

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service
Commission held at its office in
Jefferson City on the 20th day of
December, 2005.

In the Matter of the Application of Southern)	
Missouri Gas Company, L.P. for a Variance from)	<u>Case No. GE-2006-0156</u>
4 CSR 240-14.020(1)(D))	Tariff No. JG-2006-0363

**ORDER GRANTING VARIANCE
AND APPROVING TARIFF SHEETS**

Issue Date: December 20, 2005

Effective Date: December 23, 2005

Syllabus: This order grants Southern Missouri Gas Company a waiver from Commission Rule 4 CSR 240-14.020(1)(D), the Commission's Promotional Practices Rule, and approves tariff sheets to implement Southern Missouri Gas Company's rebate program.

On October 11, 2005, SMGC applied for a waiver of the Commission's Promotional Practices Rule. SMGC would like to start a rebate program to encourage customers, builders, and developers to install natural gas-fired water heaters in its service area. In particular, SMGC would like to offer the following water heater rebate program:

- A \$100 credit to eligible customers on their natural gas bill if they replace an electric water heater with a natural gas-fired water heater;
- A \$150 cash payment to eligible customers, builders and developers for installing a natural gas-fired water heater in any newly-constructed residence or commercial building;

- A \$40 credit for eligible customers on their natural gas bill if they replace an existing natural gas-fired water heater with another natural gas-fired water heater.

Currently, the Commission's Promotional Practices Rule, 4 CSR 240-2.14.020(1)(D), prevents SMGC from offering those incentives. SMGC asks for a variance from that rule. SMGC believes good cause exists for the variance because SMGC competes with unregulated electric cooperatives and propane dealers that offer similar programs. SMGC believes that its rebate program would benefit low-income and fixed-income consumers who might not otherwise be able to afford natural gas-fired water heaters. Finally, SMGC believes that the rebate program will encourage demand for natural gas, making economic operation of SMGC's system and the lowest possible rates to consumers possible.

On November 10, SMGC filed a tariff sheet to implement its rebate program. The tariff sheet bore an effective date of December 10, and stated that the rebate program would expire on December 31, 2008, unless SMGC extends it. SMGC later extended the tariff effective date to December 23, and also filed substitute tariff sheets.

The Staff of the Commission filed its Recommendation on December 7. In the Recommendation, Staff stated that the Commission should approve the variance and the substitute tariff sheets. Staff asserts that SMGC will fund the rebate program with its own funds, and not with ratepayer subsidies. Because this program has not been previously available, SMGC could only estimate the program's costs, participation level, and impacts.¹ Therefore, Staff recommended that SMGC file tariff sheets for an experimental program.

SMGC filed those sheets. Those sheets state that the rebate program is voluntary, and is available to any participant.

On December 13, the Commission issued an Order Directing Filing. In that order, the Commission told the parties to state whether the Commission should encourage more natural gas usage when prices for natural gas are at an all-time high.

Staff responded on December 15, stating that the annual reporting requirement will help the parties monitor the success of the rebate program. Also, Staff stated that new natural gas water heaters are so efficient that the U.S. Department of Energy no longer establishes Energy Star ratings for them. Staff further added that the rebate would help lower income customers buy natural gas water heaters, which have higher installation costs, but are more efficient to operate than electric water heaters. Finally, Staff added that even in today's times of record high prices, natural gas water heaters appear to be less expensive to operate than conventional electric water heaters.

SMGC also responded on December 15. SMGC stated that this rebate program is similar to one the Commission approved for AmerenUE, except that SMGC's owners, rather than the ratepayers, will be responsible to pay for the program. SMGC restated that the program is due to end on December 31, 2008, and that SMGC will be required to give Staff annual reports regarding the program. SMGC states that because it competes with unregulated providers of electricity and propane, it must have some pricing flexibility, which

¹ SMGC's tariff states that SMGC estimates 100-150 participants annually, resulting in an estimated annual cost of \$10,000-\$15,000 to run the program.

the rebate program would provide. SMGC says that the rebate program is designed to encourage the use of more efficient natural gas fired water heaters, and to also improve SMGC's load factor, thereby resulting in lower retail rates over the long term.

Commission Rule 4 CSR 240-14.010(2) requires an applicant for variance from the Commission's Promotional Practice Rule to show good cause for the variance. The Commission finds that SMGC has shown good cause. SMGC can compete more effectively against unregulated electric cooperatives and propane dealers with the rebate program. In addition, the Commission finds that the rebate program likely will enable low- and fixed-income customers to benefit from the program. Also, the Commission notes that SMGC's tariff requires it to give detailed information to Staff and to the Office of the Public Counsel on October 1 of each year the program is in effect. Staff and Public Counsel can analyze this information to evaluate the program's success.

IT IS THEREFORE ORDERED:

1. That the Commission grants Southern Missouri Gas Company, L.P. a waiver from Commission Rule 4 CSR 240-14.020(1)(D).
2. That the Commission approves Tariff No. JG-2006-0363, which is the tariff sheet Southern Missouri Gas Company, L.P. filed on November 10, 2005, as amended by substitute sheets filed on December 7, 2005, effective December 23, 2005:

P.S.C. MO. No. 2
1ST Original SHEETS Nos. 72-74

3. That this order shall become effective on December 23, 2005.
4. That this case may be closed on December 24, 2005.

BY THE COMMISSION

A handwritten signature in black ink, appearing to read 'Colleen M. Dale', written over a horizontal line.

Colleen M. Dale
Secretary

(S E A L)

Davis, Chm., Murray and Appling, CC., concur
Gaw and Clayton, CC., dissent

Pridgin, Regulatory Law Judge