

Executive Summary

Atlanta Gas Light hereby submits its 2011 Universal Service Fund Facilities Expansion program for the Commission's review and approval.

The 2011 plan is a novel approach to utilizing available USF proceeds to foster the development of a market in Georgia to provide compressed natural gas (CNG) to individuals and businesses to fuel motor vehicles through CNG fueling infrastructure located at fueling stations open to the general public. AGL intends to 'seed' the new CNG market to better enable potential market participants to make the long term capital commitments required to purchase vehicles or provide fueling infrastructure to benefit from access to AGL's baseline facilities. AGL intends to provide the installation and maintenance of fueling equipment and supporting infrastructure at locations throughout metropolitan Atlanta and eventually in other major cities and along major transportation corridors throughout the state. These locations would be on new or existing commercial sites, convenient to the location of commercial fleets and open to the general public. Sales of CNG would be provided by Georgia's certificated marketers who elect to offer this service, or by new CNG retailers who will operate under a license from one or more marketers to sell CNG to the public.

The program as filed is a framework submitted as a conceptual plan for further input from the Commission and CNG stakeholders interested in the development of a CNG market in Georgia. Thus, AGL recommends that the Commission establish a forum to encourage open dialogue among the stakeholders who elect to participate in the process.

Following approval of this plan, AGL intends to implement a facilities construction program to install CNG fueling facilities under agreements with fleet operators and service station owners, and facilitate the sale of CNG by marketers or other CNG

retailers. AGL estimates the funds available to support the new CNG infrastructure program through the 2011 USF Facilities Expansion Plan will be approximately \$10 million. AGL's initial analysis indicates that fueling infrastructure costs will range from approximately \$1 million to \$1.6 million at each location, depending on the size of the station installed. Accordingly, AGL intends to construct between 5 and 8 CNG fueling stations with the proposed USF funds. However, to ensure these initial funds are properly deployed for maximum effect, AGL would not construct any individual station until one or more fleet customers within a defined geographic region contractually agree to utilize at least 20% of the capacity of the station. Once this minimum commitment is obtained, AGL would work with traditional fueling station owners, the fleet customers, and others to identify locations that will support access to the CNG facilities and then construct and maintain the facilities.

The Role of Stakeholders

AGL has been working with potential fleet customers, manufacturers of CNG vehicles and conversion systems, fueling equipment providers, and other industry experts for several years in an attempt to bring the opportunities of the CNG marketplace to Georgia. Several companies with significant operations in Georgia are considering CNG vehicles, but they do not wish to install and pay for fueling facilities on their property. Thus, this program has been submitted to the Commission for approval to meet this new opportunity while insulating our current customers from the impact of this new capital investment.

Following approval of the plan, AGL can perform a variety of roles to foster awareness and facilitate the development of CNG projects. AGL can negotiate with fleet customers directly or as part of a three party negotiation with potential CNG retailers to reach agreements with fleet customers that meet the programs requirements. AGL will then install fueling facilities within a defined geographic proximity of the customer(s) by

contracting with new or existing retail fueling stations that may or may not be owned by the CNG retailer. If no suitable retail station is available, then the fueling facilities may be located on the fleet customer's premises as long as it is open and fully available to vehicles owned by other CNG customers. AGL will maintain the facilities, install equipment to monitor each transaction, and bill each CNG retailer for the volumes delivered at each station.

AGL will account for the regulated costs of the CNG service, will report to the Commission as part of the Gray Book reporting process, and will manage the net revenues generated for use to invest in additional fueling facilities and low cost leases of individual fill units for residential and small business customers.

Role of Marketers and Third Party Retailers

Certificated marketers are the only entities that can sell gas at retail on AGL's distribution system. Each marketer will have the opportunity to develop a CNG retailing function, in whole or in part, to provide CNG services directly to end use customers or to provide natural gas services to other CNG retailers. The role of each marketer can best be determined by the marketer as to the full or limited approach to entering this market each may choose.

CNG retailers will either be one or more of the certificated marketers, or third parties who purchase natural gas from a certificated marketer and then sell CNG to the public. Marketers or CNG retailers can contract directly with fleet/commercial customers to provide CNG at either a posted or negotiated rate.

Tariff

AGL intends to provide its utility service to CNG retailers under a modified V-52 tariff, which is included with this filing. This modified tariff provides rates for the recovery of revenues related to the operation and maintenance of each commercial location, and the separate metering of individual fill units.

USF Fund Status

The proposed CNG development program is consistent with the purposes of the USF statute and the Commission's rules. Commission Rule 515-7-5-.03 states (in relevant part) as follows: "A universal service fund shall be created for each electing distribution company for the purposes set forth in O.C.G.A. § 46-4-161(a). These purposes include assuring that gas is available for sale by marketers to firm retail customers within a territory certificated to each such marketer; enabling the electing distribution company to extend and expand its facilities and service in the public interest"

Proceeds in the USF currently are near an all-time high, with approximately \$40 million in undedicated funds. AGL recommends putting these funds to work for Georgia whenever possible, not only to fulfill the purposes of the USF statute as they have been traditionally applied, but to help our customers and promote economic development in Georgia within the confines and purposes of the law. Several factors have contributed to the current financial condition of the USF, not the least of which is the exemplary performance of Sequent Energy Management in fulfilling its duties under AGL's Asset Management Agreement in 2008 and 2009 where it deposited proceeds in excess of 250% of AGL's annual minimum financial commitment. Also, AGL's willingness to forego a 2010 USF facilities plan allowed \$9.8 million that could have been invested in new facilities to remain in the USF account. The performance of Sequent and the lack of

a 2010 USF expenditure has resulted in over \$23 million available for other Commission priorities.

Atlanta Gas Light' s CNG Plan: Background and Supporting Details

1. Natural Gas Vehicle (NGV) Fueling Infrastructure Overview

The United States currently imports about 70 percent of its oil, and, unless alternative energy sources are developed to supplant the demand for oil, that number will rise in the years ahead. Because of this, the U.S. is vulnerable to international pressures from countries who control the oil supplies and those who may seek to manipulate the price or availability of oil.

There are other drivers besides reducing our dependence on foreign oil motivating the emerging NGV market. NGVs greatly reduce the criteria pollutants which degrade our urban air quality. The new EPA 2010 emissions requirements are very difficult for diesel engine manufacturers to meet and require them to install expensive exhaust after treatment systems and urea injection. In contrast, the 2007 CNG engines available today already meet 2010 limits with a simple, no maintenance three-way catalyst.

Natural gas engines also reduce greenhouse gas emissions by 20 – 29% over diesel and gasoline so there is an additional benefit that is becoming more quantifiable as private companies and local governments like the City of Atlanta adopt carbon reduction goals.

Lastly, fuel costs remain a key driver. Customers saw severe price spikes in gasoline and diesel prices just a few years ago and many of them contacted AGL to

inquire how they could take advantage of the substantial cost savings CNG affords. We have been working to provide a solution that will meet their needs while insulating our traditional customers from the impact of substantial investments in CNG infrastructure.

There are two interrelated opportunities to address with a CNG program in Georgia. Georgians will benefit from having the option to purchase cars and trucks that run on CNG and need public filling stations to refuel them. Each of these opportunities will require risk and capital investments, and the movement by one or more market participants to provide access to both. The familiar axiom of the "chicken or the egg" syndrome applies here precisely.

Nationally, there are an increasing number of options available on the vehicle side but the refueling issue is a more localized one to address. Although there are a number of private and public fleets like UPS and MARTA operating CNG vehicles in Georgia, these fleets fill up at their own stations which are generally not open to others. With the exception of one station in College Park, there are no public access stations available to individual consumers to avail themselves of this clean, low cost, domestically produced fuel.

AGL proposes to overcome the "chicken or the egg" syndrome that inhibits most capital intensive market development programs by asking the PSC to approve its plan to "seed the market" for NGVs by creating public access CNG fueling stations more readily available to new customers. AGL's approach would take the following path:

- Phase 1 will consist of 5-8 CNG stations to be built by AGL with funds from the Universal Service Fund (USF) utilizing an amount of up to of 5% of AGL's 2011 capital budget.

- Phase 2 will consist of constructing additional stations using the net revenue from retail sales from the first phase of stations.
 - In addition, net revenues will be made available to provide reduced cost lease options to residential customers and small business owners who may not be located close enough to one of the stations. This will be accomplished by offering a Vehicle Refueling Appliance (VRA) or Home Refueling Appliance (HRA) lease program. The lease payment for the HRA program will initially be about \$75 per month or \$100 if the federal tax credit is extended. Regardless of the tax credit status, this payment will be reduced by \$50 for the first 500 customers and the discount would be funded from the facilities charges revenue of the retail stations.
- AGL does not contemplate purchasing land for the stations and will instead negotiate with fueling stations and/or other property owners to lease space to install the dispensers.
- There are three nominal CNG station designs (small, medium, and large) proposed for planning and budgeting purposes. AGL would select one of these sizes or another customized design for each new station based on size of anchor fleet, location, potential growth, etc. Final design and construction of each station would proceed upon securing commitment from area fleet(s) for at least 20% of the capacity of each station.
- The following are a few companies who have expressed interest in potentially utilizing CNG fleet vehicles:
 - AT&T
 - Atlanta International Airport
 - City of Atlanta
 - City of Alpharetta
 - City of Augusta

- Cobb County
- Cox Enterprises
- DeKalb County
- Emory University
- Georgia Port Authority
- Mohawk Industries
- Republic Waste Services

2. Defining the Need

America's dependence on petroleum-based fuels for the transportation sector creates serious energy security, economic, air quality and other environmental challenges. Since 1985, worldwide oil production has lagged behind consumption, creating competition for a dwindling resource. U.S. dependence on oil – some call it addiction - long ago exceeded domestic production capacity and forced the nation to increasingly rely on imports, primarily from unstable regions of the world, making the U.S. economy vulnerable to unfriendly political regimes and – potentially – terrorists. And, despite improvements in fuel refining, engine efficiency and emissions control technology, gasoline and diesel emissions continue to degrade air quality in many urban areas, exacting social and economic tolls, as evidenced by diminished quality of life, lost productivity and increased healthcare costs. In addition, concerns about the relative impacts of different carbon-based fuels on greenhouse gas production have heightened awareness of the need to diversify our transportation energy portfolio.

Greater use of alternative fuel vehicles (AFV) is part of the solution to these challenges. A variety of AFV options - each with their own relative advantages and disadvantages - have been developed and marketed to American consumers and businesses. NGVs are an AFV option that offers substantial environmental, economic and energy security benefits. Natural gas is an abundant domestically

produced fuel. NGVs emit far less pollutants than their gasoline- and diesel-fueled counterparts, and they have demonstrated proven performance in all vehicle sizes and duty-cycles. Despite these advantages, after more than forty years of industry and government investment in NGV and fueling infrastructure technology research and development (R&D), NGVs still account for only a miniscule percentage of the total transportation market. Today, NGVs account for less than one-fifth percent of the nation's vehicle inventory and natural gas accounts for less than one-half percent of on-road transportation fuel use.

There are several underlying reasons for the slow market acceptance and penetration of NGV technology. The biggest challenge for much of the past forty years has been that, by their very nature, gaseous fuel NGVs and fueling infrastructure are different than gasoline and diesel vehicles and stations, and people tend to resist change. In addition, NGVs do have a higher retail purchase price as compared to gasoline or diesel vehicles, and this premium is still a market entry obstacle. However, this up-front price differential can be mitigated through tax incentives and operational savings. The fact that hybrid vehicles, which also carry a premium over their gasoline counterparts, have achieved considerable market acceptance and sales is a good indication that attitudes are shifting around new technology and paying a premium for a more environmentally beneficial vehicle.

Given that NGVs' environmental, economic, energy security and performance attributes are on par with or better than gasoline and diesel vehicles, the lack of vehicle availability and lack of fueling infrastructure are the primary hurdles left to overcome. These challenges are interwoven. New federal tax credits for vehicles and fuel have reduced purchase costs, shortened the payback period, and further improved the life-cycle cost savings for NGVs. Increasing demand is re-engaging the major auto and truck manufacturers to offer more vehicles and, as sales grow, lower the premium for NGVs. More NGVs will create market-driven demand and investment in fueling infrastructure and, through economies of scale, reduce fueling

station costs. Conversely, installation of a more ubiquitous and more convenient NGV fueling infrastructure will elevate confidence in the consumer and business sectors that NGVs are a good investment and spur sales.

While increasing auto and truck manufacturers' participation in the NGV market is an important step that must be addressed, the primary focus of this filing is NGV fueling infrastructure.

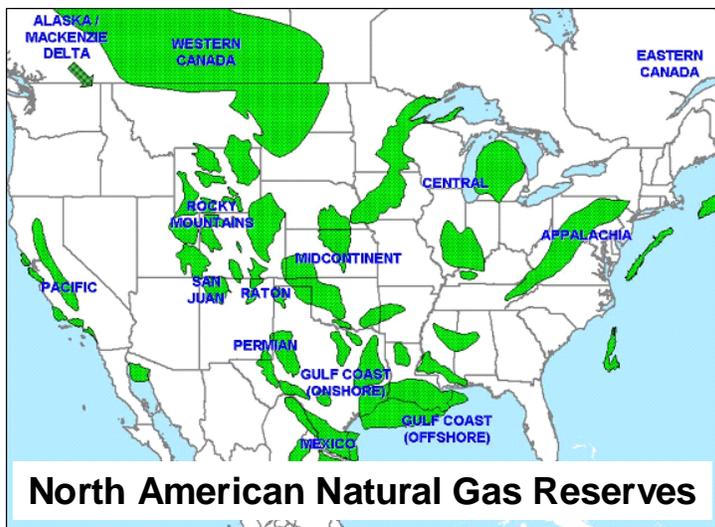
3. Current NGV Market

In the last few years, tax credits, emissions advantages, and petroleum prices have energized the NGV market. The factors that slowed market acceptance and penetration have all been, or are, being addressed. General lack of familiarity and comfort with gaseous fuel vehicle and station technology probably is still the greatest challenge, although businesses and consumers are beginning to embrace the fact that alternative technologies and fuels are essential to our nation's goals of improved air quality and reduced reliance on imported oil.

The technical hurdles the industry faced early on, like those endured by any new or emerging industry, have been overcome through constant improvement to the point that NGV performance is now equal, if not better than, gasoline and diesel vehicles. New federal tax credits for NGVs and motor fuels excise taxes have substantially lowered NGVs' initial purchase price premium and further improved life-cycle cost savings, making them the better buy for many fleets and some consumers.

3.1 Gas Supply and Pricing

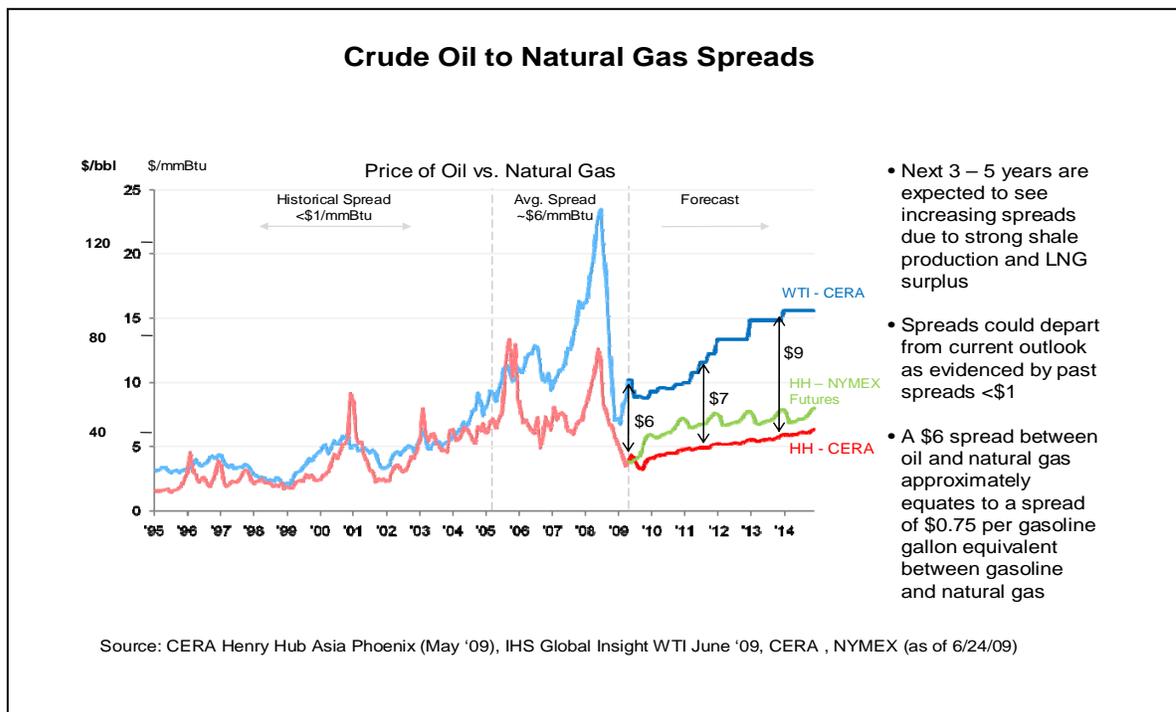
Thanks to new drilling technologies that are unlocking substantial amounts of natural gas from shale rock formations, the nation's estimated gas reserves have surged by 35 percent, according to a study released on June 18, 2009. The report by the



Potential Gas Committee, the authority on gas supplies, shows the United States holds far larger reserves than previously thought. The jump is the largest increase in the 44-year history of reports from the committee. The new estimates show “an exceptionally strong and optimistic gas supply

picture for the nation,” according to a summary of the report, which is issued every two years by a group of academics and industry experts that is supported by the Colorado School of Mines.

Historically, natural gas prices traded in an 8- or 9-to-1 ratio with oil (barrel of oil to thousand cubic feet of natural gas). The U.S. Energy Information Administration forecasts that the wellhead price of natural gas will not exceed \$8 per Mcf until 2030. When the recession ends and the global demand for oil again begins to exceed supply, world oil prices will rise. At \$100 per barrel and \$8 per Mcf, the ratio is over 12-to-1. At \$150 per barrel, the ratio is almost 19-to-1. The economics of NGVs will only get better.



A report released in the US by Resources for the Future (RFF) and the National Energy Policy Institute (NEPI) concludes that expanding the use of natural gas trucks is the most effective and cost-effective policy option available to decrease reliance on petroleum. The report, *Toward a New National Energy Policy: Assessing the Options*, assesses 35 different policy options for reducing oil consumption and carbon emissions. The report's authors modeled the cost effectiveness of reducing oil consumption by 4 million barrels a day by 2030 and carbon emissions by 42 percent by 2030. For natural gas trucks, the report evaluated the impacts of an aggressive phase-in of natural gas heavy-duty Class 7 and 8 trucks with market penetration beginning at 10 percent of new sales in 2011 and rising to 100 percent of new sales by 2020.

Using assumptions concerning first-cost of vehicles, fuel savings, discount rates, and petroleum displacement, the report found that natural gas trucks could displace petroleum at a cost of about \$15 per barrel. From a cost-effectiveness standpoint, natural gas trucks were the most effective of all policy options evaluated. The report

indicates that, if the number of Class 7 and 8 natural gas trucks were to reach 5.5 million by 2030, these vehicles could displace 2.2 million barrels of oil per day at a total cost of \$186 billion.

3.2 Environmental Benefits of NGVs

The air quality benefits of NGVs are substantial. Natural gas burns cleaner than gasoline and diesel fuel. Not surprisingly, the first vehicles certified to the U.S. Environmental Protection Agency's (EPA) ultra-low emission, super-ultra low-emission and Tier 2/Bin 2 standards were NGVs. The natural gas-powered Civic GX has won numerous awards for its environmental performance. In 2009, the Civic GX was rated the "Greenest Car in America" by ACEEE – for an amazing seventh year in a row. Compared to the gasoline Civic, the natural gas-powered Civic produces 95% fewer emissions of volatile organic compounds and 75% fewer emissions of nitrogen oxides – pollutants that contribute to ozone formation.

In fact, the vast majority of light-duty NGV models available have been certified to the Federal Tier 2/Bin 2 standard; only Bin 1, which requires zero emissions, is more demanding. In the heavy-duty area, Cummins Westport's and Emission Solutions' heavy-duty natural gas-powered engines were the first engines to certify to the full-2010 federal emission standards, achieving extremely low NOx emissions levels well ahead of their diesel competition.

Further, the benefits of NGVs are expected to continue to improve as new automotive technologies become available. A recent National Academy of Science (NAS) report, entitled "Hidden Costs of Energy: Unpriced Consequences of Energy Production and Use" includes some very positive findings concerning NGVs. The report, which analyzes vehicle technologies as of 2005 and expected by 2030, projects that, with further expected improvements in vehicle technology and fuel efficiency, natural gas-powered vehicles will provide superior benefits in terms of

criteria pollutant reductions compared to nearly all other types of vehicles, even electric and plug-in hybrid electric vehicles.

EPA is now calling for still tighter national ozone emissions standards. As a result, NGVs will look even more attractive to local policymakers as a compliance option.

Concern about climate change and greenhouse gas (GHG) production is driving much of the public policy debate. NGVs can play a role in reducing such GHGs. Per unit of energy, natural gas contains less carbon than any other fossil fuel, and, therefore, produces lower carbon dioxide (CO₂) emissions per vehicle mile traveled. While NGVs do emit methane, another principal GHG, the increase in methane emissions is more than offset by a substantial reduction in CO₂ emissions compared to other fuels.

The California Air Resources Board (CARB) has conducted extensive analyses on this issue, and concludes that burning compressed natural gas produces about 22% fewer GHGs than burning diesel, and 29% less than burning gasoline. The comparisons are based on well-to-wheels analyses, and include all methane emissions. These reductions are equal to, or better than, some renewable liquid fuels.

In addition to greenhouse gas and other environmental concerns, NGVs also reduce noise emissions. Heavy duty NGVs are 80-90% lower decibel level than comparable diesel vehicles.

3.3 Reducing Diesel Demand

Only natural gas can put a dent in diesel use. According to the DOE, the average consumer drives about 12,000 miles per year, using about 500 gallons of gasoline. Light-duty fleet vehicles use more but, in general, the amount is still relatively small. On the other hand, we have a huge fleet of larger, heavy- and medium-heavy duty

trucks and buses in this country. These are the high fuel-use (mostly urban) fleets – trash trucks, transit buses, short-haul port trucks, goods delivery vehicles of all kinds, etc. These vehicles use much more fuel than most light-duty vehicles. An 18-wheeler, for example, may drive 120,000 miles per year and get only six miles per gallon. That is 20,000 gallons of diesel fuel!

Consequently, trucks and buses consume about a quarter of the on-road energy – mostly in the form of diesel fuel. That is equivalent to about 4.5 Tcf of natural gas. There are many alternative fuel and advanced technology options competing for the light-duty market (e.g., natural gas, propane, ethanol, electricity, plug-electrics). But for diesel-powered trucks and buses, the options come down to only two - natural gas and biodiesel.

Biodiesel's potential is very limited. Because of technical and other restrictions, diesel vehicles cannot use blends of more than 20% biodiesel, and most use only 5% or 10%. Plus, the availability of domestically produced feedstocks for biodiesel production (mostly soy beans) is limited, so a growing use of biodiesel would mean more of it would have to be imported. Natural gas, on the other hand is an excellent heavy-duty fuel, with many models available today. As a result, even the environmental community is now supporting the use of natural gas in this market.

3.4 Vehicle Availability

Light-duty vehicle (LDV) availability from the major auto manufacturers is improving. Honda remains committed to the market with the Civic GX which they have been producing for over 10 years now. GM announced earlier this year they will re-enter the CNG market with production of CNG powered Chevrolet Express and GMC Savana vans. These initial CNG offerings will be available on 2011 model year vans and built at GM's Wentzville assembly plant, ready to be shipped this fall. Ford Motor Company has added a CNG engine prep package to its options for the 2012

F-Series chassis cab trucks so a conversion option will soon be available on F-450 and F-550 Super Duty chassis cab trucks. Several conversion-retrofit systems manufacturers have received certifications for additional vehicle models, further expanding the options for after market conversions which pass the same stringent emissions testing protocols as the OEMs. Heavy-duty natural gas engines' advantages over diesel engines, already recognized by the transit industry, continue to open new niche markets for natural gas, which is garnering the attention of truck chassis manufacturers, several who now offer natural gas as a factory-built option in select models.

3.5 Federal and State Legislative Momentum

In Congress, there is growing support for NGVs from leadership and lawmakers on both sides of the aisle. The New Alternative Transportation to Give Americans Solutions (NAT GAS) Act has been introduced in both houses to provide incentives for natural gas vehicles. The NAT GAS Act extends and expands the alternative fuel tax credit for natural gas, the natural gas fueled vehicle credit and the natural gas vehicle refueling property credit, which provides incentives to establish fueling infrastructure including natural gas pumps at service stations and for at-home fueling systems.

The NAT GAS Act as introduced in the House (H.R. 1835) has bipartisan sponsorship and co-sponsorship from 145 Representatives, which is split nearly 50/50 Republican and Democrat. The Senate version of the bill (S. 1408) has backing from both parties and includes up to \$3.8 billion in rebates and incentives for natural gas vehicles in his "Clean Energy Jobs and Oil Company Accountability Act of 2010" introduced in July of 2010.

Georgia Senator Chambliss (R-GA) introduced S. 3535, the Next Generation Energy Security Act of 2010, along with Senator Burr (R-NC). The bill provides for natural gas vehicles and infrastructure tax incentives that are similar to those in the NAT GAS Act. Chambliss' bill would also allow state and local governments to issue tax exempt bonds to finance natural gas vehicle and infrastructure projects.

State governments and associations have also indicated their support for the NAT GAS Act. The US Conference of Mayors endorsed legislation through a resolution passed at their June 2010 meeting. During the 2010 session, the Louisiana Legislature passed a resolution (SCR 14) to urge U.S. Congress to enact the NAT GAS Act and Louisiana's federal Congressional delegation to become cosponsors of the bill.

Bi-partisan support for natural gas vehicles demonstrates how the issue is taking its place on the national stage by playing a vital role in strengthening U.S. energy security, creating jobs and serving as a viable alternative to gasoline powered vehicles. Hopefully, the new Congress will continue to give emphasis to supporting this important, domestic energy opportunity.

3.6 Corporate Leadership

Many corporations are stepping up to show their leadership by voluntarily "greening" their fleets by incorporating alternative fuel vehicles.



UPS now has about 150 dedicated CNG delivery vans in the Atlanta area out of their total of 1,100 nationwide. They

own their own CNG station on Fulton Industrial Blvd.

AT&T announced its commitment in 2009 to deploy 8,000 CNG vehicles across the US over the next 10 years. These will primarily be after market conversions of new Ford E-250 vans and BAF Technologies won the bid to convert the first phase. AT&T has already reached a milestone of 1,500 CNG vehicles deployed. These were located in areas which have existing CNG fueling stations such as California, Texas, and Michigan. For example, 103 vans were deployed as of July 2010 in DTE Michcon's service territory. These vehicles were located in groups of 25 – 30 vans in each of their service centers which are in close proximity to DTE Michcon's CNG stations. In addition, AT&T has indicated they will locate another 125+ vehicles if DTE Michcon develops CNG stations in Redford, Livonia, Romulus, and Grand Rapids, Michigan.

Both companies have cited lack of fueling infrastructure as the primary reason why they have not deployed more CNG vehicles in the Atlanta area.

In addition to the above mentioned companies, AGL is also dedicated to increasing the number of NGVs in its fleet. Currently, AGL operates three CNG Honda Civic pool vehicles and six bi-fuel CNG Ford Focus cars for account executives. AGL Fleet has identified possibility to incorporate up to 200 CNG vehicles over the next three years, subject to operational feasibility.



4. AGL's NGV Infrastructure Initiative

Atlanta Gas Light's NGV Infrastructure Initiative is broken into two phases: Phase I will be funded by the Universal Service Fund and consists of constructing public fueling infrastructure across the State (sections 4.1 – 4.7); Phase II will direct

proceeds from the NGV stations to fund additional stations across the State, as well as provide for a in-home fuel system lease incentive program.

4.1 Development Approach

AGL's vision is to "seed the market" by building CNG stations to encourage public and private fleets to deploy a significant number of NGVs in Georgia. The plan is not to try and provide area wide coverage by installing stations across the entire service area, but to instead work with fleet operators and local governments to locate stations for central fueling. In this fashion, a critical mass of CNG vehicles (particularly in the Atlanta area) would attract other fuel service providers to spend their own capital to build stations and eventually provide area wide coverage.

Motorists still represent the ultimate goal for NGV growth. Yet it is the fleets that will drive the initial development of the NGV infrastructure and so CNG fueling stations must be located accordingly. Fleets provide the base load volume needed to "anchor" a station and can often lease the land on which to locate the station if no fuel retailer in the area is willing to do so. Locating a CNG fueling station on the premises of a host fleet (central refueling) has drawbacks in terms of accessibility for other fleets and retail customers but economics and practicality dictate that central refueling be a major part of any viable NGV refueling infrastructure today.

Examples of ideal fleet vehicle candidates for CNG program:

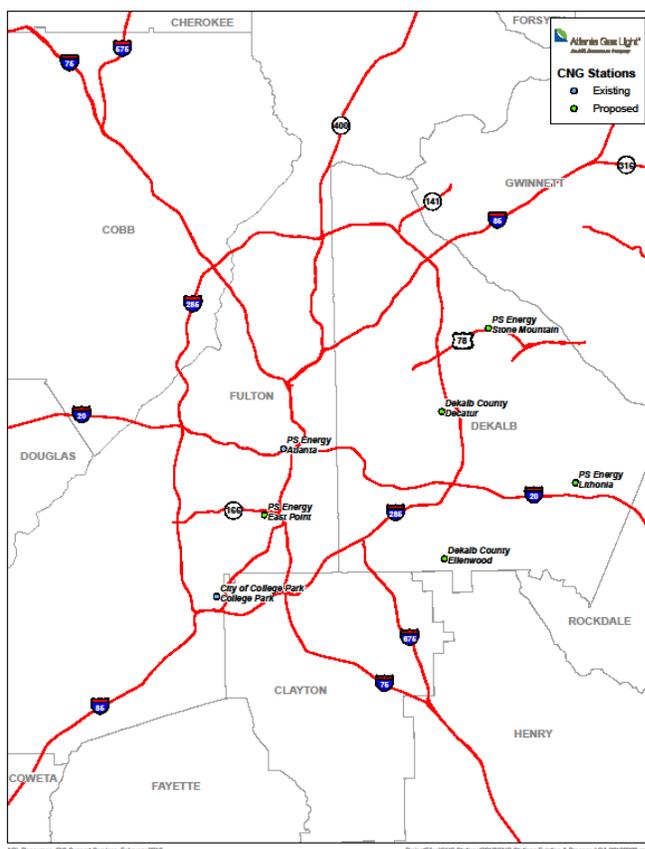
- Local/State Government
- Airports - Terminal Buses, Hotel/Parking Shuttles, Taxis, Door-to-Door
- Refuse - Collection/Transfer
- Transit - Buses, Maintenance, Supervisors
- School Districts - Buses, District personnel, Maintenance Vehicles
- "Short-Haul" Delivery - Food & Bev., Port-Rail, Linen Svc,

- Utilities - Gas/Electric/Water, Communications

4.2 Funding and Implementation

AGL proposes to overcome the “chicken or the egg” syndrome by seeding the initial market development, making CNG more available to Georgia customers. This will be accomplished by utilizing up to 5% of AGLC’s 2011 capital budget from the Universal Service Fund (USF) to install public access CNG fueling stations at strategic locations across its service territory. It will be a phased-in approach, with Phase 1 consisting of five to eight stations anchored by fleet customer(s). AGL will secure commitment from fleet customers for at least 20% of the capacity at each proposed station before proceeding with installation of the fueling facilities.

4.3 Station Locations



Currently, there are two existing CNG retail stations available to fleet customers in Georgia, both of which are in the Atlanta area. The first station is owned by PS Energy, located in downtown Atlanta. This station is open only to businesses that make prior arrangements to obtain a fleet fueling card. The second CNG retail location is owned by Clean Energy Fuels, located in College Park near the Atlanta airport. This station is also open to retail customers.

There are five more stations proposed in the Atlanta area using an ARRA funded grant awarded through the DOE/Clean Cities program. However, these stations are not widely dispersed and offer limited opportunity for fleets in many areas, particularly on the North side of the city, and throughout the rest of the state.

AGL does not intend to locate in close proximity to the existing stations, and does intend to locate new fueling stations where fleet customer demand requires each to be located.

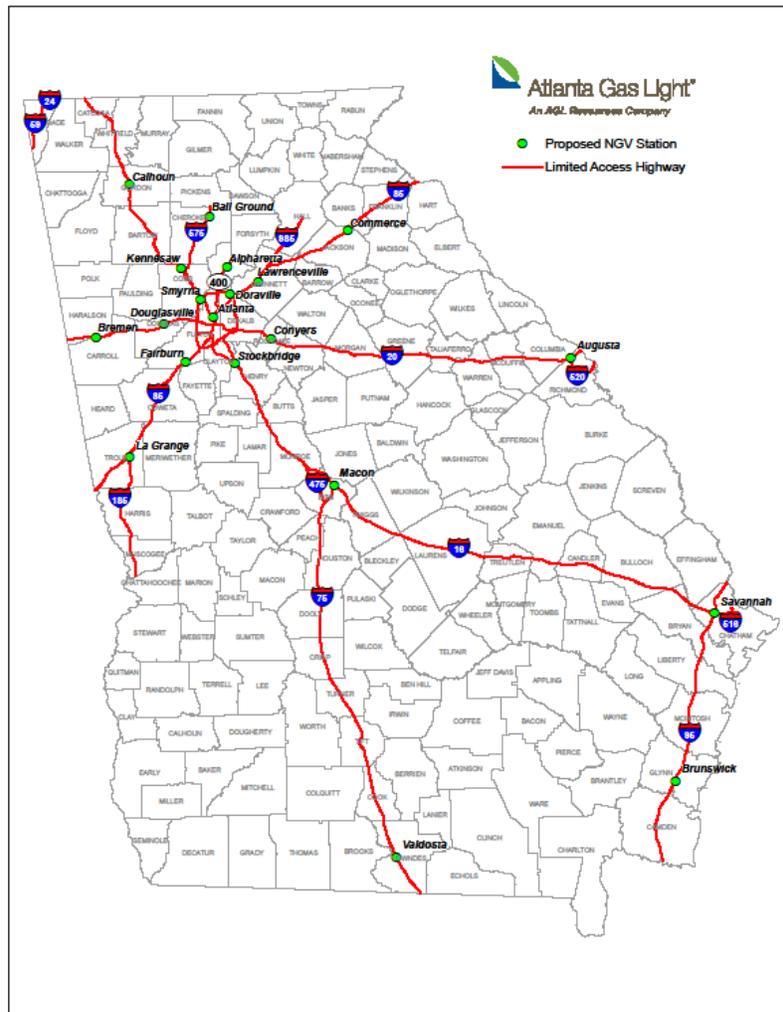
Ideally, the next step is to provide statewide coverage by locating CNG stations in all the major metropolitan areas and at strategic locations along the interstate highway system. The map below shows *potential* locations across the state:

Georgia (10)

- Augusta
- Ball Ground
- Bremen
- Brunswick
- Calhoun
- Commerce
- LaGrange
- Macon
- Savannah
- Valdosta

Metro Atlanta (10)

- Atlanta
- Alpharetta
- Fairburn
- Conyers
- Doraville
- Douglasville
- Lawrenceville
- Kennesaw
- Smyrna
- Stockbridge

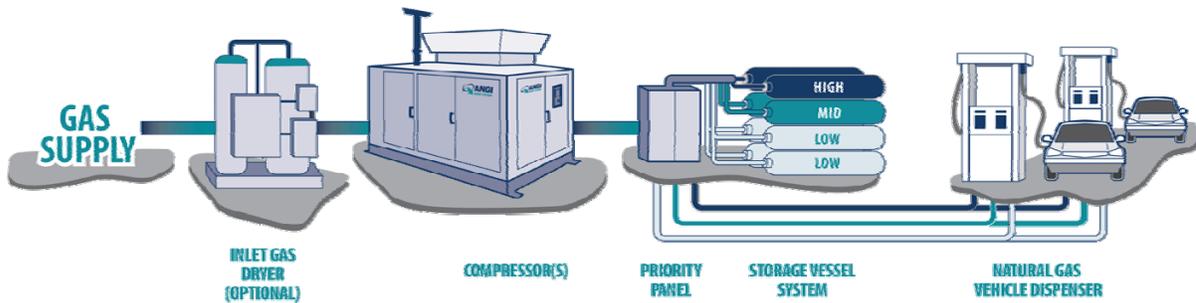


The process for determining the location of the first phase of stations will be based first and foremost on participation by the anchor fleet(s).. If the opportunity arises to select from multiple potential station sites then the following factors will be considered:

- Number of vehicles/fuel usage – Larger anchor fleets with high volume of fuel usage are preferred.
- Location – If the anchor fleet is also able to provide land to host the station that will make their potential site all that more feasible. If not, then other sites will be considered, such as retail fueling operations in the area. Prominent, accessible locations in near proximity to interstate highways, major intersections, etc. will be a key factor. Also, if there are no other CNG stations in that part of the state then that will also be a plus.
- Potential for growth – Higher density areas with large numbers of other potential fleets will score higher over locations with low growth potential.

4.4 Station Design

The size and capacity of each CNG station will be determined based on the requirements of the anchor fleet(s) and growth potential in the area. However, for planning and budgeting purposes, three nominal station designs have been developed. Each station will be a fast fill station consisting of packaged compressor(s), storage cascade(s), metered dispenser(s), and card reader(s.) For the purpose of this filing, we have included construction costs for stations with built-in redundancy (see Attachment 6 – MFR vi(a): Construction Costs for more detailed information). The decision whether to install a single compressor instead of dual compressors (for redundancy) will be made based on whether the fleet purchases dedicated CNG or bi-fuel vehicles, proximity to other CNG stations, etc.



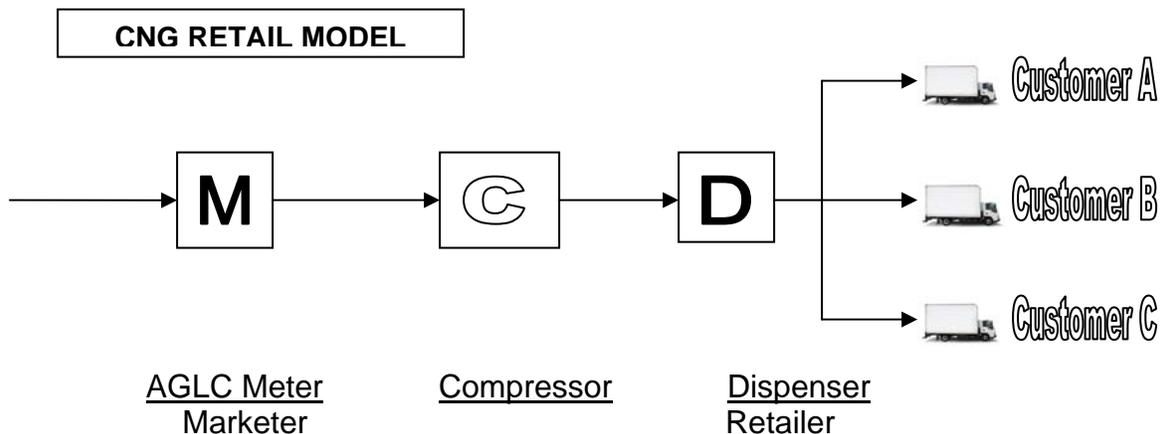
4.5 Land

AGL does not contemplate purchasing land for these CNG stations and instead plans to negotiate with property owners to lease space for the dispensers. It is anticipated that companies already in the fueling station business (convenience store chains, truck stops, independently owned gas stations, etc.) would be the ideal candidates to “host” a CNG station. We have not begun the process of talking to potential hosts so we do not have any direct feedback yet on what motivates them or what their concerns might be. However, Questar reportedly negotiated such leases on the basis of paying a nominal royalty on a cents/gallon basis. Fueling station operators operate on a very slim margin on their fuel sales and are highly motivated to have the additional traffic through their station so they can sell additional convenience items that provide a much higher margin to the station owner.

4.6 Retail Model

Atlanta Gas Light proposes to construct and operate CNG fueling stations on commercial property available for marketers and other CNG retailers to provide service to multiple fleet customers and the public. AGL envisions CNG pricing at the dispenser would be negotiated between each CNG retailer and their commercial

customers on a dollar per gasoline gallon equivalent (GGE) calculated based on the prevailing natural gas market price. The total cost to customers will include an AGL rate that includes all service and facilities related charges. For customers who are not covered by a commercial agreement, the CNG retailer would post a price in the same manner that gasoline and diesel prices are posted, and the customer will pay this price at the pump. In this manner, there would be a competitive market established for providing the retail CNG function and any benefit from the difference in the CNG and gasoline/diesel prices would flow to the CNG station customers.



- 1) AGL works with fleet customers and CNG Retailers to encourage market participation and determine appropriate location for each station.
- 2) AGL reaches agreement with retail fueling stations or other property owners to install CNG fueling equipment on property in close proximity to fleet customer(s).
- 3) If Retailer is not a certificated Marketer then Retailer negotiates with Marketer(s) to purchase natural gas at AGL meter for sale as CNG at Retailer's location.
- 4) AGL issues fleet fueling cards to Retailer's fleet customers.
- 5) AGL administers card readers, sends fleet usage reports to Retailer.
- 6) AGL bills Retailer for the facilities charge x gallons of dispensed fuel each month
- 7) AGL and Retailers develop procedures for "drive up" customers to use card reader for individual credit cards or cash .

4.7 RFP Selection Criteria

The Company intends to utilize a request for proposals (RFP) process to solicit interest in hosting of each CNG station, where practical. The RFP will require the prospective CNG retailers to submit a proposal to be the retailer based on several selection criteria, including proximity to fleet customer locations, ability of fleet customers and the general public to access the location, charges for locating CNG facilities on their sites; ability to locate other CNG fueling facilities at additional locations; submission of a marketing plan to support or promote the NGV program; willingness to invest in additional stations; and other factors.

The main goal of using the USF to establish a CNG market in Georgia is to overcome the primary barrier to market entry - the high cost of building CNG stations in a developing market while insulating existing AGL customers from the financial impact of this new business. As such, the selection process should in no way discourage the investment of capital from public or private sources to supplement the cost of these stations. AGL will continue to seek grants and contributions from other sources to supplement the USF funds and increase the number of stations it can build under this program.

4.8 Phase II of the NGV Initiative

Phase II of the NGV Initiative consists of funding additional public fueling stations. These revenues will be held in an AGL account, and once funds are sufficient to construct another station, an RFP will be released to interested parties.

In addition, a key component of the AGL program is to also make CNG available to commercial customers and individual consumers who may not be located close to one of the proposed stations. This will be accomplished by offering a Vehicle

Refueling Appliance (VRA) or Home Refueling Appliance (HRA) lease program. VRAs and HRAs are small, modular compressors which can be installed at a business or in a homeowner's garage to refuel CNG vehicles. The standard lease rate for the HRA will be as low as approximately \$75 per month if the current \$2,000 home refueling appliance federal income tax credit is extended past the current expiration date of December 31, 2010. The lease rate would increase to approximately \$100 per month if the credits are not extended. Regardless, AGL intends to offer a program to reduce the lease payment by \$50 per month for the first 500 participants. This expense would be funded by net revenues from the CNG retail station charges.

5. History and Review of Other State Initiatives

5.1 History

AGL has been in the NGV business since the 1970s when it operated a large number of its own vehicles on CNG. Currently, AGL owns twelve CNG stations on customer premises for fleet vehicles. The Company also provides maintenance services to about forty additional fleet customers who own their own stations. Most of these stations are fairly small, for a handful of vehicles or forklifts, but several of them are quite large, such as the ones owned by various transit agencies. AGL has a NGV maintenance department with six full time technicians and 24 hour emergency dispatch to provide service to these customers.



AGL and Metro Atlanta Rapid Transit Authority (MARTA) developed a CNG transit bus program in 1996. AGL built the first CNG station for MARTA on Perry Blvd., Atlanta in

1996 just in time for the Olympics. MARTA built a second one on Laredo Dr. in

Decatur in 2000. MARTA remains AGL's largest NGV customer and operates one of the largest fleets of CNG transit buses in the country with 440 CNG buses. AGL and MARTA signed a new contract in 2009 and now AGL maintains both CNG stations. The program has been very successful, with MARTA saving millions of dollars on diesel fuel costs, displacing about 1.5 million barrels of oil each year, and reducing emissions by millions of pounds of pollutants.

AGL filed a NGV program in 1994 at part of its Integrated Resources Plan. This program included a NGV (V-52) rate, vehicle purchase rebates, vehicle conversion financing, CNG cylinder leasing, and residential fueling appliance leasing. The program was filed in anticipation of the NGV market developing due to various government policies to address air quality and energy diversity goals. These included the Energy Policy Act (EPAAct) of 1992 and the Congestion Mitigation and Air Quality (CMAQ) program initiated under the Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991. EPAAct 1992 included AFV purchase mandates for federal, state and fuel provider fleets and the potential to mandate private and local government fleets if national energy diversification goals were not met. The CMAQ program provided substantial grants to help fleets switch to cleaner fuels.

Another important driver was the major automotive manufacturers' pronouncements that they would develop NGVs for market entry by mid-late decade. And for the first time, a major petroleum marketer, Amoco, entered the market installing retail CNG station "test" networks in several metro areas including Atlanta. By 1996, there were nearly 55,000 NGVs on the road in the US fueling at more than 1,250 CNG stations dispensing almost 50 million GGEs. This was five times the number of vehicles, three times the number of stations and more than a six times the throughput volume as compared to 1990, and double-digit growth was projected for the next several years. Light-duty vehicles accounted for eighty-four percent of the vehicle inventory

but advances in heavy-duty engines spurred sales, especially to the transit industry as CMAQ funds were largely directed to this segment.

Ultimately, however, the federal government's decision to not mandate that local governments and private fleets purchase AFVs eliminated one of the market drivers that many had counted on to launch NGV market development to the next level. Furthermore, lax enforcement of EPA's AFV purchase and fuel use guidelines allowed mandated fleets to skirt the intent by buying Flex-Fuel Vehicles without using the alternative fuel. Projected light-duty NGV sales did not materialize and, by year-end 2005, all the major automotive companies except Honda had either left the market entirely or were about to leave.

Small Volume Manufacturers (SVM) of engine conversion-retrofit components and systems, who had been the NGV industry's primary suppliers of gaseous fuel technology, came under increasing EPA regulatory pressure to document that their equipment was keeping up with emissions advances of the major auto manufacturers. New testing, documentation and certification requirements forced many without the technical or financial resources to exit the market. For those few SVMs that remained, substantially increased certification costs forced them to eliminate some vehicle models and increase their costs. This exiting of many SVMs and the eventual departure of all but one OEM left the market with limited LDV options to offer customers. This had a direct impact on the number of station development projects that move forward

5.2 Other State NGV Initiatives

Questar Gas (Utah)

Questar has twenty-one public access stations, mostly along the Interstate-15 and Interstate-80 interstate routes in the Metroplex area of Utah. The majority of these stations have been in place for many years but they are expanding a few of them and installing some new stations. Questar is recovering the cost of these stations through their rate base and is currently selling CNG at \$1.52 per GGE. They have authorization to sell CNG at less than their cost of service, whereby their ratepayers are subsidizing the cost. They pass through the gas commodity price but hold their “distribution non-gas costs” (station capital, O&M, electricity, etc.) flat. This way they allow their CNG station customers to realize the full benefit of the difference between natural gas and gasoline/diesel prices. Questar was selling CNG for less than \$1 per GGE until the first of this year. They had to raise it when the \$0.50 per GGE excise credit was phased out and are expected to lower it again when that credit is reinstated. Questar sold 3.9 million GGEs of CNG last year and it is estimated there are between 5,000 – 8,000 CNG vehicles on Utah roads.

National Grid (New York)

National Grid is the parent company of the former KeySpan/Brooklyn Union Gas, Long Island Lighting, Providence Gas, Niagra Mohawk, and Boston Gas utilities.

National Grid owns and operates thirteen retail CNG stations which have been in rate base for many years. They are building two additional stations, and costs not covered with grants/tax credits will also be rate based. They maintain ten of their thirteen stations with their own personnel and contract out maintenance on the other three. They have a NGV retail tariff which includes a \$0.10/therm station charge;

otherwise they pass through the savings to their CNG station customers. They perform the retail sales function.

Others:

- PG&E still operates more than a dozen retail public stations (and lots of private stations)
- Citizens Gas & Coke (Indy) operates two – one at utility's downtown fleet depot and one public access at a privately owned gas station
- SoCal/SDG&E still operates a number of stations that are public access – they only had to sell the ones that were not PRIMARILY serving their own fleet (sold years ago to Clean Energy)...the rest are still SoCal owned and operated.
- DTE has about 14 public access stations and is building more
- PECO (suburban Philadelphia) still has 5 public access stations although they are the older type with pre-approved card readers (not Amex, VISA, etc)
- Oklahoma Gas still has several dozen public access stations although many are older and still at 3000 psi – upgrading several to meet increased demand
- Metropolitan Utilities District of Nebraska has one station (not open to public) but is getting ready to build public access and grow their market.
- Piedmont Natural Gas in North Carolina – two public access stations and are currently upgrading the one in Greensboro.

6. Recommendations

Following receipt of this filing, the Commission should invite interested stakeholders to participate in the Commission's review and development of this CNG Retail market plan. The public process should include the Commission, Commission Staff, government officials, gas industry representatives and CNG market advocates, fleet operators, certificated marketers, and potential CNG Retailers to help shape the ultimate Commission order.

AGL recommends the Commission conduct two workshops to be held in Atlanta. The initial workshop could be held in November following conclusion of AGL's rate case when AGL will present the filed framework and other stakeholders can present refinements and modifications to the program as filed. A second workshop could be held in January to prioritize recommendations which AGL will assimilate and file with the Commission for its final approval.

Staff will receive AGL's recommendations following this second workshop, and after proper evaluation can make its recommendation for final action in February or March 2011.

AGL urges the Commission to support creation of an important new CNG fueling market in Georgia, and approve a CNG investment program utilizing an amount from the USF consistent with its Facilities Expansion plan rules.