

**BEFORE THE PUBLIC SERVICE COMMISSION OF
THE STATE OF MISSOURI**

In the Matter of Missouri Gas Energy's Tariff Sheets Designed to Increase the Rebate Level for Tank Water Heaters.))) <u>File No. GT -2011-0049</u>
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**MGE'S RESPONSE TO THE COMMISSION'S ORDER
DIRECTING FILING OF STATUS REPORT**

COMES NOW Southern Union Company, d/b/a Missouri Gas Energy ("MGE"), and, for its Response to the Commission's Order Directing Filing of Status Report, states as follows to the Missouri Public Service Commission ("Commission"):

BACKGROUND

1. On July 30, 2010, MGE filed revised tariff sheets which increased the customer rebate for Energy Star® tank water heaters and made several new energy efficiency incentives available to MGE's Small General Service Class. ("SGS"). In that filing, MGE proposed to increase its hot water heater incentive from \$40 to \$100 for "a tank water heating system that meets Energy Star® criteria." The Office of the Public Counsel ("Public Counsel") was the sole Energy Efficiency Collaborative member opposed to the increase to MGE's water heating incentive.

2. MGE's Energy Efficiency Collaborative ("EEC") consists of representatives from MGE, Public Counsel, Missouri Department of Natural Resources ("MDNR") and the Staff of the Commission. The EEC operates on a consensus basis, meaning that agreement of all members is required. If consensus cannot be reached, any party may petition the Commission to resolve the dispute.¹

¹ In the Matter of Missouri Gas Energy Proposed Tariff Sheets to Administer Natural Gas Conservation Initiatives, Case No. GT-2008-0005, Unanimous Stipulation and Agreement, p. 2.

3. MGE's proposal to increase its water heater incentive from \$40 to \$100 was approved by all members of the EEC, except for Public Counsel, in April 2010. Attempts to reach consensus after this vote were unsuccessful, so MGE submitted proposed tariffs to the EEC for vote in July 2010. Once again, Public Counsel voted against the increased water heater incentive, while the other members voted for the increase. The EEC reached consensus on the remaining tariff changes. As referenced above, MGE filed revised energy efficiency tariff sheets on July 30, 2010.

4. After it became apparent that Public Counsel's opposition to the increased water heater incentive would prevent the immediate implementation of the entire new package of incentive levels, MGE withdrew the tariffs and filed them without the increased water heater incentive level on September 2, 2010 so that the new SGS program tariffs could go into effect. The revised tariffs went into effect on September 15, 2010. The water heater incentive level remains at \$40.

5. In its December 3, 2010 order, the Commission asked for a status report on MGE's filing of tariff sheets regarding water heater incentives.

Actions Subsequent to the Withdrawal of the Increased Water Heater Incentive

6. After MGE withdrew its proposal to increase its water heater incentive in September 2010, MGE submitted a revised water heater incentive proposal to the EEC during the EEC's October 6th, 2010 meeting. In an effort to show that higher incentive levels were warranted, MGE conducted market research in its service area to provide support for its proposal to increase incentive levels. Specifically, MGE provided the EEC with market-specific data on the cost of the appliances, installation charges, as well as Department of Energy pricing data. MGE's market data indicated that significantly higher incentive levels could be supported. Specifically, MGE's market data indicated that the following incentive levels may be warranted:

- a. 0.62 - 0.66 EF Water Heaters: \$100.
- b. 0.67 - 0.79 EF Water Heaters: \$300.
- c. 0.80 - 0.81 EF Water Heaters: \$400.
- d. 0.82 EF and above Water Heaters: \$850.

7. MGE noted that higher rebate levels were supported not only by market research, but also due to the fact that tax incentives for energy efficient appliance purchases would end on December 31, 2010. In order to move the market toward more energy efficient appliances, MGE felt (and continues to assert) that higher incentives were (and are) necessary.

8. In addition, MGE's market research found that natural gas water heaters labeled with an EF greater or equal to 0.67 were not readily available in its service territory. As a result, MGE's proposal was to continue to provide incentives for water heaters with an EF rating between 0.62 and 0.66 EF, but provide higher incentives for higher-priced but more energy efficient models. MGE's intent was to provide this market-supported data to the EEC, obtain feedback, and then provide specific tariff recommendations at or near those amounts.

9. At the October 6, 2010 meeting, no formal vote was taken on MGE's proposal, but Public Counsel indicated that it would not support the increased incentive levels.

10. Facing a lack of consensus on its water heater program incentive levels, MGE chose to focus on the immediate need to design and implement a new program for its Small General Service Class, rather than focusing its limited energy efficiency personnel resources on immediately filing new tariffs, moving to a procedural schedule and hearing on its water heater incentives. Specifically, MGE submitted draft requests for proposals ("RFPs") for outside vendors to study MGE's SGS customers (a mix of commercial and residential customers who use less than 10,000 CCF of gas per year) and design a program intended to promote energy efficiency improvements through the replacement

of less-efficient natural gas equipment specifically for this customer class.

11. After MGE proposed the RFP for program design in the September 1, 2010 meeting, the EEC finally reached consensus during its October 18, 2010 meeting. Since the October 18th meeting, MGE energy efficiency personnel have been fielding questions from RFP respondents, evaluating RFP submissions, and presenting those submissions to the EEC for review. MGE anticipates awarding the contract to a vendor in the next month (assuming EEC consensus can be reached) and moving forward with program design and implementation.

12. In the September 1, 2010 EEC meeting, MGE also submitted for review a proposed RFP for the evaluation of MGE's residential space heat program as well as MGE's Home Performance with Energy Star Program. MGE sought to include several evaluation measures in its evaluation proposal, including the Total Resource Cost Test ("TRC"), Societal Test, Utility Cost Test, Ratepayer Impact Test, Participant Test, as well as an analysis and consideration of the full fuel cycle. The EEC has not reached consensus on its Program Evaluation RFP, primarily due to MGE's request to include the full fuel cycle analysis as part of the RFP. In seeking to include the full fuel cycle analysis, MGE sought additional information (in addition to the several other proposed measures) that reflects a recent Department of Energy proposal to evaluate "point of use" methods to evaluate appliance energy efficiency. The purpose of this proposal was simply to evaluate the results from a full fuel cycle analysis and consider providing that information to consumers if it could provide additional information on the energy efficiency of a particular appliance. MGE may need to seek Commission review to resolve the EEC's stalemate on this RFP, but additional efforts are being made to reach consensus on this matter.

13. MGE plans to file revised tariffs which increase its water heater incentives in the near future. MGE anticipates that given Public Counsel's past opposition to its efforts to

increase its water heater incentives, that Commission intervention may be necessary. MGE expects that its proposed tariffs will be similar in structure to its October 6th proposal to the EEC, but MGE will re-evaluate that proposal and the recommended incentive levels prior to filing. MGE did not file tariffs that would make this issue ripe for Commission review immediately after deadlock of the EEC became apparent because of its desire to focus on getting an RFP out for its SGS program design and putting a robust SGS energy efficiency program in place as soon as possible.

UPDATE ON MGE'S ENERGY EFFICIENCY PROGRAM

14. Although not specifically requested in the Commission's order, MGE also wanted to take the opportunity to update the Commission generally on its energy efficiency program.

15. As noted in MGE's quarterly reports to the EEC,² MGE's energy initiatives have significantly ramped up in 2010 (through September 2010). During the first two years of the program – 2007 and 2008 – MGE spent \$438,988. In 2009, total spending nearly doubled to \$705,189, of which \$444,048 was paid to customers in the form of water heater, furnace or home performance with energy star rebates. For the first three quarters of 2010, MGE has spent \$1,765,324 of which \$1,100,000 was through rebate programs. This amount is above the \$1,500,000 that the Commission ordered MGE to initially fund in Case No. GR-2009-0355.

16. As noted above, a program is being developed to offer additional energy efficiency programs to qualifying customers in the Small General Service class. The goal is to eventually ramp this program up to the point where 10% of the funds set aside for energy efficiency programs is earmarked for the SGS class.

² MGE's Energy Conservation Expense Log Quarterly Reports (2nd Quarter 2009 through 3rd Quarter 2010) and MGE's Energy Conservation Metrics Report (for Quarters Ending 12/31/08 and 3/31/09).

17. In 2011, as noted above, MGE plans to submit tariffs which offer different levels of incentives (depending upon efficiency levels) for customers desiring to replace water heaters with higher energy efficient units. MGE also plans to have a fully designed SGS program in operation as well as continuing to work with KCP&L related to the Home Performance with Energy Star program.

WHEREFORE, MGE respectfully requests the Commission consider the information provided herein and consider this document to satisfy the Commission's Order Directing Filing of Status Report.

Respectfully submitted,

/S/

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CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic transmission to all counsel of record on this 7th day of January, 2011.

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