

In the matter of the application of)
Southern Missouri Gas Company, L.P. for)
a variance from 4 CSR 240-14.020(1)(D))

Case No. GE-2006-0156

STAFF RESPONSE TO COMMISSION ORDER

COMES NOW the Staff of the Commission and for its Response to Commission's
December 14, 2006 Order Directing Filing states:

1. On October 10, 2005, Southern Missouri Gas Company, L.P. d/b/a Southern Missouri Natural Gas Company (SMNC) filed an application for variance from certain restrictions in the Commission's Promotional Practices Rule, 4 CSR 240-14.020(I)(D).
2. SMNG requests that the Commission permit SMGC to offer a water-heater rebate program. SMNG asserts that the program is intended to encourage customers, builders and developers to install natural-gas-fired hot water heaters.
3. In the Order Directing Filing in Case No. GE-2006-0156, effective December 13, 2005, Staff has been ordered to file pleadings that explain why the Commission should approve SMGC's request in spite of record natural gas prices by December 15, 2005.
4. In investigating this matter, Staff submitted several data requests to the Company regarding how much customer participation in the program the Company expected and the effect of the program on system capacity. Because this is a new program, the Company could not give definite answers to these questions. Consequently, Staff recommended that the waiver and program be implemented on an experimental basis for a limited time with the Company providing annual reports on the program. Annual reporting will allow Staff and the Commission to monitor the effects of the program.

5. Staff also determined that this program was promoting energy efficiency in water heating. Due to Federal energy efficiency requirements, all new natural gas water heaters are highly energy efficient, so replacing older water heaters should result in more efficient use of natural gas. In fact, new natural gas water heaters are so efficient that DOE no longer establishes Energy Star ratings for these appliances.

After analyzing the market, the potential energy savings and economics of the various technologies, and considering feedback from stakeholders, the Department of Energy has decided not to establish ENERGY STAR criteria for domestic water heaters at this time.... Conventional gas and electric storage water heaters are approaching the physical limits of energy performance, particularly electric water heaters with energy factors ranging to nearly 0.95. For electric water heaters, significant gains are only possible by using heat pump technology yielding energy factors greater than 1.0. Gas storage water heaters are near their physical limits as well. In order to achieve significant energy efficiency gains, manufacturers will have to pursue condensing or tankless technologies.

(Karney, Richard H., P. E., Manager, Energy Star Program, U.S. Department of Energy, *Letter*, Jan. 6, 2004, U.S. Department of Energy, ENERGY STAR web site, www.energystar.gov, p.1 and p. 2, pp 3).

6. As noted in Staff's Memorandum, SMNG faces competition only from non-jurisdictional electric cooperatives and propane providers, which offer similar rebate incentives for the installation of electric and propane water heaters. Under these circumstances, it is reasonable for SMNG to be able to offer a similar program to its customers.

7. Additionally, a rebate incentive will help lower income customers acquire natural gas water heaters, which have higher installation costs than electric water heaters, but are more efficient to operate.

Water heating accounts for about 15 percent of your home's energy use so, when replacing your water heater it's important to choose an efficient model. Natural gas water heaters typically cost more to purchase and install than electric; however, the operating costs with gas are typically about 50 percent lower than electric.

(Minnesota Blue Flame Gas Association, *Your Efficient Gas Water Heater*, undated, Minnesota Blue Flame Gas Association web site, www.blueflame.org, p. 1, pp 2).

8. Natural gas water heaters appear to be less expensive to operate than conventional electric water heaters even at the current historically high wholesale prices for natural gas, i.e. \$15.00/Mcf (an Mcf is one thousand cubic feet of natural gas -- approximately equal to one million British thermal units, Btu).

Note: While electric water heaters have higher EFs (energy factors) than gas water heaters, that doesn't mean they will be more economic to operate, because electricity costs considerably more than natural gas for the same amount of energy. For 1999, the U.S. Department of Energy (DOE) estimates that natural gas for residential customers on a national average basis will cost \$6.88 per million Btu, a standard measurement of energy. By comparison, electricity is estimated to cost \$24.09 per million Btu.

(American Gas Association, *Buyer's Guide Natural Gas Water Heaters*, undated, American Gas Association web site, www.aga.com, p. 3, pp 8).

WHEREFORE based on its analysis stated above, Staff recommends that the Commission approve the substitute tariff sheets filed on December 7, 2005, to establish an energy-efficient natural-gas water heater rebate program, on an experimental basis, and approve the request for variance.

Respectfully submitted,

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 15th day of December.

/s/ Lera L. Shemwell