

(314) 954-2552



February 13, 1991

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

Re: Case No. EO-91-251

Dear Mr. Stewart:

Enclosed, for filing with the Commission, are the original and fourteen (14) copies of "Verified Response of Union Electric Company to Application of Laclede Gas Company for Leave to Intervene, Motion to Dismiss and Alternative Request for Hearing."

Please date-stamp the additional copy of this letter provided herein and return the same in the pre-addressed stamped envelope provided.

Very truly yours,

Michael F. Barnes

Michael F. Barnes
Attorney

cc: See attached Certificate of Service

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FEB 14 1991

PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Application of Union Electric)
Company for Variance from)
Promotional Practices Rule for Good) Case No. EO-91-251
Cause Shown and for Approval of)
Promotional Practices Sheets)

VERIFIED RESPONSE OF UNION ELECTRIC COMPANY TO
APPLICATION OF LACLEDE GAS COMPANY FOR
LEAVE TO INTERVENE, MOTION TO DISMISS
AND ALTERNATIVE REQUEST FOR HEARING

Comes now Union Electric Company ("UE"), pursuant to Commission Rule 4 CSR 240-2.080, and submits the following verified response to the Application of Laclede Gas Company ("Laclede") filed with this Commission on January 28, 1991.

1. UE does not object to Laclede's Application to Intervene in this case.

2. In its Application Laclede developed five challenges to the variance that UE set forth in its Application and supporting affidavit. UE will examine these five challenges and then demonstrate they are without merit.

3. Before examining the five challenges, UE wishes to emphasize that the variance sought is for a pilot program that is limited in scope, duration and budget. Laclede, nevertheless, responded as if UE has begun an all-out offensive in the heat pump vs. gas furnace issue. UE believes this pilot program variance case is not the proper vehicle to extensively debate the merits of the heating systems. UE is also confident the Commission is reluctant to engage in such a debate in this case. If the Commission is interested in such a debate, a more appropriate time

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would be in the future, when--and if--UE elects to implement a permanent program patterned after this limited pilot program.

Nevertheless, Laclede has raised the following issues in its Application, and UE feels compelled to respond.

4. Laclede first alleges the Satisfaction Guarantee program will result in the replacement of old air conditioners with less efficient but more expensive air conditioning systems than otherwise available to program participants at the same cost.

This argument relies on two very broad assumptions that are unsupported and, in fact, untrue. The first is that heat pumps are less efficient than air conditioners, and the second is that heat pumps are more expensive than air conditioners.

Concerning relative efficiencies, a quick review of the ARI unitary directory*/ clearly indicates that efficiency levels of heat pumps are just as high and in some cases higher than standard air conditioners. Consider, for example, the Coleman T.H.E. III heat pump with a SEER of 13.8. The highest SEER of any Coleman air conditioner is 13.2. A further review of the ARI directory also reveals that each manufacturer produces several models of air conditioners with a range of SEER. In almost every case, each manufacturer will produce a group of heat pumps with the nearly identical SEER range. It is difficult to find a manufacturer who

*/ The Air Conditioning and Refrigeration Institute (ARI) is a voluntary, nonprofit organization that administers performance certification programs for heating and cooling equipment. The ARI unitary directory lists certified unitary air conditioners and heat pumps.

produces an air conditioner of a particular SEER who doesn't produce a nearly matching SEER heat pump.

Major heating and cooling distributors and manufacturers in the St. Louis area have provided UE with data which shows heat pumps sold have a higher average SEER than air conditioners. One distributor's 1990 shipment records for the St. Louis area disclosed only 20.2% of air conditioners sold during this period had SEERs above 10.0, while 30.8% of heat pumps sold during this period had SEERs above 10. Another major manufacturer reported only 13.7% of air conditioners sold were above a 10 SEER, while an impressive 42.4% of heat pumps sold were above a 10 SEER.

Since the customer will almost always be able to purchase a heat pump with an equivalent SEER to an air conditioner, Laclede's assumption that the heat pump is less efficient than an air conditioner is erroneous.

Concerning comparative expenses, Laclede's assumption that heat pump systems are more expensive than air conditioners is not always true. There are many factors that influence the cost of a heat pump or an air conditioner, such as the brand, dealer, warranty, options and efficiency. With all these factors, it is possible to buy a 10 SEER heat pump from dealer A selling brand B that is less expensive than an air conditioner from dealer C selling brand D. This is due to the free-enterprise system in which heating and cooling dealers compete.

UE admits that there are instances when the installed cost of a heat pump system is higher than an identical SEER air conditioner

system. Even in these cases, the heating cost savings resulting from the heat pump produces a lower life-cycle cost for the heat pump. The efficiency is inherent in the heat pump since it is transferring heat rather than creating heat. Heating efficiencies in the order of 300% are very common with heat pump systems, while standard furnaces struggle to reach 95% efficiency. In addition to the superior heating efficiencies, heat pump systems have a host of other benefits for consumers. They provide a more even temperature due to a longer "run time" which produces more comfort for the inhabitants. Heat pumps provide better humidity control in the winter since they do not use inside air for combustion nor do they discharge blasts of high temperature air. In the case of "add-on" heat pumps, the homeowner can adjust the heat pump system to run more when fossil fuel rates increase, and less when fossil fuel rates decrease. This provides some control for the consumer over future energy cost fluctuations.

For many consumers, these benefits outweigh any additional installed cost for a heat pump system. In its Application, however, Laclede ignored these benefits.

In summary, the two assumptions underlying Laclede's first contention are not true. Any increase in heat pump sales that may result from the pilot program will enhance summer peak reduction and result in lower life cycle costs for customers.

5. Laclede further alleges the Satisfaction Guarantee pilot program is misleading because it will leave participants with nothing more than an expensive, disabled heat pump operating as a

relatively inefficient air conditioner. As detailed above, a heat pump, on average, will have a higher efficiency than the air conditioner that would have been purchased in its place. Thus, a heat pump disabled at a customer's request will become a more efficient air conditioner, on average, than if the customer had originally purchased an air conditioner. As also detailed above, the "cost" of the heat pump may or may not be more expensive, depending on many factors other than the fact it is a heat pump.

The purpose of any "Satisfaction Guarantee" is to instill confidence in the consumer's mind that he or she will be satisfied with their purchase. In reality, no company can ever truly "guarantee" a customer's satisfaction. Companies who offer such Satisfaction Guarantees do so only after research indicates the vast majority of customers are satisfied with their product. In this case, UE has relied on the research conducted by two other utilities that have offered a similar guarantee and have shared their results with UE. They have both experienced only a very few customers who were not satisfied with their heat pumps. After the conversion to a high efficiency air conditioner, the customers were satisfied.

UE expects similar results will come from its pilot program, but it will never know for sure unless the Commission approves the pilot program. The purpose of this pilot program is to measure the customer response to the program, including the success of UE's efforts to "satisfy" the customer, hopefully by working with the dealer or, as a last resort, by disabling the heat pump.

When one considers the alternative of removing the heat pump, returning the customer's money, and leaving the consumer without any cooling, UE believes the conversion of the heat pump to a high efficiency air conditioner is the only choice that will satisfy the customer--but UE will never know for sure unless the pilot program is implemented.

In summary, Laclede's attempt to "crystal ball" the customer reaction to the pilot program merely highlights one of the research purposes of the pilot program.

6. Laclede's third contention is the pilot program would encourage the use of less efficient energy at the expense of more efficient natural gas. This very brief, "make weight" argument seems based on the notion that electricity is generated from other fuels while natural gas is pumped out of the ground and used with little processing.

Laclede fails to mention that UE's electricity is generated by the use of abundant coal, relatively inexpensive nuclear fuel, and "nature provided" hydro power. This fuel mix allows UE to produce electricity that is very cost competitive. This, combined with the high efficiencies of the heat pump (approximately 300%), produce a heating system that saves customers money compared to a natural gas furnace.

UE believes the monthly bill is the true measure of efficiency to consumers, not the origin or amount of raw BTUs used to heat the home.

7. Laclede's fourth contention is that any and all sales of heat pumps that may result from the pilot program will be a detriment to Laclede and its customers. Laclede claims the sale of heat pumps will affect their earnings to a point that their rates may need to be increased.

This claim is without merit, for four reasons. First, UE must again emphasize the variance request is only for a pilot program limited in scope, duration and budget. It is hard to imagine a limited pilot program having such dire effects. Laclede seems to be engaging in "saber rattling," in an attempt to alarm the Commission and so divert attention from the limited provisions of the proposed pilot program.

Secondly, even if UE were pursuing an extensive program at this time (which it is not), for Laclede to indicate they would need to raise rates without first instituting other measures, such as cost-cutting efforts or promoting gas sales in other areas, borders on the irresponsible.

Thirdly, although in general heat pump sales may somewhat reduce the gas usage of customers, a significant number of customers who purchase heat pumps are customers who heat with electric resistance heat or propane. (It is important to note almost one-half of the customers eligible for this program are not Laclede's customers.) For those customers who have electric resistance heat, UE would also see a reduction in revenue. UE feels it is important to be customer-driven, to provide its customers with an efficient heating system, since UE has a long-

term relationship with its customers. Laclede should have the same concern for its customers who purchase heat pumps, instead of threatening to charge these customers more.

Finally, UE notes that in general some heat pump sales will actually help reduce Laclede's winter peak and increase its load factor. In cases where a customer originally had a gas furnace as the only space heating appliance, and subsequently converts to a full electric heat pump, Laclede's peak is reduced and its load factor is increased. Laclede has ignored the benefit of reduced demand and increased load factor while focusing only on the reduced revenue.

In summary, the proposed pilot program will not have the dire consequences predicted by Laclede, because the program is so limited, many prospective heat pump customers heat electrically or with propane, and in some instances heat pumps can reduce Laclede's winter peak and increase its load factor.

8. Laclede's fifth and final contention is the proposed pilot program will "rekindle the promotional wars and their damaging consequences." (Laclede Application, p.15) Laclede evidently has assumed (without so stating) that the Commission is incapable of determining if the variance would be detrimental to the public, and is using the alleged competitive impact of the program as justification for denial of the variance.

Laclede lodged a similar complaint in Case EO-89-212, wherein UE sought a variance for a rebate pilot program on energy efficient central air conditioners or heat pumps. In granting the variance

in that case, the Commission noted that "under the limited circumstances of the proposed program, the variance will not significantly alter the balance assured by 4 CSR 240-14." (Order, p.3)

UE is confident the Commission will decide there is sufficient potential benefit from the Satisfaction Guarantee pilot program to allow a variance on the limited basis proposed. The proposed plan is limited as to scope, duration and budget. The program will provide valuable marketing information concerning the incentives needed to persuade customers to install high efficiency heat pumps. The pilot program will benefit the participating and the non-participating customers. On balance, any slight competitive nature of the pilot program is greatly outweighed by the potential benefits.

9. In conclusion, UE has demonstrated that Laclede's five challenges to the pilot program are factually untrue, misleading, unduly alarmist or totally without merit.

UE's Application and supporting affidavit sufficiently detail and document that good cause exists to grant the variance, and that a hearing is not necessary in this case.

WHEREFORE, for the reasons stated above, UE respectfully requests that the Commission issue its order: (1) denying Laclede's motion to dismiss the Application; and (2) denying Laclede's alternative request for hearing.

Respectfully submitted,

UNION ELECTRIC COMPANY

Michael F. Barnes

Michael F. Barnes
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Union Electric Company
P.O. Box 149
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(314) 554-2552

Dated: February 12, 1991

CERTIFICATE OF SERVICE

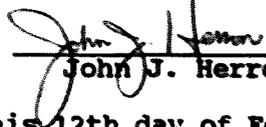
The undersigned certifies that a copy of the foregoing document was served upon Gerald T. McNeive, Jr., Associate General Counsel, Laclede Gas Company, 720 Olive Street, St. Louis, Mo. 63101; Mary Ann Young, General Counsel, Missouri Public Service Commission, P.O. Box 360, Jefferson City, Mo. 65102; and Martha Hogerty, Office of the Public Counsel, P.O. Box 7800, Jefferson City, Mo. 65102, by enclosing the same in an envelope addressed to such individuals at their respective addresses with postage fully prepaid, and by depositing said envelopes in the United States mail in St. Louis, Missouri, this 13th day of February, 1991.

Michael F. Barnes

Michael F. Barnes

VERIFICATION

John J. Herron, being first duly sworn, states that he is the Supervising Engineer, Marketing Services Department of Union Electric Company, that he has reviewed the foregoing "Verified Response of Union Electric Company," and that the factual matters stated therein are correct to the best of his information and belief.



John J. Herron

Subscribed and sworn to before me this 12th day of February, 1991.



Deborah L. Clark

DEBORAH L. CLARK
NOTARY PUBLIC - STATE OF MISSOURI
ST. LOUIS COUNTY
MY COMMISSION EXPIRES APR. 18, 1994

