

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

In the Matter of Missouri Gas Energy's)
Proposed Tariff Sheets to Administer) Case No. GT-2007-0477
Natural Gas Conservation Initiatives)

RESPONSE TO STAFF'S RECOMMENDATION

Missouri Gas Energy ("MGE" or "Company"), by its undersigned counsel, hereby responds to the recommendation filed by the Missouri Public Service Commission ("Commission") Staff on June 20, 2007.

1. MGE agrees with Staff that the "Motion to Suspend Tariff," which was filed by the Office of Public Counsel ("Public Counsel") on June 11, 2007, is unfounded and should be denied. As noted by Staff, 4 CSR 240-3.255(2)(B) does not apply to MGE's proposed tariff sheets because those tariff sheets were filed pursuant to the Commission's *Report and Order* in Case No. GR-2006-0422. The Company also agrees with Staff that MGE's proposal does not qualify as a "promotional practice" as that term is defined by the Commission's rules, specifically 4 CSR 240-14.010(6)(L)(8).

2. MGE does not agree with Staff's recommendation that the Company's tariff sheets be suspended and that MGE be ordered to file tariffs that conform to recommendations made in a June 20, 2007, memorandum from Ms. Anne Ross, which was appended to Staff's filing. In her memorandum, Ms. Ross argues that the "water heater rebate program," which the Commission approved in its *Report and Order* in Case No. GR-2006-0422, should be limited to the replacement of existing water heaters. The purpose of the rebate program was to

promote gas conservation through more energy-efficient water heaters. MGE believes Staff's proposal to limit the program to the replacement of existing gas water heaters is inconsistent with that objective.

3. The Company notes that the *Report and Order* in Case No. GR-2006-0422 does not explicitly or implicitly restrict the incentive program to replacement of existing water heaters.¹ The purpose of the rebate program that was approved by the Commission is to encourage customers to install high-efficiency gas water heaters. One focus of that program should be the replacement of existing low-efficiency water heaters. But that is not – and should not be – the **only** focus of the program. Providing an incentive for customers to initially select and install high-efficiency water heaters is just as important to achieving the overall objective of conservation as is encouraging customers to replace their existing water heaters. Yet Staff's proposed limitation of the program ignores this fact. If the Commission adopts Staff's limitation, customers who purchase or build new homes within MGE's service area may choose, for cost reasons, to install gas water heaters that are less energy-efficient. And, because the average life expectancy of a gas water heater is approximately ten years, it will be years before the Company and its customers will benefit from replacement of those water heaters and the opportunity for energy conservation that such replacements represent.

4. MGE believes the Commission's objective in approving the water heater rebate program was to maximize the conservation opportunities represented by high-efficiency gas water heaters as quickly as possible. Staff's

¹ See *Report and Order*, pp. 17-18, 36.

proposed limitation on the program is inconsistent with that objective; therefore Staff's recommendation should be rejected and the tariff sheets filed by MGE to implement a water heater rebate program that applies both to initial installations as well as replacements should be allowed to go into effect.

5. If, however, the Commission believes that Staff's proposal should be adopted, MGE wants to move forward on the limited rebate program as quickly as possible. To that end, the Company has prepared specimen tariff sheets to implement the limited program proposed by Staff, which are attached to this pleading as Appendix A. If these specimen tariff sheets are acceptable, MGE proposes that the Commission order the Company to formally file these tariff sheets, but with an effective date no more than ten days after the filing date.

WHEREFORE, for the reasons stated above, MGE asks the Commission to issue an order that either: a) accepts the tariff sheets that the Company has filed to implement the water heater rebate program; or b) approve the specimen tariff sheets that accompany this pleading and order MGE to file those tariff sheets with an effective date no more than ten days from the filing date.

Respectfully submitted,

/s/ L. Russell Mitten

Paul A. Boudreau #33155

L. Russell Mitten # 27881

Brydon, Swearengen & England P.C.

312 East Capitol Avenue

P.O. Box 456

Jefferson City, MO 65102

rmitten@brydonlaw.com

Telephone: (573) 635-7166

Facsimile: (573) 634-7431

ATTORNEYS FOR
MISSOURI GAS ENERGY

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing document was delivered by first class mail, electronic mail or hand delivery, on the 21st day of June, 2007, to the following:

General Counsel
Missouri Public Service Commission
200 Madison Street, Suite 800
P.O. Box 360
Jefferson City, MO 65102-0360

Office of the Public Counsel
Governor Office Building
200 Madison Street, Suite 650
P.O. Box 2230
Jefferson City, MO 65102-2230

/s/L. Russell Mitten

L. Russell Mitten

Missouri Gas Energy,
a Division of Southern Union Company

For: All Missouri Service Areas

PROMOTIONAL PRACTICES

PP

RESIDENTIAL NATURAL GAS CONSERVATION INITIATIVES

A. Public Education Program

MGE will become an Energy Star® partner and expand information available to customers through MissouriGasEnergy.com, print and radio announcements and, where possible, work in cooperation with other Energy Star® partners and other energy conservation collaboratives to further public education programs. In addition MGE will implement and promote the use of the on-line energy analyzer "Home Energy Saver".

B. High-Efficiency Gas Water Heater ~~Incentive~~ Heater Replacement Incentive Program

The High-Efficiency Gas Water Heater ~~Incentive~~ Heater Replacement Incentive Program is an incentive program designed to assist customers with natural gas conservation efforts through the replacement of inefficient water heaters with installation of high efficiency gas water heaters. Incentives are being offered through a credit to the gas bill for a portion of the cost of a hot water tank with an Energy Factor (EF) of 0.62 or above or a tankless hot water system with an Energy Factor (EF) of 0.80 or above. Company's participation in such financial incentives is limited to the funding included in rates for that purpose per the Commission's Report and Order in Case No. GR-2006-0422.

DEFINITIONS:

Administrator – MGE will administer the program

Participant – An existing customer with an active account who is being served under either the Company's Residential or Small General Service (domestic use customers only in the SGS rate class) rate class who purchases and installs a qualifying efficient natural gas water heater, as described in the program.

AVAILABILITY:

The program is available to any active MGE residential or domestic use Small General Service customer (no final bill or inactive accounts) who purchases and installs either a natural gas hot water tank with an EF of 0.62 or greater or a natural gas tankless hot water system with an EF of 0.80 or greater.

As an incentive to ~~for replacement of an inefficient water heating system with a qualifying high-efficiency natural gas water heating system~~ purchasing and installing a qualifying natural gas water heating system, each customer will be eligible to receive one of the following rebates issued in the form of a bill credit within eight (8) weeks of satisfactory completion of the Incentive Request Form.

A \$75 bill credit for a qualifying hot water tank purchase
Or a \$200 bill credit for a qualifying tankless hot water system

DATE OF ISSUE

month day year

DATE EFFECTIVE

month day year

ISSUED BY: Michael R. Noack

Director, Pricing and Regulatory Affairs
Missouri Gas Energy, Kansas City, MO. 64111

P.S.C. MO. No. 1
Cancelling P.S.C. MO. No. 1

Fourth Revised
Third Revised

SHEET No. 99
SHEET No. 99

Missouri Gas Energy,
a Division of Southern Union Company

For: All Missouri Service Areas

PROMOTIONAL PRACTICES

PP

A customer is limited to one bill credit under this program per account number. The bill credits are independent of any other incentives or State and/or Federal tax credits for which the customer may be eligible for the purchase of the high-efficiency natural gas water heater.

PROGRAM FUNDING

Per the Commission Report and Order in GR-2006-0422, the Company has allocated the following dollars on an annual basis:

\$45,000 for the Public Education Program.

\$705,000 for the High Efficiency Gas Water Heater Replacement Incentive Program, consisting of:

- \$533,800 for rebates in the form of bill credits for qualified purchases;
- \$100,000 for promotion and advertising expense; and
- \$71,000 for administrative expenses associated with the program.

Any funds in excess of the actual program expenses that remain at the end of each program year will be carried over to the next program year.

OTHER CONDITIONS:

MGE will submit to the Commission Staff and the Office of the Public Counsel reports on a quarterly basis (due within 45 days from the end of the quarter) which will detail the cost and participation in the program. The following information will be included in the quarterly reports:

1. For the Public Education Program, MGE will report:
 - a. Summary information regarding the cost, type and number of educational programs implemented;
 - b. MGE's involvement in other energy conservation programs where MGE has worked in cooperation with other Energy Star® partners or energy conservation collaboratives to further public education;
 - c. Dollars spent by type of promotion/advertising; and
 - d. Number of web site hits on the various pages of MGE's customer site.

DATE OF ISSUE

month day year

DATE EFFECTIVE

month day year

ISSUED BY: Michael R. Noack

Director, Pricing and Regulatory Affairs
Missouri Gas Energy, Kansas City, MO. 64111

P.S.C. MO. No. 1
Cancelling P.S.C. MO. No. 1

Fourth Revised
Third Revised

SHEET No. 100
SHEET No. 100

Missouri Gas Energy,
a Division of Southern Union Company

For: All Missouri Service Areas

PROMOTIONAL PRACTICES

PP

2. For the High Efficiency Gas Water Heater ~~Incentive~~ Heater Replacement Incentive Program, MGE will report:

- a. The total number of incentive requests and the number of incentive requests approved;
- b. The dollars spent on bill credits, administrative expenses and promotion/advertising;
- c. Number and type of any complaints received and the resolution of the complaints; and
- d. Compilation of information as provided by participating customers, which may include:
 - i. Type of residence;
 - ii. Age of home;
 - iii. Age of hot water tank being replaced;
 - iv. Fuel source of hot water tank being replaced; and
 - v. Reason for purchase of the high efficiency hot water tank/system.

Depending on the results of the High Efficiency Gas Water Heater ~~Incentive~~ Heater Replacement Incentive program, MGE may in the future request permission from the Commission to expand the program to include new High-Efficiency Gas Water Heaters installed in other than replacement situations (i.e. new construction) and more program options such as incentives for the purchase and installation of Energy Star® rated natural gas furnaces or other residential natural gas conservation measures. MGE will discuss the expansion of Residential Natural Gas Conservation Initiatives through a collaborative process with interested parties, which may include but need not be limited to the Commission Staff, the Office of Public Counsel, the DNR, and community based organizations (Collaborative), to evaluate options to enhance energy efficiency for residential and small commercial customers in its service area.

Biannually MGE – working collaboratively with the Missouri Public Service Commission Staff and the Office of Public Counsel – will file a report with the Commission assessing the overall effectiveness of its residential natural gas conservation initiatives along with recommendations for improving the programs, including any proposed tariff changes.

DATE OF ISSUE

month day year

DATE EFFECTIVE

month day year

ISSUED BY: Michael R. Noack

Director, Pricing and Regulatory Affairs
Missouri Gas Energy, Kansas City, MO. 64111