



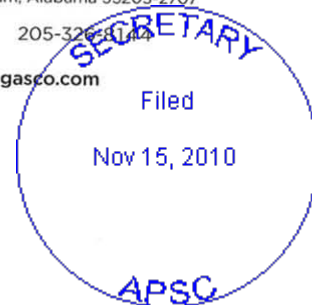
Amy Watson Stewart  
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November 15, 2010



Mr. Walter Thomas  
Secretary  
Alabama Public Service Commission  
P.O. Box 304260  
Montgomery, Alabama 36130

RE: Docket Numbers 18046, 18328 and U-3896

Dear Mr. Thomas:

In accordance with the Commission's November 1, 2010 Order in the above-reference dockets, we hereby file the following Tariff provisions to be included in the Tariff Applicable to Gas Service of Alabama Gas Corporation effective November 1, 2010:

Rate Rider NSR (Negative Salvage Rebalancing) First Revised Sheet Nos. 85-88

Rate Schedule ESR (Enhanced Stability Reserve) Second Revised Sheet Nos. 71-73  
and Fourth Revised Sheet No. 74

For our records, please return one stamped copy to me. Thank you for your assistance.

Sincerely,

  
Amy W. Stewart

AWS:tst  
Attachments

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## RATE SCHEDULE ESR (ENHANCED STABILITY RESERVE)

Introduction

The Commission has established the Enhanced Stability Reserve (ESR) for the purpose of dampening the potentially destabilizing effects of: (1) extraordinary operation and maintenance (O&M) expense budget variances resulting from natural disasters and other *force majeure* and extraordinary events demonstrated to be beyond the Company's control (*force majeure* events include but are not limited to: snow and ice storms, floods, tornadoes, hurricanes and other extreme weather conditions and outages caused by weather conditions or third party damages) (hereinafter "Extraordinary O&M Expenses"); and (2) material individual revenue budget variances and load loss among the Company's Large Commercial and Industrial (LCLI) customers.

Extraordinary O&M Expenses chargeable to the ESR are expenses that are extraordinary, non-recurring and/or beyond the Company's ability to predict or control, that have not otherwise been recovered through Rate RSE or another Commission-approved recovery mechanism, and that meet the monetary thresholds established in Section A.2. herein. In addition to Extraordinary O&M Expenses as described above, the following Extraordinary Expenses are also chargeable to the ESR: environmental response or other costs resulting from environmental laws, rules, regulations or mandates and Major Self Insurance Expense as defined in Section A.2.(b) herein. In addition, the Company may also petition the Commission for approval to charge other O&M expenses that are non-recurring and/or are beyond the Company's ability to predict or control to the ESR.

## A. USE OF RESERVE AND RELATED GUIDELINES:

1. Individual LCLI Revenue Variances. In the event that at the end of the Company's Rate Year, the Company's Return on Average Common Equity is below the range authorized by the Commission, the Company may charge against the ESR the full amount of any negative individual LCLI budget revenue variance that exceeds \$350,000.
2. Extraordinary O&M Expense.
  - (a) Expenses other than Major Self Insurance Expense. In the event that at the end of the Company's Rate Year, the Company's Return on Average Common Equity is below the midpoint of the range authorized by the Commission, the Company may charge against the ESR the full amount of Extraordinary O&M Expenses that would have otherwise been recovered through Rate RSE or some other Commission-approved mechanism and result from either (1) a single event that results in Extraordinary O&M Expense (other than Self Insurance Expense) of more than \$275,000 or (2) a combination of two such events (other than Self Insurance Expense) that together result in more than \$412,500 of Extraordinary O&M Expense. When the ESR is charged for Extraordinary O&M Expenses, Applicant will assign a work order number to each such event for the purpose of accumulating costs and to provide a basis for Commission review. At the end of the Applicant's Rate Year, expenses that qualify to be charged against the ESR will, at the Company's election, be charged to either O&M or to the ESR. Any work order remaining open at the end of a Rate Year will be carried over to the next Rate Year.

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Dated November 1, 2010 in Dockets 18046, 18328 and U-3896

## RATE SCHEDULE ESR (ENHANCED STABILITY RESERVE) (Cont'd)

(b) Major Self Insurance Expense. A "Major Self Insurance Expense" is defined as all costs and expenses of liability claim investigation, defense, settlement and/or judgment which (a) would be recoverable under the Company's general liability and auto insurance policies but for applicable self-insured retention or deductible limits, (b) exceed \$1,000,000 per occurrence, and (c) was not budgeted to be recovered, or has been recovered, through Rate RSE or some other Commission approved mechanism. In the event that at the end of the Company's Rate Year, the Company's Return on Average Common Equity is below the midpoint of the range authorized by the Commission, the Company may charge against the ESR the full amount of any Major Self Insurance Expense. As a pre-condition to this recovery option, the Company must demonstrate to the Commission staff that any item charged to the ESR was not recovered or budgeted to be recovered through RSE or some other Commission-approved mechanism.

3. Exclusion from Cost Control Measurement. Extraordinary O&M Expenses charged to the ESR will be excluded from the Cost Control Measurement provision of Rate RSE.
4. ROE Midpoint Limitation. Notwithstanding the above, the total charges to the ESR in any Rate Year, whether for Extraordinary O&M Expense or Individual LCLI Revenue Variances or a combination of both, will be limited to the amount necessary to bring the Company's return on average common equity at September 30 to the midpoint of the allowed range. However, the full amount of Extraordinary O&M Expense that would otherwise be allowed to be charged to the ESR but for this limitation will nevertheless be eligible for exclusion from the Cost Control Measurement calculation of Rate RSE. In the event that Alagasco's Return on Average Common Equity at September 30 of the year in question is above the midpoint of the range authorized by the Commission, any negative (*i.e.* debit) balance in the ESR shall remain in the ESR for recovery in subsequent years subject to the guidelines established in the Commission's Order dated November 1, 2010, in Joint Dockets 18046, 18328 and U-3896.

## B. FUNDING OF RESERVE

Charges to the ESR will be funded as follows:

1. From the Refundable Negative Salvage Balance account: In conjunction with Commission approval for the Company to establish Rate NSR (Negative Salvage Rebalancing), the Company also received Commission approval for standing authority to charge items to the ESR in excess of its funded balance and to allocate from the Refundable Negative Salvage Balance (as that term is defined in Rate NSR) each September 30 an amount necessary to clear any debit balance in the ESR as of that date.

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## RATE SCHEDULE ESR (ENHANCED STABILITY RESERVE) (Cont'd)

2. Amortization through Rate RSE: In the event the balance in the Refundable Negative Salvage Balance account is insufficient to fund charges to the ESR account at September 30 of any year and/or after the Refundable Negative Salvage Balance has been fully returned to customers pursuant to the terms of Rate NSR, debit balances in the ESR at September 30 will be amortized into rates (included in annual RSE filings) over a five year period beginning the following December 1 (not to exceed \$660,000 in amortization for any given rate year provided that in any year where the amortization calculation exceeds \$660,000, such excess amount over \$660,000 will be carried over and amortized in future rate year(s) until full amortization is complete). In the event that such amortization causes the Company's revenue adjustment in any year to exceed the RSE annual revenue cap, then the amortization for that Rate Year will be deferred to the next Rate Year in which such revenue adjustment cap does not operate to prevent the amortization of such expenses into rates. The Commission retains the right to modify the amortization period for purposes of maintaining rate stability, with such right to be exercised in accordance with the provisions of Title 37 of the Alabama Code.
3. Monthly Accruals of \$55,000 when authorized by separate and specific order(s) of the Commission unless such order(s) modify the timing and amount of such accruals.
4. Discretionary Funding: The Company may, but shall not be required to, fund the ESR through discretionary accruals. Note: As a general matter, discretionary accruals with respect to the ESR are not intended to preempt the Commission's authority under Rate RSE. The Commission retains its jurisdiction to direct the disposition of any refunds under the provisions of Rate RSE that addresses customer refunds. The Company will meet with Commission Staff prior to recording a discretionary accrual to the ESR so that the implications of such actions, particularly those related to any potential customer refunds, will be understood and agreed upon. Furthermore, it is the Commission's and the Company's intent that any discretionary accrual, recorded prior to the final RSE determination, may be reversed in whole or in part depending on the outcome of the prior rate year's actual results.
5. Limitation: In no event shall any charge to the ESR be cleared to Rate Rider NSR, or any other rate recovery mechanism, unless it has been approved pursuant to the "Approval Process" as specified in Section C. of this Rate Rider ESR.

## C. APPROVAL PROCESS REQUIREMENTS

1. The Company shall be required to provide the Commission's Energy and Advisory Divisions a proprietary monthly report which details all activity associated with the ESR. Further, when the Company determines with reasonable certainty that an event has occurred which is likely to result in a charge to the ESR, the Company shall, within 30 days of making such determination, provide the Commission's Energy and Advisory Divisions, and the Office of the Attorney General of Alabama with a written notice describing the event or events in question. The required notice will be submitted, received and treated by all parties as proprietary. There will be no final disposition regarding any likely charges to the ESR unless the Company seeks to actually charge the event or

Issued: November 15, 2010

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## RATE SCHEDULE ESR (ENHANCED STABILITY RESERVE) (Cont'd)

events in question pursuant to the guidelines and procedures set forth at subsections 2 and 3 immediately below. Given the recognized uncertainty associated with determining and reporting events which are likely to result in charges to the ESR prior to the end of the given rate year, Alagasco shall not be precluded from charging events to the ESR that are not reported in the manner required in this subsection provided the Company submits reasonable grounds explaining why the event in question was not reported in a more timely manner and there is otherwise no indication that the Company's failure to report the incident in question earlier was willful.

2. Within 30 calendar days following the end of the Company's Rate Year, the Company will submit (on a proprietary basis) to the Commission's Energy and Advisory Divisions and, upon request, the Office of the Attorney General of Alabama, a written report which details all charges made to the ESR during the previous 24-month period. Said report must include an itemized month-by-month accounting of all activity (accruals, amortizations, and/or charges) recorded in the ESR and shall be provided subject to the agreement of the receiving party to protect the proprietary nature of the information contained in the report. For each recorded charge to the ESR, the report submitted must include a detailed report/explanation of the nature of the charge and the basis on which it qualifies to be charged to the ESR. The Company will also comply with reasonable Staff requests for supporting documentation. The Commission and Staff recognize the proprietary nature of the information provided by Company and will maintain the confidentiality of such information to the fullest extent allowed by controlling law.
3. The Staff will review and evaluate each charge to the ESR, on a case by case basis, to determine if such charge(s) are due to be recovered through the ESR. Absent any objection or disapproval by the Commission, the Company's submission under the ESR provision will be deemed approved after a 30 calendar day review period. The Commission may, however, extend the time for review an additional 30 calendar days upon notification to the Company. The Commission also reserves the right to exercise any existing statutory provision available to the Commission for any review deemed necessary beyond the 60 calendar day period previously referenced.
4. Nothing in this Section shall be deemed as restricting or abrogating any right of appeal to the courts under applicable law.

## RATE RIDER NSR (NEGATIVE SALVAGE REBALANCING)

Applicability

Applicable as an integral part of the rates set forth on Sheet 2 of the Tariff for Rate Schedules R, MH, SC, SI, LC, LI, T and any other rate schedule of the Company in which reference is made to this Rate Rider NSR.

Explanatory Statement

It is the purpose of Rate Rider NSR to systematically pass back to applicable customers the negative salvage account balance (Negative Salvage Balance) existing at May 31, 2010. The total amount to be passed back to applicable customers will be net of (1) refunds ordered on June 28, 2010, by the Alabama Public Service Commission ("the Commission") in Dockets 18046, 18328 and U-3896, and (2) any other adjustments as authorized by the Commission. The net amount is hereinafter referred to as the "Refundable Negative Salvage Balance" and will be passed back to applicable customers over a nine-year period beginning October 1, 2010, (the Pass Back Period). All pass backs which transpire during any given year of the nine-year Pass Back Period shall occur from December 1 through March 31. A nine-year Pass Back schedule, subject to future adjustment as approved by the Commission, is attached hereto and made a part of this rate. In the event any future adjustments are approved by the Commission, the Company shall file with the Staff within ten business days, an updated pass back schedule.

A. NSR Pass Back Calculation

1. Volumetric Base Rates for gas service under the Company's applicable rate schedules shall be adjusted each October 1 during the Pass Back Period to reflect that Rate Year's forecasted pass back of the Refundable Negative Salvage Balance (the Rate Year NSR Pass Back Amount). The calculation of each Rate Year's NSR Pass Back Amount will be made as follows:

$$\begin{array}{rclcl} \text{Rate Year} & & & & \\ \text{NSR Pass Back} & = & \text{"Rate} & \text{X} & \text{"Remaining Refundable} \\ \text{Amount} & & \text{Year} & & \text{Negative Salvage} \\ & & \text{Factor"} & & \text{Balance"} \end{array}$$

In the equation above:

- a. The term "Remaining Refundable Negative Salvage Balance" is defined as the Refundable Negative Salvage Balance that has not been passed back to customers as of July 31 of the immediately preceding Rate Year. The Remaining Refundable Negative Salvage Balance as of July 31 shall include the Refundable Negative Salvage Balance less the sum of the actual NSR Pass Back Amounts and Commission-authorized adjustments as of that date.
- b. The term "Rate Year Factor" is the applicable percentage specified below in paragraph A.4.

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## RATE RIDER NSR (NEGATIVE SALVAGE REBALANCING) (Cont'd)

2. Allocation of the NSR Pass Back Amount among rate schedules and rate blocks for the purpose of calculating NSR Pass Back Rates will be done in accordance with the provisions for rate adjustments pursuant to Rate RSE.
3. NSR Pass Back Rates will be computed for each Rate Schedule using volumes expected to be billed during the months of December through March of each Rate Year at the time the NSR Pass Back Rates are calculated. Any variances between budgeted Pass Back amounts and actual Pass Back amounts will be accounted for in the determination of the "Remaining Refundable Negative Salvage Balance."
4. Rate Year Factor — The following Rate Year Factors will be used to calculate each Rate Year's NSR Pass Back Amount:

<u>Rate Year</u>	<u>Factor</u>
2011	20.0%
2012	22.2%
2013	25.0%
2014	28.5%
2015	33.3%
2016	39.9%
2017	49.9%
2018	66.5%
2019	100.0%

B. ADJUSTMENTS TO NSR

1. Charges to Enhanced Stability Reserve (ESR) — Rate Rider NSR may be adjusted for charges to the Enhanced Stability Reserve as provided for in the Commission's Order dated November 1, 2010, in Joint Dockets 18046, 18328 and U-3896 and as specifically set forth in Rate Rider ESR.
2. Negative Salvage Cost True-up Adjustment — During the Pass Back Period, in the event that at the end of any Rate Year, the Company's Return on Average Common Equity is below the midpoint of the range authorized by the Commission, the Company may adjust the Remaining Refundable Negative Salvage Balance at September 30 to true up the amount by which the actual negative salvage costs in that Rate Year exceeded the negative salvage costs that were accrued pursuant to and as a component of the Company's approved depreciation accrual rates.

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## RATE RIDER NSR (NEGATIVE SALVAGE REBALANCING) (Cont'd)

Notwithstanding the above, the True-up Adjustment will be limited to the amount necessary to bring the Company's Return on Average Common Equity at September 30 to the midpoint of the allowed range. Such true-up provision will only be allowed when, and to the extent, that the cumulative actual negative salvage cost exceeds the cumulative negative salvage accruals.

3. Final Adjustment — In the event that the Remaining Refundable Negative Salvage Balance drops below \$100,000 at any September 30, such balance will be returned to customers by crediting the remaining balance to the Other Income account and including such Other Income in the calculation of the Company's next December 1 RSE filing.
4. Limitation — In no event shall any adjustment be charged against the Refundable Negative Salvage Balance unless it has been approved pursuant to the "Approval Process" as specified in Section C. of this Rate Rider NSR.

C. APPROVAL PROCESS REQUIREMENTS

1. The Company shall provide on a quarterly basis to Staff from the Commission's Energy and Advisory Divisions a summary of all activity in the Refundable Negative Salvage Balance account.
2. Within 30 calendar days following the end of Company's Rate Year, the Company shall submit a proprietary report to the Commission's Energy Division, Advisory Division and, upon request, the Office of the Attorney General of Alabama which: details all charges to the Refundable Negative Salvage Balance account by month for the Rate Year under review; includes a comparison between actual and accrued negative salvage costs for each plant account for the rate year ended September 30 and provides a year-by-year accounting of activity for negative salvage costs to include annual and cumulative actual negative salvage costs and annual cumulative negative salvage accruals since the inception of the Refundable Negative Salvage Balance account. The required report shall also include written justification(s) for each charge to the Refundable Negative Salvage Balance account made during the previous Rate Year. Such written justification(s) must include a detailed report/explanation of the nature of the charge and the basis on which it qualifies to be charged to the Refundable Negative Salvage Balance account.



**RATE RIDER NSR (NEGATIVE SALVAGE REBALANCING) (Cont'd)**

In instances where the justification for a charge to the Refundable Negative Salvage Balance account has already been provided pursuant to the approval process requirements of the ESR, no additional written justification is required unless requested by the Commission Staff. However, a copy of such prior written justification must be provided to the Commission Staff. In the event that the charge results from a Negative Salvage Cost True-up, the Company's written justification must include an explanation of why the actual negative salvage costs exceeded the negative salvage accrual for the Rate Year.

3. The Commission and Staff recognize the proprietary nature of the information provided by the Company and will maintain the confidentiality of such information to the fullest extent allowed by controlling law. To that end, the report(s) required herein will be provided by Alagasco subject to the agreement of the receiving party to protect the proprietary nature of the information contained in the report. The Company will also comply with reasonable Staff requests for supporting documentation.
4. The Staff will review and evaluate each charge to the NSR, and the Company's documentation therefore, on a case-by-case basis, to determine if such charge(s) is due to be recovered through the NSR. Absent any written objection or disapproval by the Commission or Staff, the Company's submission under the NSR provision will be deemed approved after a 30 calendar day review period. The Commission may, however, extend the time for review an additional 30 calendar days upon notification to the Company. The Commission also reserves the right to exercise any existing statutory provision available to the Commission for any review deemed necessary beyond the 60 calendar day period previously referenced.
5. Nothing in this Section shall be deemed as restricting or abrogating any right of appeal to the courts under applicable law.

**D. EXPIRATION**

1. This Rate Rider NSR expires by its own terms on September 30, 2020.