

Department of Natural Resources Energy Center Comments
Proposed Rule – Natural Gas Price Volatility Mitigation
Case No. GX-2002-478

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Missouri Public
Service Commission

The following comments are submitted by the Missouri Department of Natural Resources Energy Center in response to the proposed rule regarding natural gas price volatility mitigation in case number GX-2002-478.

The Energy Center makes the following recommendations:

- (1) Expand the rule to include: **“(2)(ix) Energy efficiency programs”** as an option that natural gas utilities should pursue in their efforts “to minimize the impacts of market price spikes and provide a level of stability of delivered natural gas prices.” Energy efficiency is the quickest, cheapest, cleanest way to extend our natural gas supply.

The Natural Gas Commodity Price Task Force was formed by the Public Service Commission in response to the high cost of natural gas during the winter of 2000-2001 and the devastating impact this dramatic price increase had on low- and middle-income residential natural gas consumers. There are widespread concerns that we will again be faced with a situation of limited gas supplies, high demand and higher costs for the upcoming winter of 2003-2004.

The Energy Center served on the Natural Gas Commodity Price Task Force and advocated energy efficiency as a meaningful way to mitigate the impact of volatile natural gas prices on consumers. As discussed in the Task Force Report and at the meetings on properly structured incentive plans, energy efficiency helps contain energy prices by curbing demand instead of increasing supply. This results in lower average energy usage per consumer and lower utility bills, thus helping to mitigate this cost impact from price volatility for consumers.

There is significant potential for energy efficiency to serve as a hedge against price volatility in Missouri. While the impact may not be immediate, a consistent commitment to energy efficiency investments will reduce vulnerability to price increases. A recent national report from the Alliance to Save Energy (1998) reported that, of the 34 states studied that had not adopted the 1993 Model Energy Code, Missouri ranked 5th highest in terms of potential total energy savings that could be captured and 5th highest in potential energy savings per home.

According to the Oak Ridge National Laboratory, weatherization or energy efficiency improvements to Missouri low-income, elderly and disabled households reduce annual space heating fuel consumption in natural gas heated homes by as much as 33.5 percent. (Source: “Progress Report of the National Weatherization Assistance Program,” Oak Ridge National Laboratory, September 1997) Weatherization may include caulking windows, weatherstripping doors, adding insulation, furnace upgrades and water heater upgrades.

As proposed, this rule addresses only purchasing strategies that natural gas utilities may consider in addressing natural gas price volatility in the context of incentive plans. The Task Force recognized the benefits of much broader energy efficiency programs in reducing price volatility and its impacts on consumers in its support of Option 4.c) "The Commission should pursue incentive measures for encouraging energy efficiency."

The Task Force also recognized that utility incentives were necessary to encourage utilities to offer voluntary energy efficiency programs to their customers in order to align the interests of both the utility and its customers. Through properly designed incentive plans and rates, the Energy Center believes utility companies will become more interested in pursuit of energy-efficiency investments that promote consumers' interests through lower energy costs. We urge the Commission to design approaches that inspire efficiency programs while providing utility companies with appropriate return on investments.

The Governor's Energy Policy Task Force supported implementation of the PSC Task Force Report recommendations and identified three areas of focus for their own recommendations: (1) Encouraging energy efficiency and conservation; (2) Working with public utilities and private industry, and (3) Protecting consumers. Specifically, the Task Force recommended that "Missouri pursue incentives funded through various sources to encourage the increased development of energy efficiency and renewable energy to provide for a more secure energy future." The Task Force report cited the following benefits to customers, utilities, the economy and the environment: "Missourians would benefit greatly from investments in energy efficiency and renewable resource programs. Efficiency programs provide assistance to customers by helping to reduce their energy usage and utility bills, which is particularly important when energy prices are high and volatile. System reliability and resilience are improved by reducing vulnerability to disruptions in energy supplies through efficiency and a diversified fuel mix. Long-term costs can be lowered by reducing expenditures by gas and electric utilities to upgrade their infrastructure to meet increasing demand."

Inclusion of energy efficiency programs as an option in this rule is consistent with recommendations of the PSC Natural Gas Commodity Price Task Force and the Governor's Energy Policy Task Force.

- (2) In addition to expansion of this rule, a separate workgroup and rule addressing energy efficiency programs should be established. This workgroup would consider rate designs and other mechanisms to encourage energy efficiency as a way to reduce costs to consumers. The above discussion on energy efficiency benefits is relevant in support of this approach. Participation by a diverse range of stakeholders interested in this topic is appropriate. Option 4.c) enjoyed substantial support from the "consumer group" as well as support from the "utility group" of the PSC Task Force.

The Governor's Energy Policy Council, established by Governor Holden in March 2003, recommended in its June 1 report that Missouri should "establish policies including financial and other incentives to *encourage investments in energy efficiency* and renewable energy development, production and use," and that shortfalls in peak electricity capacity should be pursued through a variety of solutions including "moderating the growth in peak demand through *energy-efficiency* and load management programs."

There is consensus developing that both demand-side and supply-side responses are essential to mitigation of natural gas price volatility and securing adequate, affordable energy sources for Missourians. We urge inclusion of demand-side energy efficiency programs as a focus of this rule.