

September 28, 2012

Kevin Lucas
Director of Energy Market Strategies
Maryland Energy Administration
60 West Street, Suite 300
Annapolis, MD 21401

Dear Mr. Lucas,

Columbia Gas of Maryland, Inc. ("Columbia") appreciates this opportunity to offer feedback on the September 6, 2012 draft report by the Maryland Energy Administration ("MEA") that will be submitted to the Senate Finance Committee and the House Economic Matters Committee on the topic of usage reduction targets beyond 2015 consistent with the MEA's obligation under the EmPOWER Maryland Energy Efficiency Act of 2008, 2008 Md. Laws Ch. 131. At the outset, Columbia directs the MEA to Columbia's Comments submitted on July 31, 2012, particularly regarding natural gas energy efficiency program conditions, and other issues not discussed herein. Columbia is of the opinion that it is not the appropriate time to set natural gas energy savings targets for 2015 and 2020. Rather, Columbia submits that natural gas utilities should instead focus on educating consumers in making wise energy choices based on all of the options available to them. If indeed the MEA determines energy savings targets are appropriate for natural gas companies, Columbia proposes that the Public Service Commission and the MEA consider an exemption for small utilities.

Columbia recognizes Maryland's interest and the broader national interest to conserve, and use energy more efficiently and more wisely. Columbia submits that given the benefits that the region and country are experiencing as a result of low natural gas prices largely driven by shale gas development, it is premature to set usage reduction targets for natural gas at this time. Instead, Columbia proposes encouraging natural gas utilities to provide education and tools (including financial incentives) to help customers and potential customers understand and reduce overall energy consumption, which does not necessarily equate to using less natural gas. Citing the American Gas Association—natural gas, on a national basis, is three times more efficient than electricity in providing energy for end-use applications. While 92% of the energy content of natural gas is delivered to customers as useful energy, on average, less than a third of the energy used in the production of the electricity market reaches homes and businesses. With more customers turning to natural gas as a heating source, and for other natural gas driven needs the concept of reduction targets are at odds with consumers' natural gravitation to an efficient and cost-effective energy source—natural gas.

To further support that now is not the appropriate time to establish energy savings targets for natural gas companies, Columbia offers evidence that natural gas utilities have been successful in working with consumers to reduce energy usage independent of any mandated usage reduction targets. In fact, the average United States household consumes 40% less natural gas than it did 40 years ago—equivalent to 1% reduction in usage per year in the residential and commercial

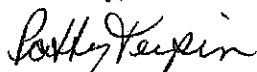
sectors. This is in part because appliances themselves have gotten more efficient—natural gas boilers and furnaces are now up to 96% efficient—and also because consumers are becoming more educated and adapting their behaviors. Columbia's energy efficiency program in Maryland has long focused on the behavioral piece of the equation by targeting low income high-users and providing financial incentives to curb inefficient consumption, with proven results. Consumer driven behaviors such as the installation of tighter-fitting windows and doors, better insulation, and increased attention to thermostat control are important educational topics which can be further capitalized on with financial incentives. With the proven usage reduction in natural gas use in the residential and commercial sector, and increasing appliance efficiencies, natural gas utilities should not be faced with usage reduction goals that may sideline efforts to persuade consumers to increase their dependency on natural gas when looking at the entire home's energy use, or the entire business's energy use.

As Columbia noted in its July 2012 Comments, the Company supports the notion of a statewide natural gas energy efficiency program focus in Maryland. However, there are certain considerations that must be acknowledged as follows (and as more elaborately discussed in Columbia's July 2012 Comments):

- Consumption reduction targets: As discussed in this letter, consumption reduction targets for natural gas utilities are not appropriate at this time. If such targets are seriously being entertained, at minimum, increased load experienced by fuel switching should be exempt and the results should be weather normalized.
- Requirements for small utilities: There should be an exemption for small utilities.
- Costs/Lost Revenues: Both costs and lost revenues should be fully recoverable on a timely basis.
- Cost effectiveness: In conjunction with the special consideration/exemption for small utilities noted above, it has been Columbia's experience that in designing more meaningful energy efficiency programs, it is harder to meet certain established numerical cost effectiveness test measures such as the Total Resource Cost Test, given the smaller customer base experienced by smaller utilities.

In sum, Columbia understands the need to study whether it makes sense to set energy savings targets for natural gas companies, particularly given the demonstrated success on the electric side. However, given the measured reduction in household natural gas usage over the last 40 years, the increased energy efficient appliances, the emphasis on behavioral driven measures, and taking into consideration the recent developments with shale gas supply; Columbia submits the focus today and in the near future should not be natural gas reduction targets, but rather be helping customers use energy more wisely on a holistic basis through education and financial incentives.

Sincerely,



Patty Terpin
Manager of Customer Programs

Cc: S. Bardes
K. Cuccia