

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

In the matter of the application of	)	
Southern Missouri Gas Company, L.P.	)	
for a variance from	)	Case No. GE-2006-0156
4 CSR 240-14.020(1)(D).	)	

**SOUTHERN MISSOURI NATURAL GAS'  
RESPONSE TO ORDER DIRECTING FILING**

COMES NOW Southern Missouri Gas Company, L.P. d/b/a Southern Missouri Natural Gas ("SMGC" or "Company"), and in response to the Order Directing Filing issued on December 13, 2005, states as follows:

1. In its Order Directing Filing issued on December 13, 2005, the Commission directed the parties "to file pleadings that explain why the Commission should approve SMGC's request in spite of record natural gas prices." (Order Directing Filing, p. 1).

2. As Staff noted in its Staff Recommendation filed on December 7, 2005, recommending approval of SMGC's water heater rebate program:

"This is similar to programs of other Missouri LDCs. In this case however, company funds only are used to pay the rebate. " (Staff Recommendation, p. 1)

The Staff Recommendation also explained that: "The purpose of the Rebate Program is to encourage more effective utilization of natural gas by encouraging energy efficiency improvements with economic incentives for choosing new high-efficiency natural gas water heaters." (Staff Recommendation Memorandum, p. 1).

3. In fact, SMGC's proposed experimental water heater rebate program is similar to an AmerenUE natural gas equipment rebate program that has been approved by the Commission. However, the cost of the SMGC program is being borne by SMGC's owners rather than having the

costs included in the public utility's rates.

4. The tariff language that was included in the substitute tariff sheets filed on December 7, 2005, was suggested by the Staff experts that have been involved in the AmerenUE natural gas equipment rebate program. In addition, SMGC has agreed, at Staff's request, to designate this program as "experimental" with a 36-month term ending December 31, 2008. SMGC will also be annually providing the Commission Staff with reports regarding the success of the program.

5. In its Order Directing Filing, the Commission "questioned whether it should approve a variance that could encourage even more natural gas usage." Apparently, this concern arises from the fact that wholesale natural gas prices are currently at unprecedented levels.

6. As the Commission knows, SMGC is a natural gas company that constructed its distribution system in 1994. At the time SMGC began constructing its distribution system, it had no customers, and it had to compete with unregulated competitors, particularly propane and electric cooperatives, for customers. Propane dealers and electric cooperatives are not regulated, and they are able to offer rebates to customers for the installation of propane or electric appliances as well as offer pricing plans that are much more flexible than permitted by the Company's tariffs. In order to be successful, SMGC must continue to provide a high quality of natural gas service at a price that is competitive with propane and electricity.

7. Higher wholesale natural gas prices undoubtedly exacerbate the challenge of SMGC to demonstrate to customers in its service area that natural gas is the preferred fuel of choice. If SMGC is to be successful, it is critical that SMGC must be free to offer its customers the choice of natural gas at competitive rates. From our perspective, clearly the regulatory process should not create barriers for a regulated company that is attempting to compete with such unregulated sources of fuel.

8. The Company's proposed experimental water heater rebate program will permit the Company to compete with similar rebate programs that are offered by unregulated electric cooperatives and propane dealers in the Company's service area. As explained in its Application in this matter, the Company proposes to initiate a rebate program to encourage customers, builders and developers to install natural gas-fired water heaters in the Company's service area. More specifically, the Company proposes to provide eligible customers with a \$100.00 credit on their natural gas bill if they replace an electric water heater with a natural gas-fired water heater. In addition, the Company proposes to provide eligible customers, builders, or developers with a \$150.00 cash payment for the installation of a natural gas-fired water heater in any newly-constructed residence or commercial building. Finally, the Company proposes to provide eligible customers with a \$40.00 credit on their natural gas bill if they replace an existing natural gas-fired water heater with another natural gas-fired water heater. As explained in the Application, unregulated competitors are currently providing customers with rebates at even higher levels for the installation of appliances that utilize propane or electricity.

9. Even with higher wholesale natural gas prices, natural gas fired water heaters are very competitive with electric water heaters. The economics of propane versus natural gas water heaters are nearly even, but if SMGC is not permitted to match the propane dealers' rebates, it is not likely to penetrate this segment of the market.

10. SMGC's experimental water heater rebate program also has been designed to encourage the use of more energy efficient water heaters than the old appliances currently in use in the service area. Just as importantly, however, it is intended to improve the Company's load factor and thereby result in lower retail rates over the long term.

**WHEREFORE**, Applicant Southern Missouri Gas Company, L.P. d/b/a Southern Missouri Natural Gas respectfully requests that the Commission grant a variance from the provisions of 4 CSR 240-14.020(1)(D) and issue its Order approving the proposed water heater rebate program tariffs (as revised), as recommended by SMGC and the Commission Staff, in this proceeding.

Respectfully submitted,

/s/ James M. Fischer

James M. Fischer Mo. Bar No. 27543

Fischer & Dority, P.C.

101 Madison Street, Suite 400

Jefferson City, Missouri 65101

Telephone: (573) 636-6758

Fax: (573) 636-0383

Email: [jfischerpc@aol.com](mailto:jfischerpc@aol.com)

ATTORNEYS FOR

SOUTHERN MISSOURI GAS COMPANY, L.P.

d/b/a SOUTHERN MISSOURI NATURAL GAS

### **CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing document has been hand-delivered, emailed or mailed, postage prepaid, by U.S. Mail, First Class, this 15th day of December, 2005, to:

Office of the Public Counsel

P.O. Box 2230

Jefferson City, MO 65102

Dan Joyce

General Counsel

Missouri Public Service Commission

P.O. Box 360

Jefferson City, MO 65102

/s/ James M. Fischer

James M. Fischer