Energy Edge

A NEWSLETTER FOR MEMPHIS LIGHT, GAS AND WATER DIVISION COMMERCIAL CUSTOMERS

JUNE 2006

MLGW enters long-term gas agreement to lower price, ensure security of supply

In May, MLGW entered into an innovative agreement to obtain a discount on future natural gas purchases for the next five years and also ensure security of supply.

The deal, between MLGW and utility cooperative Public Energy Authority of Kentucky (PEAK), will generate a discount of 12.5 cents per million British thermal units (MMBtu) plus an annual discount of approximately 5 cents. MLGW has the option of extending the five-year contract term and increasing the discount to as much as 22.5 cents per MMBtu.

The agreement provides approximately 10% of the gas MLGW typically needs, helping to ensure availability of supply in a market where gas production levels have remained fairly flat due to increasing consumption and lower production per gas well.

The deal does not set natural gas prices; instead, it accommodates a discount from the market index price for each month's gas delivery. For example, if MLGW buys gas for delivery in December 2006 at a hypothetical price of $9.00, the discount will reduce the hypothetical price to $8.825 per MMBtu. The actual price will continue to fluctuate monthly with the index, but the amount of the discount will remain the same.

Unlike the 2003 pre-pay electric agreement with TVA, where MLGW issued tax-exempt bonds to finance the $1.5 billion deal, MLGW is not purchasing gas supplies in advance. Rather, MLGW will be billed monthly for the gas it receives from PEAK.

IRS issues final tax incentive rules for energy improvements to buildings

On June 2, the IRS published its final guidelines for tax incentives available for commercial building energy improvements. The incentives, which were authorized last August as part of the Energy

Purchased Gas Adjustment (PGA)

Rate	Consumption	Demand
G-1 residential	$0.1925	na
G-7	$0.2296	na
G-8 / G-9	$0.2750	($0.0346)
G-10 / G-12	$0.2599	na

Adjustment in $/Ccf to published rates for bills rendered on or after 6/26/2006.

Interesting Webs....

Energy Tax Incentives for Commercial Buildings
http://www.irs.gov/pub/irs-drop/n-06-52.pdf

Energy Star Challenge for Businesses
http://energystar.gov/index.cfm?c=leaders.bus_challenge

Important Contact Information:

Commercial Resource Center:
Monday-Friday
7:30am to 5:00pm Central
Phone: 901-528-4270
Fax: 901-528-4547
E-mail: crc@mlgw.org

Emergency: 901-528-4465

Outage: 901-544-6500

Policy Act (EPACT) of 2005, allow taxpayers to claim deductions for qualified energy-efficient property installed in commercial buildings.

Deductions of up to $1.80 per square foot are available for buildings which cut energy usage by 50% or more; partial deductions of up to $0.60 per square foot are available for eligible individual system improvements that cut energy usage by 16.66% or more.

Highlights include:

- Incentives are paid to a taxpayer who owns or leases a commercial building in the United States that is within the scope of ASHRAE Standard 90.1-2001 and who installs, or plans to install, energy-efficient property after 12/31/2005 and before 1/1/2008. (There are provisions for deductions when multiple taxpayers make collective improvements and for improvements to government facilities, although those guidelines are incomplete currently.)
- Energy-efficient property is installed, or will be installed, as part of the building's interior lighting system, heating, cooling, ventilation and hot water systems, or building envelope.
- To qualify for full deductions, improvements must reduce the total annual energy and power costs with respect to combined usage of the building's heating, cooling, ventilation, hot water and interior lighting systems by 50% or more, as compared to a Reference Building. Reductions in any other energy usages—such as plug load, process load, refrigeration, cooking and elevators—are not taken into account in determining the 50% calculation. (Partial deductions are available when improvements to interior lighting systems, heating, cooling, ventilation and hot water systems or building envelope reduce total annual energy and power costs by 16.66% or more.)
- Reference building must be located in the same climate zone as the taxpayer's building and otherwise comparable to the taxpayer's building except that its interior lighting, heating, cooling, ventilation and hot water systems, and building envelope meet the requirements of ASHRAE Standard 90.1-2001 and selected requirements from the 2005 California Title 24 Nonresidential Alternative Calculation Method Approval Manual.
- A Performance Rating Method (PRM) must be used to compute the percentage reduction in energy and power costs. Approved software programs must be used to perform the PRM. Software developers must submit information on their product to the Department of Energy for inclusion on the list, which will be posted at: www.eere.energy.gov/buildings/info/tax_credit_2006.html
- Taxpayer's building must be certified by a qualified individual who is a professional engineer or consultant licensed to work in the building's jurisdiction.
- A statement of certification must be provided to the taxpayer by the qualified individual, for recordkeeping purposes.

Future issues of ***Energy Edge*** will contain more detailed information on the tax deductions, as analysis of the IRS regulations continues. In the meantime, you can access the complete, 24-page document at: www.irs.gov/pub/irs-drop/n-06-52.pdf MLGW recommends consulting with your tax advisor to determine applicability for your organization.

Energy Edge is published by the Economic Development department of Memphis Light, Gas and Water Division. Comments and distribution list changes may be e-mailed to: crc@mlgw.org