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RICHARD W FRENCH
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July 31, 1992

Mr. C. Brent Stewart
Executive Secretary
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

Re: Case No. ~~HX-92-299~~

Dear Mr. Stewart:

Enclosed please find for filing on behalf of Laclede Gas Company the original and fourteen copies of its Comments of Laclede Gas Company on the Proposed Integrated Resource Planning Rule. Please see that this filing is brought to the attention of the appropriate Commission personnel. Copies have also been mailed to the attached service list.

Please file-stamp the additional copy of such filing and return the same in the pre-addressed stamped envelope provided herewith.

Thank you for your assistance.

Sincerely,

Richard W. French

Richard W. French

RWF:dv

Enclosures

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MISSOURI COMMISSION

FILED
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In the matter of the proposed)
Commission Rules 4 CSR 240-22.010) Case No. EX-92-299
through 22.080.)

**COMMENTS OF LACLEDE GAS COMPANY ON
THE PROPOSED INTEGRATED RESOURCE PLANNING RULE**

The proposed integrated resource planning rule ("IRP Rule") does not directly affect Laclede or other investor-owned gas utilities under this Commission's jurisdiction, and Laclede will not comment on the many broad issues presented by the IRP Rule insofar as they affect only investor-owned electric utilities. In so doing, Laclede is in no way expressing a position generally in favor of or against the promulgation of the IRP Rule. Laclede's comments will be limited to a discussion of: (1) the fact that the IRP Rule fails adequately to address promotional load-building programs advanced by electric utilities; and (2) the detrimental impact of the deletion of fuel substitution considerations from the IRP Rule.

1. Load-Building Programs

Proposed Section 4 CSR 240-22.060 (5) addresses the analysis of load-building programs should an electric utility intend to continue or implement such programs. Section 4 CSR 240-22.060 (5), as proposed, reads as follows:

(5) Analysis of Load-Building Programs. If the utility intends to continue existing load-building

programs or implement new ones, it shall analyze these programs in the context of one (1) or more of the alternative plans developed pursuant to section (3) of this rule, and using the same modeling procedure and assumptions described in section (4). This analysis shall include the following elements:

(A) Estimation of the impact of load-building programs on the electric utility's summer and winter peak demands and energy usage;

(B) A comparison of annual average rates in each year of the planning horizon for the resource plan with and without the load-building program;

(C) A comparison of the probable environmental costs of the resource plan in each year of the planning horizon with and without the proposed load-building program; and

(D) An assessment of any other aspects of the proposed load-building programs that affect the public interest.

The term "load-building" program is defined in the proposed rule at 4 CSR 240-22.020 (29), which states:

(29) Load-bulding program means an organized promotional effort by the utility to persuade energy-related decision makers to choose electricity instead of other forms of energy for the provision of energy service, or to persuade existing customers to increase their use of electricity, either by substituting electricity for other forms of energy or by increasing

the level or variety of energy services used. This term is not intended to include the provision of technical or engineering assistance information about filed rates and tariffs, or other forms of routine customer service.

A prime example of a load-building program would be the provision of incentives to builders or developers by electric utilities in return for the selection of electric appliances (furnaces, ranges, water heaters, etc.) in new homes. The purpose of these programs is to increase, through artificial financial incentives, the amount of electricity sold by the electric utility by acquiring load which, absent the incentive program, would probably be served by the competing natural gas utility. This is especially true in the home heating market where electric utilities currently are vigorously promoting the sale of heat pumps, as an alternative to natural gas furnaces. Laclede would refer the Commission to Laclede's comments on the proposed modifications to the Promotional Practice Rule which are being filed concurrently herewith for further discussion of the detrimental characteristics of various promotional load-building programs.

It is clear from the foregoing discussion that promotional load-building programs present many questions and issues different from typical demand-side and supply-side programs covered under the proposed IRP Rule. Typically, the offering of a legitimate demand-side program is designed to reduce the use of an energy source through the more efficient

use of that energy source. However, an electric promotional load-building program actually intends to increase the use of electricity. Electric utilities seek to justify the viability of load-building programs by asserting that increased use of electricity in off-peak periods allows electric utilities to utilize current electric generating resources more efficiently. However, the truth of this assertion must be evaluated on a utility by utility basis, and should not be accepted as a general proposition.

Furthermore, these types of load-building programs almost always are prohibited promotional practices under the Promotional Practice Rule, 4 CSR 240-14.010 et. seq., since the benefits which allegedly flow to electric utilities directly produce a corresponding competitive injury to the competing gas utility and its customers. These are the type of programs the Promotional Practice Rule was designed to prohibit, so as to reduce the likelihood of costly and wasteful promotional wars between competing electric and gas utilities.

Finally, the impact of a load-building program on an electric ratepayer is seen not only on that ratepayer's electric bill but also on the ratepayer's natural gas bill, since most ratepayers are both electric and natural gas users. Therefore assessments of a load-building program's impact should address a ratepayer's total utility bill. For example, a promotional load-building program may reduce the ratepayer's unit charge for electricity, while, at the same

time, increasing that customer's unit charge for a competing energy source, in a manner whereby the overall net impact of the load-building program would be detrimental to the ratepayer's best interests. The benefits flowing from a promotional load-building program to a utility may be significantly smaller than the deleterious impact of the load-building program on the competing utility.

Given the above, Laclede believes that the mandate contained in 4 CSR 240-22.060 (5) (D), which requires an assessment of any other aspects of the proposed load-building programs that affect the public interest, is crucial to an effective evaluation of load-building programs.

To spell out more exactly what is meant by "public interest" in 4 CSR 240-22.060 (5) (D) Laclede suggests that said provision be modified to read as follows:

(D) An assessment of any other aspects of the proposed load-building programs that affect the public interest including, but not limited to, an assessment of the impact of the programs on competing providers of energy services and their customers, the efficient utilization of energy sources, and the efficient delivery of energy services.

2. Fuel Substitution Measures

In the original draft of the IRP Rule, dated March 13, 1992, Section 22.050 (1) (D) read as follows:

(1) Identification of End-Use Measures. The analysis of demand side resources shall begin with the development of a menu of energy efficiency and energy management measures that provides broad coverage of:

(D) Alternative energy sources and energy technologies that substitute for electricity at the point of use.

This provision required that electric utilities, in analyzing potential demand-side resources, must include in the menu of possible choices programs which utilize alternative energy sources, and technologies which substitute for electricity where the use of alternative energy sources would be more economic and efficient. For example, hypothetically, an electric utility could discover that the use of electricity to heat water in electric water heaters is an inefficient and uneconomic use of electricity as compared to the same function being performed by natural gas. Therefore, a potential demand-side program would be the provision of incentives to replace electric water heaters with natural gas water heaters, thus freeing up electricity for more efficient and economic purposes.

The IRP Rule as proposed in the July 1, 1992 Missouri Register has modified 4 CSR 240-22.050 (1) (D) by replacing the word "alternative" in paragraph (D) with the word "renewable." The phrase "renewable energy sources" probably includes neither natural gas, nor many of the other common energy alternatives to electricity, such as coal and oil.

Laclede submits that this modification to 4 CSR 240-22.050 (1) (D) significantly weakens the proposed IRP Rule since, as currently written, electric utilities will not be required to explore all available alternatives which may exist to arrive at the most economic and energy efficient programs for inclusion in their resource plans. If such modification is allowed to stand, electric utilities will almost certainly not voluntarily pursue programs which result in the loss of electric load and the increase of the gas load of competing gas utilities, no matter how economic or efficient such fuel substitution might be. Therefore, this Commission clearly should require electric utilities to consider and evaluate alternative fuel substitution programs involving, among other things, the use of gas, coal and/or oil, where such a program will have the desirable overall effect of causing electricity to be utilized on a more efficient and economical basis.

Respectfully submitted,

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