create cash flow for a utility to maintain the system integrity, provide for a sufficient workforce and capital investment.



# Autovation® 2008

The Utilimetrics International Symposium

September 7–10, 2008

Georgia World Congress Center/Omni Atlanta • Atlanta, GA

**Plan to attend the premier conference focused on AMR and AMI solutions.**

At Autovation® 2008 you will:

- Meet colleagues and industry experts with practical success stories to share
- See the latest metering solutions compatible with the range of communication platforms
- Learn operational strategies to improve your project or leverage existing technologies with enterprise-wide applications
- Experience outstanding networking opportunities:
  - Utility-only peer forums
  - Special interest group (SIG) breakfast
  - Exhibit hall receptions

For more information on  
Autovation® 2008,  
visit [www.utilimetrics.org](http://www.utilimetrics.org).

Autovation® is recognized across the industry as the educational and networking event not to be missed.



Alliance for Advanced Metering & Data Management Solutions

## »» FINAL TAKE

However, with residential sales dropping off on a per-home basis, commissioners and utilities are faced with the dilemma of either having a constant cycle of rate cases or moving away from the volumetric assignment of fixed costs. For a variety of reasons, representatives of consumer groups and some regulators have begun to embrace creating a regulatory model that works to the consumers' and the companies' benefit. Recognizing that energy efficiency and consumer education are in everyone's best interest, a growing portion of companies are moving to revenue decoupling. As a result, utilities, regulatory commissions and other public interest groups can work together to reduce demand without confusing the consumers with

mixed messages. Clearly, the regulatory tools of past decades are as outmoded as word processors and typewriters are in today's offices. Decoupling has found its way into natural gas discussions but it is very likely that electric distribution utilities will face a similar decision and residential demand cannot continue to increase. Global warming concerns, carbon reduction, increased fuel costs and other factors will ultimately curb and perhaps reduce electric consumption. Those are some of the factors that will fuel the next round of regulatory reform. I hope regulators, utilities and stakeholders will move in that direction.

*Don Mason was a member of the Ohio Public Utility Commission from 1998 to 2008.*

# The Appeal of Natural Gas

 **AS MY TENURE AS THE NATIONAL Association of Regulatory Utility**

Commissioners Gas Committee chairman was drawing to its conclusion last fall, I began to realize that a lot of the debate on climate policy was not headed in the most opportune direction.

When I was a collegiate wrestler, I always prided myself on knowing when to conserve and when to expend energy. Many times the difference in winning or losing a close match was decided by how I conserved energy until the most useful moment and whether I applied the right move at the right time.

Now, as I participate in many regulatory discussions about carbon caps, credits, taxes, rate decoupling and energy conservation, some of those same principles continue to shape my thought process. I am concerned that most of the focus seems to involve electricity rather than a broader energy debate. Americans are missing a great opportunity to reduce their carbon footprint and they do not even know it. We are not applying the right tools at the right times nor are we using our energy in its most efficient and effective ways.

We should be encouraging American homeowners to timely replace household clothes dryers, hot water heaters and space heaters with natural gas rather than electricity appliances. Recent studies show that for every British thermal unit of natural gas at the wellhead, approximately 0.91 Btu makes it to the home for direct use. However, only about 0.26-0.29 of every Btu of coal makes it to the home as electricity. That is a lot of energy not being brought to use within the home and



Don Mason — referee of wrestlers and utilities.

PHOTO BY TONY ROTUNDO

it really expands the carbon footprint of homeowners more than they realize.

If residential users of energy were educated on the value and environmental benefits of fuel switching, they could reduce America's need to build additional coal generation. Saving construction of baseload generation by fuel switching within the home is in our national interest.

Though nobody knows where the price of natural gas is headed, one thing is for sure. There is equal uncertainty about the price of electricity. Finally, it is unlikely that the present financial, political and economic climate will encourage the timely construction of new generation. Therefore, our best move is to use our resources most efficiently and effectively. If we would increasingly use natural gas directly in the home for cooking, heating and other domestic applications it would reduce our carbon footprint. ☺

— Don Mason