BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of its Regulatory Plan.	)))))	Case No. ER-2010-0355
In the Matter of the Application of KCP&L Greater Missouri Operations Company for Approval to Make Certain Changes in its Charges for Electric Service	))))	Case No. ER-2010-0356

MISSOURI GAS ENERGY'S POST-HEARING REPLY BRIEF

COMES NOW Southern Union Company d/b/a Missouri Gas Energy (MGE), and, as its Post-Hearing Reply Brief, states as follows to the Missouri Public Service Commission (the "Commission"):

I. Introduction.

Far from being an "unprecedented" request for a "controversial" program, this fuel switching proposal, like similar programs successfully operating in other states, provides the Commission with the opportunity to approve an innovative and targeted energy efficiency and demand side management ("DSM") program. An era defined by an increased focus on energy efficiency initiatives demands inventive and multi-faceted solutions. MGE's proposed fuel-switching program will serve as an additional way for the Commission to put information in the hands of consumers to enable them to make well-reasoned energy choices.

II. MGE's Analysis Supports Adopting the Fuel Switching Program.

KCP&L/GMO witness Goble's efforts to play "hide the ball" with the Commission have been evident throughout this proceeding and persist in the initial brief. These efforts include (1) engaging in the one-sided manipulation of the data to skew customer benefit calculations in

KCP&L/GMO's favor; (2) criticizing MGE for not conducting cost benefit analyses while knowing that KCP&L/GMO did not provide the information necessary to conduct such analyses; and 3) failing to provide any calculations used to support his positions. Mr. Goble has engaged in a results-oriented effort to willfully obfuscate issues for the Commission. Accordingly, the Commission should place little to no weight on his arguments or his testimony.

KCP&L/GMO points to a calculation error in MGE's direct testimony in an effort to discredit the fact that customers will experience annual cost savings under the proposed fuel switching program.[1] What KCP&L/GMO fails to point out for the Commission, however, is that the error was corrected by MGE in surrebuttal testimony and that the corrected calculations still show cost savings.[2] The error only appeared in the MGE's direct testimony in the KCP&L case, did not appear in the GMO direct testimony, and replacement schedules were filed in MGE's KCP&L case surrebuttal testimony.[3] The corrected annual operating costs savings for water heating decreased by only $6 (to $172) while the annual operating cost savings for space heating actually increased by $29 (to $536).[4] The corrected calculations continue to "support fully the proposition that the proposed fuel switching program will allow participants to reduce their annual energy bills."[5] Instead of addressing the favorable cost savings head-on, KCP&L/GMO ignores the corrected calculations, seeks to misdirect the Commission by pretending consumer savings do not exist, and then cynically argues for delay by claiming a need to assess the accuracy of the data.[6]

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[1] KCP&L/GMO Initial Brief at pp. 183-184.
[2] See KCP&L Exhibit 2203 at pp. 22-23, Reed Surrebuttal Testimony.
[3] Id. Mr. Reed noted that volume conversion factors were not carried through properly on certain schedules in his direct testimony. He provided corrected Schedules JJR-SUR2, JJR-SUR3, JJR-SUR4, and JJR-SUR5 to replace the original schedules. Mr. Reed noted that the correction to Schedule JJR-1 also resolved Mr. Goble's concern about double counting of energy losses. (Id. at p. 23). See also KCP&L/GMO Initial Brief at p. 183.
[4] Id. at p. 23.
[5] Id.
[6] See KCP&L/GMO Initial Brief at p. 188. KCP&L/GMO states that there is a need for the Commission to assess "the accuracy of the data used to assess the costs and benefits of electric to gas substitution." These delay tactics, given the facts highlighted above, should be clear to the Commission.

This is not the first time in this proceeding that Mr. Goble has used misdirection in an effort to skew cost analysis calculations in KCP&L/GMO's favor. For example, when Mr. Goble compared the cost of operating water heaters, he included the full gas distribution monthly fixed charge without any consideration of the electric customer charge.[7] This biased approach unduly favored electric appliances by removing a significant cost component.[8] Including the electric customer charge shows that it is cheaper to operate a gas-fired water heater or furnace when making the comparison on an energy rate equivalent basis, as "can easily be seen" from a fair reading of Mr. Goble's own work papers.[9] Mr. Goble's calculation also understated the operating cost for electric appliances by using KCP&L/GMO's current residential rates rather than the requested electric rates, which are approximately 13.8% higher for KCP&L and 14% higher for GMO.[10]

KCP&L/GMO's extensive discussion on the results of various cost-effectiveness measures is another exercise in misdirection.[11] KCP&L/GMO critiques MGE for not conducting a program-specific cost-benefit analysis while knowing full well that MGE requested the data to perform such an analysis and KCP&L/GMO did not provide or did not have the data.[12] Even Mr. Goble acknowledged as much - that KCP&L/GMO did not have company-specific energy consumption data for electric water heating and space heating equipment.[13] KCP&L/GMO trots out Mr. Goble's "findings" under the Total Resource Cost ("TRC") and other cost-benefit tests "without any supporting exhibits, schedules, or other calculations that would allow the

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[7] See KCP&L Exhibit 2203 at p. 27 and GMO Exhibit 2203 at p. 30.
[8] Id.
[9] Id.
[10] Id.
[11] See KCP&L/GMO Initial Brief at 184-185.
[12] See KCP&L Exhibit 2201 at p. 40 and GMO Exhibit 2201, p. 38, in which Mr. Reed states that he requested information from KCP&L/GMO, but the information provided did not allow him to perform a benefit/cost analysis using the TRC test. See also the Hearing Transcript, p. 3145, line 23 – p. 3147, line 4.
[13] KCP&L Exhibit 2203 at p. 30, referring to Schedule JJR-SUR6. When asked to provide a computation for his critique of MGE's analysis, even Mr. Goble could not provide KCP&L-specific data. That he would then critique MGE for not providing KCP&L/GMO specific data is quite disingenuous.

Commission or other parties to understand and verify his calculations."[14] Further, contrary to KCP&L/GMO's assertions, MGE provided TRC results by presenting information from fuel switching programs offered by other utilities. Those test results came from fully-litigated cases with detailed presentations and are reliable.[15] The fuel switching program offered by Puget Sound Energy reported a benefit/cost ratio under the TRC test of 2.66 in Washington, which was the highest benefit/cost ratio of any residential energy efficiency program that the company offered in Washington.[16] Similarly, the fuel switching program offered by Avista Corporation reported a benefit/cost ratio under the TRC test of 3.38 in Idaho and 3.72 in Washington.[17] Mr. Goble's assertions that a benefit/cost ratio would be low for this proposed program are both unsupported by any transparent methodology and contrary to the analysis of other electric utilities that have these programs.[18] KCP&L/GMO should not be rewarded for using a transparent sword and shield tactic here – failing to provide the information necessary for calculations while criticizing MGE for not conducting those calculations.[19]

Finally, the efforts to criticize MGE's comparisons of electric and natural gas consumption under the full fuel cycle[20] are thoroughly debunked in Mr. Reed's surrebuttal

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[14] See KCP&L Exhibit 2203 at p. 29 and GMO Exhibit 2203 at p. 32 – 33.

[15] See Hearing Transcript, p. 3145 line 23 – p. 3147 line 4. The full exchange with Mr. Reed on this point follows: "Q. And you indicated that you did not have certain data available to you to conduct a TRC analysis; is that right? A. Yes. Q. Can you tell me why that data was not available? A. Specifically what we're talking about are the avoided cost data for KCP&L and GMO. We had asked for that information from the Company in a data request, and the information was not able to be made available to us due to what I understand were proprietary restrictions. Q. And so you could not conduct a KCP&L- specific analysis because of that; is that right? A. Correct. Q. Did you use other data points? A. Yes, we used the similar analyses, the same framework, meaning the TRC analysis, from other jurisdictions and other utilities. Q. What's your sense of the reliability of those data points? What's your sense of the reliability of those TRC values that's been compared to this program? A. Certainly I think those other cases where those TRC estimates were developed are reliable. They were fully-litigated cases that included very detailed presentations by the utilities that were proposing them."

[16] KCP&L Exhibit 2201 at p. 41 and GMO Exhibit 2201 at p. 39.

[17] Id.

[18] KCP&L Exhibit 2201 at pp. 39-41; GMO Exhibit 2201 at pp. 37-39; KCP&L Exhibit 2203 at pp. 29-30; and GMO Exhibit 2203 at pp. 32-34.

[19] As Mr. Reed notes, if the Commission determines that it needs more information on a TRC test, it could move forward with a pilot program. See KCP&L Exhibit 2203, p. 30 and GMO Exhibit 2203, pp. 33-34. A pilot program would allow the Commission to test the fuel switching program over a shorter time period, gather information, and assess energy savings and customer response. Id.

[20] KCP&L/GMO Initial Brief 182-183.

testimony and will not be repeated here.[21] Mr. Reed shows the reliability of his data, the reasonableness of his energy consumption estimates, and that Missouri's state-specific information indicates that it will achieve greater-than-average benefits under a fuel switching program because it is more coal-dependent than other regions.[22]

III. **The Full Fuel Cycle's Methodology is Sound**.

KCP&L/GMO's efforts to discredit and minimize the impact of the full fuel cycle approach is unsurprising, given that it is a more comprehensive methodology that shows electricity to be less efficient in certain applications.[23] As noted in MGE's initial brief, while appliance efficiency measurements have traditionally been "site based," (only considering the energy efficiency at the site where the energy is consumed),[24] the full fuel cycle approach measures energy consumption over the entire cycle of energy use – from extraction/production to transmission, distribution, and finally at the site where the energy is used (as in an appliance).[25] The full-fuel cycle approach considers all of the energy consumed to power the end use application including greenhouse gas emissions.[26] A recommendation from the National Resource Council[27] ("NRC") to the Department of Energy[28] ("USDOE") is that the full fuel cycle approach be adopted nationally to provide more comprehensive information to consumers through labels and other

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[21] See KCP&L Exhibit 2203 at pp. 23-28 and GMO Exhibit 2203 at pp. 25-32.
[22] Id.
[23] As argued in KCP&L/GMO's Initial Brief at pp. 179-181.
[24] See KCP&L Exhibit 2201 and GMO Exhibit 2201 at p. 5 (Reed Direct), quoting "A Comparison of Energy Use, Operating Costs, and Carbon Dioxide Emissions of Home Appliances," American Gas Association Energy Analysis, EA 2009-3, Oct. 20, 2009.
[25] See KCP&L Exhibit 2201 and GMO Exhibit 2201 at pp. 5-6 (Reed Direct).
[26] Id. at p. 6.
[27] The National Research Council is part of the National Academy of Sciences, which is a non-profit organization that was established by Congress to "investigate, examine, experiment, and report upon any subject of science or art" whenever called upon to do so by any department of government. The National Academy of Sciences' science policy and technical work is conducted by its operating arm, the National Research Council. See KCP&L Exhibit 2201 at p. 5 and GMO Exhibit 2201 at p. 5.
[28] KCP&L/GMO asserts that "according to MGE," the USDOE is considering the full fuel cycle report. (KCP&L/GMO Initial Brief at 179). This change is being considered by the USDOE based on the fact that this was a congressionally- mandated report (see KCP&L and GMO Exhibits 2201 at p. 5) stemming from a study called for in Section 1802 of the Energy Policy Act of 2005 (Public Law 109-58), KCP&L Hearing Exhibit 2209, p. 1, "Review of Site (Point of Use) and Full-Fuel-Cycle Measurement Approaches to DOE/EERE Building Appliance Energy Efficiency Standards," National Research Council, May 15, 2009 (the "NRC Report").

means[29] (the "NRC Report"). KCP&L/GMO attempts to discredit this recommendation by using selective and misleading quotations.

KCP&L/GMO's assertion that MGE's reliance is misplaced on the NRC Report[30] is directly refuted by the report itself. The purpose of the NRC committee ("Committee") was to review the USDOE's appliance standards program and "evaluate or critique the methodology used for setting energy conservation standards for the purpose of determining whether site (point of use) or source (full fuel cycle) energy efficiency measures best serve the goals of energy conservation standards."[31] Although KCP&L/GMO is correct in that the original scope of the report was not to address "government policy,"[32] KCP&L/GMO fails to mention that the Committee later expanded its scope and "adopted a broad view of its mandate, taking into account concerns about energy consumption's impact on national security, the environment, and climate change."[33] The reason for this, in part, is that "even seemingly small differences in energy efficiency can become significant when considered on a national scale."[34] This is equally true in Missouri.

While KCP&L/GMO tries to marginalize the NRC Report, the Committee's recommendations were made only after it conducted a detailed review of evidence and after it evaluated the positions of multiple stakeholders.[35] The Committee noted that it had significant input and presentations from representatives of the electric and natural gas utilities, appliance manufacturers, and government agencies.[36] The Committee also reviewed data and analysis

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[29] See KCP&L Exhibit 2201 and GMO Exhibit 2201 p. 6-7, citing the NRC Report at p. 10.
[30] See KCP&L/GMO Initial Brief at p. 180.
[31] NRC Report at p. 16 (Statement of Task, Attachment A).
[32] Id. at p. 16 (Statement of Task, Attachment A).
[33] Id. at p. 1. The Committee expanded the scope of its review at the request of a member of the U.S. Senate's Commerce, Science, and Transportation Committee who was also a member of the Energy and Natural Resources Committee (see id., p. 1 and Attachment B to the NRC Report at p. 17).
[34] Id. at p. 3.
[35] Id. at p. 1 and p. 3.
[36] Id. at p. 1.

from various technical support documents and studies.[37] Accordingly, the recommendations are neither "controversial"[38] nor "unprecedented,"[39] as KCP&L/GMO asserts.

While KCP&L/GMO quotes extensively from the opinions of two Committee members in an effort to show that the full fuel cycle methodology is "complex and controversial,"[40] what they fail to clarify is that the selected quotations were from the only two dissenting members of the Committee.[41] It is unsurprising, therefore, that those members would offer opinions critical of the NRC's recommendations. As the NRC Report notes, nine of the eleven members of the Committee endorsed the full-fuel cycle measure of energy efficiency "as integral to supporting more explicit consideration of the impacts of energy use on the nation and the environment."[42] As to the purported "complexity" of the full fuel cycle approach asserted by KCP&L/GMO, the NRC Report noted that while the analysis is "more involved and requires additional data and analysis", it is "a methodology that can be developed without undue strain on the DOE/EERE's resources."[43] KCP&L/GMO's selective quotations from the Committee's minority report is neither instructive nor compelling.

The NRC Report supports MGE's analysis on the inefficiencies of certain electric appliances. The Committee noted that while the "site measure of energy consumption allows easy comparison of the operating efficiency of one appliance over another in isolation, it gives only a partial picture of total energy use…".[44] What that analysis shows is that "in general, energy losses in heating applications with electric resistance heaters are greater than in heating

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[37] Id. at p. 1 and p. 3..
[38] KCP&L/GMO Initial Brief at p. 179.
[39] Id. at p. 181.
[40] Id. at p. 181.
[41] Id. at 180-181. In this section, KCP&L/GMO notes that David Archer filed a minority opinion, without later mentioning that Committee member Ellen Berman, who is also extensively quoted by KCP&L/GMO, was the only other dissenting member of the committee.
[42] NRC Report at 7.
[43] Id. at 7.
[44] Id. at 6, emphasis added.

applications with natural gas when the measure is full-fuel-cycle energy use."[45] This is why the proposed fuel switching program (like others in the U.S.) targets those appliances that are the most inefficient – electric resistance space heating and electric water heating.

The Committee's recommendation to move to a full fuel cycle approach is based in part on wanting to provide better information to consumers to permit them to make more informed energy choices. This is hardly a controversial aim. The Committee determined that the full fuel cycle metric "would provide the public with more comprehensive information about the impacts of energy consumption on the environment, the economy, and other national concerns, through the use of labels and other means such as an enhanced website."[46] While the full fuel cycle recommendations were "not meant to favor one energy source or technology over another," they are designed to provide more detailed information so that consumers can make their own decisions.[47] Specifically, the Committee wanted to provide data "to leave the decision about such matters to government policy and/or the market."[48] This information should be put in the hands of consumers. The Commission should permit incentives to encourage the replacement of inefficient appliances, just as it has done by authorizing appliance incentive programs for utilities.

Again, as noted in MGE's initial brief, while the full fuel cycle analysis would be highly informative and beneficial for consumers, it is not necessary for the Commission to adopt the full fuel cycle methodology in order to permit the limited fuel switching initiative proposed by MGE.[49] MGE presents the full fuel cycle analysis to provide a context for the Commission, to show that

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[45] Id. at 6
[46] Id. at p. 1.
[47] Id. at 4.
[48] Id. at 4. This is precisely what MGE is seeking in this case – approval from the Commission to address this issue while providing more detailed information to consumers.
[49] See KCP&L Exhibit 2203 and GMO Exhibit 2203 at pp. 14-15 (Reed Surrebuttal). Mr. Reed notes that Connecticut, Texas, and Washington did not adopt the full fuel cycle method before permitting fuel switching programs for certain utilities.

this methodology provides better information to consumers, and to show the relative merits of natural gas for certain appliances.

IV. Environmental and DSM Concerns Support the Fuel Switching Program.

KCP&L/GMO's positions on this issue are out of step with the current thinking in Missouri on energy efficiency programs, environmental issues, and demand-side management initiatives. If the Commission questions why it should order the implementation of a fuel switching program in these cases now, rather than in an investigatory docket as KCP&L/GMO suggests,[50] it need look no further than KCP&L/GMO's positions here, which speak to a company that will not willingly adopt this type of program without being directed to do so.

A. The EPA's Site/Source Analysis Also Supports MGE's Position.

The Environmental Protection Agency (EPA), which jointly establishes ENERGY STAR ratings with the DOE, has taken a similar approach to the full fuel cycle methodology by determining that source-based energy calculations are the most equitable methods of evaluation.[51] The EPA has determined that source energy (the total amount of raw fuel required to operate a building, including transmission, delivery, and production losses) is the most equitable unit of evaluation as opposed to site energy (the amount of heat and electricity consumed by a building as reflected in utility bills).[52] This EPA guidance, contained in a report titled "The ENERGY STAR Performance Ratings Methodology for Incorporating Source Energy Use," (the "EPA Ratings Methodology") was intended to "provide technical detail on the methodology undertaken by the EPA to incorporate source energy into the national energy

[50] See KCP&L/GMO Initial Brief at p. 188.
[51] See the "ENERGY Star Performance Ratings Methodology for Incorporating Source Energy Use," Hearing Exhibit KCP&L 103 ("EPA Ratings Methodology").
[52] Id. at p. 2.

performance ratings."[53] Like the full fuel cycle approach also illustrates, this method shows that the direct use of fuel in an appliance is often far more efficient than using fuel at a remote facility to generate electricity. Similar to MGE's position in this case, the EPA Ratings Methodology also shows that "due to large amount of primary fuel required to generate the electricity for resistance heating, it is considered to be the least efficient form of electric heat based on a complete thermodynamic assessment."[54] The EPA Ratings Methodology notes that electric resistance heating is the least efficient based on a source energy comparison of other energy sources.[55]

Why then would KCP&L/GMO cite to the EPA Ratings Methodology, given the strong support that it gives to MGE's position in this case? In its initial brief, KCP&L/GMO cites to a table in the EPA Ratings Methodology that shows the source-site ratio for various types of energy.[56] The chart shows other fuels (including coal, wood, propane, and fuel oil) which have similar full fuel cycle values as natural gas.[57] KCP&L/GMO argues that if MGE were "truly concerned" about energy efficiency through the full fuel cycle, it "would allow for the conversion to any fuel source with an equivalent full fuel cycle value to natural gas."[58] That KCP&L/GMO's would critique MGE for not advocating a customer's direct use of wood and coal-burning appliances is so completely out of step with modern environmental concerns and energy policy as to border on the bizarre.[59]

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[53] Id. at p. 1.
[54] Id. at p. 5.
[55] Id. at p. 5, table 3.
[56] See KCP&L/GMO Initial Brief at p. 181, citing to the EPA Ratings Methodology at p. 5.
[57] EPA Ratings Methodology at p. 5.
[58] KCP&L/GMO Initial Brief at p. 182.
[59] Mr. Goble similarly takes positions on environmental issues in his direct testimony which display a "remarkable misunderstanding of the environmental issues associated with CO_2." KCP&L Exhibit 2203 at pp. 18-21 and GMO Exhibit 2203 at pp. 20-23.

The full fuel cycle methodology is not solely focused on source/site ratios, but on broader analyses that include environmental impacts and greenhouse gas emissions.[60] It should be readily apparent to anyone marginally aware of environmental concerns why MGE would not advocate a fuel switching program involving coal or wood-burning appliances as KCP&L/GMO suggests. Beyond the obvious environmental concerns, the incidence of propane and fuel oil appliances in MGE's service territory is truly rare. MGE's fuel switching proposal is a mass market program so it was designed to reflect that market. Further, the Commission has no jurisdiction over wood, coal, propane, or fuel oil providers, so MGE's proposal is focused on fuel providers under the Commission's jurisdiction.

B. The Fuel Switching Program Offers Significant DSM Benefits.

Like other DSM and energy efficiency programs, MGE's fuel switching program has the strong potential to reduce or defer KCP&L/GMO's capital investments in transmission and generation capacity.[61] This program would serve as one of many DSM programs designed to decrease the use of electricity. The Missouri Energy Efficiency Investment Act[62] promotes DSM programs[63] and encourages electric companies to make significant expenditures on energy efficiency and conservation measures. This proposed fuel switching program would further this goal.

Instead of actively encouraging DSM and energy efficiency programs like this one, KCP&L/GMO prefers a "head in the sand" approach on this issue. Noting that it will not need additional capacity until the 2020-2025 timeframe, KCP&L/GMO states that "with no need for capacity additions in the next decade or longer, it appears that MGE's proposal is unnecessary

[60] See KCP&L and GMO Exhibits 2201 at p. 6.
[61] See GMO Exhibit 2201 at p. 30-31 and p. 35 and KCP&L Exhibit 2201 at pp. 29-31 and p. 34, which describes benefits of the proposed program to KCP&L/GMO and its customers.
[62] Mo. Rev. Stat. Section 393.1075
[63] Id. at 393.1075.3.

at this time."[64] KCP&L/GMO seems content to ignore another looming requirement for a multi-billion dollar generation facility by ignoring the need to decrease electricity demand and put energy efficiency and DSM programs in place now. This position is completely at odds with positions that KCP&L/GMO has taken elsewhere on DSM and energy efficiency issues.

C. Cost Recovery Issues Have Been Adequately Addressed by KCP&L/GMO.

While KCP&L/GMO helpfully suggests a "bridge or temporary framework for going forward on the Companies' DSM programs" until such time that the Commission fully implements its rules related to the Missouri Energy Efficiency Investment Act in the DSM section of its initial brief,[65] it throws up its hands in desperation on identical issues for the proposed fuel switching program.[66] KCP&L/GMO argues that "until all issues surrounding cost recovery are resolved, it would be premature to implement a fuel switching program."[67] In contrast, KCP&L/GMO is willing to continue its other DSM programs with a proposed "temporary framework" in place.[68] KCP&L/GMO's cost recovery "temporary framework" proposal (or the framework ultimately ordered by the Commission for KCP&L/GMO's DSM programs) could also serve the proposed fuel switching program. MGE has made it clear that it supports rate recovery of monies spent by KCP&L as well as lost margin and fixed cost recovery. KCP&L/GMO's stated concerns here are nothing more than a delaying tactic and are inconsistent with its positions on other issues in its case.

D. Greenhouse Gas Emission Issues Can Not Be Ignored.

KCP&L/GMO also has taken the position that it need not take any action related to emissions because "to date, there have been no federally-mandated greenhouse gas ("GHG")

[64] KCP&L/GMO initial brief at 186.
[65] Id. at p. 189.
[66] Id. at 187.
[67] Id at 187.
[68] Id at 190.

emissions standards or restrictions implemented."[69] Similar to its approach with DSM, KCP&L/GMO chooses to keep its head in the sand until it is forced to make a change. KCP&L/GMO admits that it previously considered fuel switching in Missouri as part of its 2008 Integrated Resource Plan ("IRP") because of the potential for GHG restrictions, which it acknowledged could encourage large-scale fuel switching.[70] Why KCP&L/GMO would ignore the need to reduce GHG emissions now given the potential for GHG regulations (as well as from a societal/environmental perspective) again shows that the positions it has taken on this issue are out of step with modern environmental considerations. Again, KCP&L/GMO's position on this issue is at odds with the care that KCP&L/GMO has taken elsewhere to address other environmental issues and concerns.

V. Staff Witness Rogers' Support for the Direct Use of Natural Gas.

Although Staff opposes the fuel switching proposal,[71] both Staff witness Rogers and MGE witness Reed agreed that there is growing momentum at the national level and within some states for adopting the "full-fuel-cycle" approach as the appropriate method for evaluating the relative advantages of a particular fuel for certain end-use applications.[72] Mr. Rogers also agreed that natural gas appliances are more effective than certain electric appliances under the full fuel cycle approach.[73] Mr. Rogers has also previously given strong support for the direct use of natural gas to address GHG issues.[74] Mr. Rogers authored a presentation titled "Direct Use of Natural Gas Policy Option" which stated that the direct use of natural gas was "one of best

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[69] Id. at 186.
[70] Id. at 186.
[71] Staff failed to address this issue in its initial brief, although Staff witness Rogers prepared testimony and testified at the hearing.
[72] See KCP&L Exhibit 2203 and GMO Exhibit 2203 both at p.3 (Reed Surrebuttal Testimony).
[73] Hearing Transcript at p. 3165, lines 10-14.
[74] Id. at p. 3165, lines 20-23. Although he prepared a presentation on this topic(KCP&L Hearing Exhibit 2215) while he was employed in another state, he agreed that the presentation was accurate when he prepared it (Transcript at p. 3166, lines 5-11) and that the calculations and analysis would remain accurate today (Transcript at p. 3169, line 19-20 and p. 3170 at lines 16-20).

policy options available" to address climate change.[75] In providing this clear support for the direct use of natural gas, Mr. Rogers echoes the same arguments cited by MGE in this case. Many of his arguments went well beyond what MGE has proposed for its limited fuel switching program, but those arguments are consistent with MGE's framework on this issue. Although this presentation does not represent Staff's current position, the presentation serves as solid evidence as to the benefits of such a program and further proof that MGE's position is not "unprecedented". Specifically, Mr. Rogers took the following positions in his presentation:

- He used the same site vs. source analysis that the full fuel cycle methodology uses, arguing that site energy efficiency simply does not tell the entire story of energy efficiency.[76]
- Mr. Rogers argued that policy makers needed to look at the entire cycle of energy production. When this is done, natural gas is the clear choice for space heating and water heating as opposed to electric resistance heat and electric water heating.[77]
- Mr. Rogers argued that if 7% of electric load for residential and commercial applications switched from electricity to natural gas by 2030, the U.S. would:
    - Save 1.25 to 2.00 quadrillion Btu by 2030;
    - Avoid building 63-80GW of new electric generation capacity at an avoided cost savings of $49 billion to $122 billion;
    - Reduce CO_2e by 60-200 million tons by 2030.[78]
- Mr. Rogers agreed that there would be significant benefits for consumers through energy cost reductions.[79]
- Mr. Rogers agreed that there would be significant environmental benefits with the direct use of natural gas.[80]
- Given the huge potential impact to ratepayers and the environment, Mr. Rogers recommended the following:
    - The implementation of programs to shift 50% of electric resistance heat in new residential and commercial structures to natural gas appliances.[81]
    - The implementation of DSM programs developed and offered by electric and natural gas utilities to provide incentives to install natural gas appliances for space heating, water heating.[82]
    - The creation of programs to educate consumers.[83]

[75] KCP&L Hearing Exhibit 2215, see also Hearing Transcript at p. 3167 lines 20-22.
[76] KCP&L Hearing Exhibit 2215.
[77] Id.
[78] Id.
[79] Id.
[80] Id.
[81] Id.
[82] Id.

- Mr. Rogers called for the removal of regulatory barriers to these programs and the implementation of programs that discouraged electric resistance heating appliances and encouraged the direct use of natural gas.[84]

Mr. Rogers noted that traditional ratemaking served as a barrier to the acceptance of the direct use of natural gas or fuel switching in that it encourages utilities to invest in power plants, transmission lines, and distribution lines while discouraging investment in DSM measures[85] (in Missouri, this barrier should be lessened with the Missouri Energy Investment Act's emphasis on valuing "demand side investments equal to traditional investments in supply and delivery infrastructure."[86]) Mr. Rogers' presentation serves as further evidence that MGE's proposal is neither "unprecedented" nor "controversial" as KCP&L/GMO asserts.

VI. **The Fuel Switching Program Benefits KCP&L/GMO, MGE, and Missouri Customers**.

KCP&L/GMO's bald assertion that the fuel switching program only serves "the benefit of MGE to the detriment of KCP&L"[87] ignores the ample evidence presented in this case as to the environmental, consumer, and societal benefits of this fuel switching proposal. The question for the Commission is not who proposed the program, but whether it is a cost effective program which serves the public interest.[88]

Fuel switching programs have been successful for both combination and stand-alone electric companies.[89] There are successful, commission-approved programs in the United States which provide the fuel switching financial incentives to electric customers served by a different gas utility. Puget Sound Energy's electric customers are eligible for financial incentives for switching to Cascade Natural Gas Company, and CenterPoint electric customers may qualify

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[83] Id.
[84] Id.
[85] Id.
[86] See Mo. Rev. Stat. 393.1075.3.
[87] KCP&L/GMO Initial Brief at p. 179.
[88] KCP&L Exhibit 2203 and GMO Exhibit 2203 at pp. 6-7.
[89] Id. at p. 5.

for customer rebates for switching to certain natural gas appliances served by Texas Gas Service.[90] The respective commissions in those states approved the fuel switching programs because of demonstrated cost effectiveness and because the programs were in the public interest – whether or not the utility was a combination or stand-alone.

KCP&L/GMO does not seem to appreciate MGE's rate design when it argues that "MGE seeks to incent greater use of natural gas using appliances in order to increase its own revenues."[91] Unlike KCP&L/GMO, MGE's revenues are not derived from selling more of its product to residential customers.[92] While this entire debate could highlight the disadvantage of having a volumetric rate design for residential customers (in that it is not in the self-interest of a utility with volumetric rates to seriously engage with DSM and energy efficiency initiatives without strong cost recovery mechanisms), suffice it to say that KCP&L/GMO's stark position on this proposed program is at odds with its purported support for other energy efficiency and DSM programs.

This fuel switching program is available to both current and new MGE customers. If a current MGE customer (perhaps a customer with only a natural gas fireplace) chooses to replace electric resistance space heating with a natural gas appliance, MGE would not experience increased revenues through increased natural gas use because it does not make money on natural gas sales to residential customers. MGE is interested, of course, in obtaining new customers, but there is no guarantee that this program would result in an increased customer count for MGE.[93] On the other hand, KCP&L/GMO has a direct incentive to continue to have customers use inefficient electric resistance space heaters and electric water heaters since it results in high electric use and revenues. Further, part and parcel to MGE's initiative is

[90] See KCP&L Exhibit 2203 at p. 5, p. 16 and pp. 19-21 and GMO Exhibit 2203 at p. 5, pp. 16-17, and pp. 19-21.
[91] KCP&L/GMO Initial Brief at p. 179.
[92] Hearing Transcript at p. 3148 at pp. 2-23.
[93] Hearing Transcript at p. 3148 at lines 15-18.

that customers would be encouraged to purchase energy efficient natural gas appliances. The fuel switching proposal, therefore, seeks to eliminate the inefficient use of energy with an efficient use of energy. There is no guaranteed benefit to MGE as KCP&L/GMO asserts.

Despite KCP&L's assertions to the contrary, MGE will bear a significant portion of the cost of this program under its current energy efficiency programs as well as through the cost for the installation of service lines.[94] KCP&L/GMO should fully contribute to the costs of this program since many of the benefits of this program accrue to KCP&L/GMO. A fuel switching program improves KCP&L/GMO's ability to reduce or defer construction of additional generation and transmission capacity and reduce its CO_2 emissions. A fuel switching program also allows KCP&L/GMO to spend a portion of its energy efficiency and conservation budget on a program which typically has one of the highest benefit/cost ratios among those energy efficiency programs offered to residential customers.[95] KCP&L/GMO customers would realize significant savings through rebates and operating costs.[96] From a societal standpoint, a fuel switching program improves energy efficiency in Missouri, improves air quality by reducing emissions from carbon and other pollutants, and represents a cost-effective application of electric utility energy efficiency program spending.[97]

VII. **Conclusion**.

The Commission should take action on this proposal now rather than relegating the issue to an investigatory docket. The proposed fuel switching program is a cost effective use of DSM and energy efficiency program dollars. This program would benefit KCP&L/GMO, its customers, and the environment. Given KCP&L/GMO's resistance to this proposal, it is highly unlikely that it would ever voluntarily agree to undertake such a program through an

[94] MGE Initial Brief at pp. 7-9, citing to Mr. Reed's testimony on the details of the fuel switching proposal.
[95] KCP&L Exhibit 2201 at p. 30-31
[96] Id. at p. 31
[97] Id. at p. 30

investigatory docket. There is sound evidence to approve this program and it is the right time for the Commission to take action.

WHEREFORE, for the foregoing reasons, MGE respectfully requests that the Commission issue an Order directing implementation of the fuel switching program proposed by MGE.

Respectfully submitted,

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ATTORNEYS FOR MISSOURI GAS ENERGY

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile, or electronically mailed to all counsel of record this 18th day of March, 2011.

/s/ Todd J. Jacobs
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