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

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| In The Matter of Missouri Gas Energy and | ) | |
| Its Tariff Filing to Implement a General Rate | ) | Case No. GR-2009-0355 |
| Increase for Natural Gas Service | ) | |

MISSOURI DEPARTMENT OF NATURAL RESOURCES' INITIAL BRIEF

COMES NOW the Missouri Department of Natural Resources (MDNR) and states as follows:

The Missouri Department of Natural Resources (MDNR) is actively participating in one issue, only, in this case, the Energy Efficiency Issue ( including three sub-issues) appearing in paragraph 3, page 3 of the List of Issues, Order of Witnesses and Order of Cross-Examination filed October 21, 2009 in the above-styled case.

In sum, the amount MGE spends on energy efficiency initiatives must be increased in order to attain true energy savings and conservation. That increase should begin at 0.5 percent of MGE's annual gross operating revenues beginning in the calendar year 2010 and increase to 1.0 percent of its annual gross operating revenues by calendar year 2012. Further, the Energy Efficiency Collaborative established by this Commission should continue, but as an advisory group rather than a consensus group (requiring the agreement of all the members of the collaborative.)

## I. ENERGY EFFICIENCY

A. Should the continuation (for residential customers) or implementation (for small general service customers) of energy efficiency programs be contingent on the adoption of a rate design that recovers all non-gas costs through a fixed customer charge?

As was made clear during the hearing on this issue held October 30, 2009, MDNR does not take a position on the rate design aspects of this case. (Tr. Vol. 12, pp, 753-754.)

B. Should funding for energy efficiency programs be included as an ongoing expense in rates, or should the Company provide upfront funding with such expenditures to be deferred (after expenditure of the surplus unspent funds for residential energy efficiency programs (expected to be approximately $1 million) and included in rate base (with a 10-year amortization period) in subsequent rate cases? What should the annual funding level be and how should the funding level be determined? Should interest be applied to unspent residential energy efficiency funds and, if so, at what rate?

Section 393.130.1, RSMo states, "[e]very gas corporation…shall furnish and provide such service instrumentalities and facilities as shall be safe and adequate and in all respects just and reasonable." Energy efficiency programs that are designed to reduce natural gas consumption by its customers can lead to the reduction of wholesale natural gas prices as well as generating direct cost savings to natural gas customers, which will be reflected in rates. Therefore, because energy efficiency programs are designed to increase the efficiency, and in turn the adequacy, of the service a gas company provides, the Commission has the ability to authorize such programs in order to ensure that the rates that are charged to the customers are just and reasonable.

The MDNR does have positions on how much should be included as funding for energy efficiency programs and how that funding amount should be determined. And while the MDNR does agree that interest should be applied to the unspent residential energy efficiency funds, it does not have a position on the amount of interest that should be applied.

According to a recent study completed by the American Council for an Energy-Efficient Economy (ACEEE), reductions in natural gas consumption could result in wholesale natural gas price reductions. Because of the very tight and volatile U.S. natural gas market, the study estimated that a reduction of about 1 percent per year in total U.S. gas demand could potentially result in wholesale natural gas price reductions of 10 to 20 percent.

The study identifies new energy policies and additional funding for energy efficiency programs necessary to achieve savings significant enough to reduce the wholesale price of natural gas as well as to generate direct cost savings to natural gas consumers. The study estimated an annual energy efficiency investment by each of the 8 Midwest states, including Missouri, based on each state's proportional allocation of total projected regional natural gas savings in 2010. From a regional perspective, in order to reduce natural gas demand sufficiently to pressure wholesale prices downward, the study roughly estimated that Missouri would be required to expend approximately $12 million per year for natural gas related energy efficiency programs through the year 2020. The study estimates that the dollar savings impact of the associated natural gas price reductions from this level of investment would be approximately $921 million for Missouri by 2015 and an additional $847 million by the year 2020.[1]

While MGE should be commended for addressing and responding to the energy efficiency needs of its residential and Small General Service natural gas customers, MGE's current energy efficiency funding levels will not result in sufficient savings to

[1] Examining the Potential for Energy Efficiency To Help Address the Natural Gas Crisis in the Midwest, January 2005, Report Number U051, American Council for an Energy-Efficient Economy

contribute to lower wholesale natural gas prices. A more significant level of investment in energy efficiency is required to potentially pressure natural gas wholesale prices lower. The MDNR recognizes that MGE alone can not have a significant impact on wholesale prices through its energy efficiency programs. But MGE can and should contribute in a more meaningful way toward a regional reduction in natural gas consumption. (Ex. 87, p. 6, l. 8-23 and p. 7, l. 1-14.)

Additionally, although MGE is proposing to add its Small General Service class to the customers who would be entitled to benefit from energy efficiency programs, MGE is not proposing that it spend any more than it currently is authorized to spend on its Residential class customers. Adding a whole, new class (and the cost-effective programs designed for that class) argues in favor of increasing funding for energy efficiency measures. It does not justify keeping the funding level stagnant.

In addition to the American Council on an Energy-Efficient Economy study, the National Action Plan for Energy Efficiency sponsored by the USDOE and the United States Environmental Protection Agency and prepared by 50 leading organizations, including a variety of natural gas companies, noted the most effective energy efficiency projects were funded at a level equal to a minimum range of 0.5 to 1.5 percent of a natural gas utility's annual operating revenue.[2] Based on the 2008 annual operating revenues reported by MGE, the minimum level of annual energy efficiency program investments should be approximately $4 to $7 million using MGE 2008 annual gross

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[2] National Action Plan for Energy Efficiency, July 2006

operating revenue of $738,601,373 (Response to Data Request, DNR-008, Michael Noack, MGE Gas Company, August 3, 2009). (Ex. 87, p. 7, l. 15-21 and p. 8, l. 1-6.)

The MDNR realizes that, to date, MGE has not expended the amount it has collected in rates on energy efficiency programs. However, MGE has not been implementing a variety of programs, and the programs it currently is implementing are all relatively new. (Tr. Vol. 12, pp.690-692.) Once MGE's energy efficiency programs become established, and it initiates additional, cost-effective programs, it will be possible for MGE to spend significantly more. (Ex. 89, p. 4, l. 3-12; Tr. Vol. 12, pp. 709-710.) MGE witness Hendershot acknowledged as much in his response to questions from the bench during the October 30, 2009 hearing. (Tr. Vol. 12, pp. 709-710.)

Although several of the parties have questioned how MGE will be able to spend the funds identified as necessary by MDNR, Mr. Buchanan's Surrebuttal Testimony (Ex. 89, p. 4, l. 3-12.) explains how. First, an initial target for annual energy efficiency program expenditures (so long as this level of expenditure is expected to be cost-effective) is necessary to assist MGE in identifying and adopting a series of cost-effective energy efficiency programs. A prescribed budget would help facilitate the evaluation of energy programs as well as assist in the design and implementation of the number and type of cost-effective programs that could be offered by MGE. (*Id.*)

Next, an initial target level of funding established by the Commission would assure a commitment by MGE to implement cost-effective programs. MGE customers should be assured of an ongoing level of funding by MGE to support energy efficiency programs in future years. This approach provides incentive or opportunities for the company to implement expanded or additional energy efficiency programs in the future.

Lastly, an initial target level of energy efficiency funding authorized by the Commission based on MGE's annual gross operating revenues, and established as a condition for allowing a higher fixed customer charge, would assure that MGE would implement a slate of cost effective energy efficiency programs considered to be "significant in size" and sufficient to help customers reduce the most substantial component of their monthly utility bill. (Ex. 88, p. 6, l. 17-23 and p. 7, l. 1-3.)

MGE can and should spend more on energy efficiency, and if it uses a consultant to help it identify and design cost-effective programs and then implements those programs, MGE will be able to expend funds at the levels proposed by the MDNR.

C. Should the energy efficiency collaborative formed after MGE's most recently concluded rate case as a result of Commission actions in Case No. GR-2006-0422 and Case No. GT-2008-0005 be modified to an advisory group rather than a consensus group?

The Commission should authorize the continuation of the EEC. However, the EEC should serve in an advisory capacity to help guide MGE's energy efficiency planning and implementation process. MGE, rather than the regulators charged in other proceedings before this Commission with ensuring the utility is only spending money on cost-effective programs, should determine and implement the most appropriate and cost-effective slate of energy efficiency programs to meet the needs of its customers and share-holders. Most of the other gas utilities regulated by the Commission have advisory collaboratives assisting the utility in finding, planning and implementing energy efficiency programs. (Tr. Vol. 12, pp. 739-740 and 747-748.) Further, a collaborative that lets a single member veto a measure all other collaborative members support is not conducive to consensus building. MGE will benefit from the continued assistance of the EEC, but that assistance should be provided on an advisory basis for the reasons more fully articulated by Staff. (Ex. 88, p. 7, l. 18-23 and p. 8, l. 1-3.)

WHEREFORE, MDNR respectfully submits its Initial Brief.

Respectfully submitted,

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I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 18 day of December, 2009.

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