BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Southern Union Company d/b/a Missouri Gas Energy's Tariff Sheets Designed to Implement an Experimental Pilot Program	))))	Case No. GT-2013-0330

PUBLIC COUNSEL'S REPLY TO THE STAFF AND MGE RESPONSES TO OPC'S MOTION TO SUSPEND TARIFF

COMES NOW the Office of the Public Counsel ("OPC") and for its Reply to the Staff and MGE Responses to OPC's Motion to Suspend Tariff, states as follows:

1. *Summary*: OPC seeks suspension of only the request to extend the water heater rebate portion of the proposed Joplin rebate program. OPC seeks suspension because the independent evaluation by Nexant revealed that the costs of the program far outweigh the benefits. OPC does *not* object to continuing the Joplin rebate program for space heating rebates, which the independent evaluator determined is cost justified.

2. It is important to note that suspending or rejecting the water heater rebate portion of the Joplin rebate program will not eliminate the current MGE territory-wide water heater rebate program,[1] which would continue to provide rebates to Joplin homeowners to purchase energy efficient water heaters. At this time, OPC only seeks to discontinue the higher water heater rebate amount for Joplin area residents.

Response to Staff

3. The Commission directed its Staff to respond to OPC's Motion. Unfortunately, the Staff's response does not respond to most of the issues raised by OPC.

[1] MGE Tariff, P.S.C. Mo. No. 1 Fourth Revised Sheet No. 103.

Staff technical expert Michael Stahlman asserts that "the slow start of Rebuild Joplin participation could result in an inconclusive evaluation due to a limited sample size that would be too small to yield statistically significant results" and concludes that, "the Staff believes the extension of Rebuild Joplin to May 1, 2013 is reasonable." However, Public Counsel observed in its motion that there were only 21 participants thus far in the water heating program. Staff has provided nothing to support the notion that continuing the water heater rebate portion for an additional four months will create a "statistically significant" sample size for water heaters. Given the rate that the water heater rebates are currently being issued, and given the fact that little if any new home construction will occur in the impacted area within the next four months (according to the consultant hired by Joplin), the facts support a suspension of the tariff, or outright rejection. Every day the water heater rebate portion is allowed to continue beyond its current December 31, 2012 termination date is an additional day of wasting limited energy efficiency resources and creating additional upward pressure on rates to promote an energy efficiency program that is not cost effective.

4. The Staff chose not to respond to the cost benefit results in the 2012 Nexant evaluation that clearly prove the program is not cost effective. OPC's Motion to Suspend quoted numbers from MGE's cost efficiency reports showing that MGE spent well over $1,000 in advertising to attract each participant in the Joplin water heater program. Staff offers no suggestions as to how participation can be increased in the water heater program, except to simply continue with the failed water heater rebate program. Is it the Staff's position that MGE should spend $2,000 in advertising per water heater program participant (instead of the $1,000 per participant spent so far) in hopes of

getting a sudden surge in participation that would lead to the participation levels needed to have a statistically meaningful sample size? If so, that would only accelerate the pace of wasteful spending. The Staff offers no solutions for the failed program, except to support doing more of the same.

5. The issues raised in OPC's motion that were not addressed in the Staff response include determining the cause for the lackluster results of the program. Staff identifies the three month re-building moratorium as being at least partly responsible for the poor program participation but they do not address how this long-expired moratorium could have lead water heating program participation to be only 21 customers instead of the 850 customers that were projected in the cost benefit analysis that MGE used to support this pilot program.

6. Other issues not addressed by Staff are the out of control, unauthorized promotional expenditures that have taken place (almost double the budget in 2012) and the additional million dollar promotional campaign that MGE is embarking on without getting the required approval of the EEC.

Response to MGE

7. MGE begins its response by stating in paragraph 1.a. that "MGE was – and remains – committed to find ways to help Joplin rebuild quicker and better." However, just a couple pages later, MGE displays the limits of its commitment where it states that "…if the tariff sheets are suspended, there is little incentive for the Company to incur the additional costs and to utilize the resources that would be required to pursue this matter through hearing." Apparently MGE's commitment evaporates at the point where the Commission begins to scrutinize the details of how MGE has implemented the

Joplin program and the results that have been achieved. Perhaps MGE also hopes that its decision to move forward with a million dollar promotional plan without collaborative consent will also not receive any further attention once the new Joplin proposal either goes into effect without further review or if the Company withdraws this proposal as a consequence of the Commission requiring further review of this program before it is extended.

8. On page six of its response, MGE states that "The lower amount of program expenditures should have alleviated OPC's concern of over-spending." Surely MGE understands that OPC did not just have concerns about the possibility of "excessively high" spending on this program due to the one million dollar spending cap. The other equally important concern was that expenditures (at whatever level occurs) are for **cost effective** energy efficiency measures, consistent with the Commission's guidance on energy efficiency expenditures. OPC was astonished to discover that MGE was spending about $1,000 per water heater program participant on promoting the Joplin water heating program and has even larger promotional expenditures on the way for its energy efficiency programs where the Energy Efficiency Collaborative (EEC) has been kept in the dark (in violation of requirements set forth in tariff and Commission approved agreements) on the planning and implementation of these larger promotional expenditures.

9. In the first full paragraph on page six, MGE asserts that "the cost-effectiveness of any program cannot be determined until all program costs are calculated." While this assertion may be technically correct, it misses the point made in OPC's motion that we already have more than enough knowledge to conclude that the

Joplin water heater program is not achieving results that are anywhere close to being cost effective. MGE dismisses the cost effectiveness results of the 2012 evaluation report as not being any more up to date than the initial cost projections and analysis that was used to justify the Joplin program. However, the Nexant cost benefit results referenced by OPC are based on **actual** program results. These cost/benefit test results, based on actual program activity and measured savings, are much more reliable than the initial Joplin study which relied on program participation assumptions that have proven to be completely unrealistic. A four month extension of this program will not make the initial program assumptions any more reflective of real world conditions.

10. In paragraph six of its motion, OPC stated:

> The current information contained in the August 10, 2012 Nexant evaluation report shows that some of the measures are far from being cost effective based on either the Total Resource Cost Test or MGE's preferred Utility Cost Test (also referred to as the Program Administrator Cost Test). The more current Utility Cost Test score of .42 shows that water heater measures only provide 42 cents in benefits for every dollar spent. The .42 result would be even poorer if adjusted to reflect the much higher level of tankless water heater rebates ($400 instead of $200) that are available in the Joplin area and the enormous $1,160 marketing expenditure per participant for the Joplin program.

Neither MGE nor the Staff made any attempt to refute OPC's conclusion that the Joplin water heating program would have a Utility Cost Test score that is even worse that the .42 cost benefit result shown for water heaters in the August 10, 2012 Nexant evaluation report. The most important cost benefit test input that needs to be current in today's world of low natural gas prices is the avoided cost information used in the analysis, and the Nexant report used estimates of future natural gas prices that are consistent with the Energy Information Administration's (EIA) recent Annual Energy Outlook studies.

11. On page seven of its response, MGE claims that "OPC provides no context or data as to why Ameren, a dual energy utility, chose to eliminate natural gas water heaters from its energy efficiency programs." Perhaps MGE did not notice the context provided in OPC's motion where it states that "it is important to note that the Ameren Missouri Gas Energy Efficiency Advisory Group recently supported a tariff filing by Ameren that eliminated all gas water heaters from its 2013 program after reviewing the Ameren cost benefit information which showed that gas water heaters do not pass cost effectiveness tests."

12. On page 8 of its response, MGE attempts to defend the unlawful unilateral decisions that it has made on the level of energy efficiency promotion expenses by pointing to the frustration it has felt from not being able to increase the level of utility incentives being offered for natural gas appliances. Perhaps MGE also blames the Commission for the unilateral actions taken by MGE since the Commission has not approved the increased incentives that MGE has proposed for incentives that would encourage customers to switch from electric appliances to natural gas appliances. Surprisingly, MGE admits in its filing that it did not notify the EEC until October about the extensive promotional activities that it initiated in January. Very limited information has been provided to the collaborative about these promotional activities. Despite repeated requests for a copy of the contract with MGE's promotional consultant, only the MGE "boiler plate" portion of this contract has been provided.

13. MGE's failure to deliver on its promise to provide the 2013 budget to collaborative members until after OPC filed its motion speaks for itself. Now that the budget has been provided which shows MGE's intentions to continue the Joplin programs

throughout all of 2013, the Company should explain why it is only seeking a limited four month extension at this time. It will not be a productive use of utility and regulatory resources to review multiple program extension requests within a single year and it is somewhat misleading to request a 4 month extension when plans exist for a full 12 month extension. It is quite possible that MGE chose to reveal a 4-month extension, instead of its planned 12-month extension, because a 12-month extension would raise more concerns than a 4-month extension, and would be more likely to be suspended.

Staff Motion to Consolidate

14. The Staff's response asks the Commission to consolidate the original tariff case, GT-2012-0170, with the new tariff case, GT-2013-0330. Commission rule 4 CSR 240-2.065 requires a new case to be opened when a motion to suspend a tariff is filed, and the rule also requires the Commission to file all subsequent pleadings and orders in the new case. The connection between the two cases is apparent, but the need to consolidate these two cases is not. The Staff states that "this matter has already been addressed" in GT-2012-0170. However, the matter to be addressed now is whether the Commission will continue a Joplin specific program that includes water heating measures that Nexant determined are a waste of ratepayer dollars. It would be more appropriate to close GT-2012-0170 and address this new issue in GT-2013-0330.

15. In the interest of ensuring a beneficial use of ratepayer energy efficiency funds, OPC urges the Commission to suspend MGE's proposed tariffs so that it can determine whether it is appropriate to deny approval of the Joplin program until the enhanced water heater incentive is removed.

WHEREFORE, the Office of the Public Counsel respectfully offers this response and renews its request to suspend MGE's proposed tariff changes and direct the parties to file a proposed procedural schedule that includes dates for an evidentiary hearing.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, emailed or hand-delivered to all counsel of record this 18th day of December 2012:

/s/ Marc Poston