BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In The Matter of Missouri Gas Energy and Its Tariff Filing to Implement a General Rate Increase for Natural Gas Service	)))	Case No. GR-2009-0355

<u>MISSOURI DEPARTMENT OF NATURAL RESOURCES'</u>
<u>STATEMENT OF POSITION</u>

COMES NOW the Missouri Department of Natural Resources (MDNR) and states as follows:

The Missouri Department of Natural Resources (MDNR) is actively participating in one issue, only, in this case. Consequently, its Statement of Position will be confined to the Energy Efficiency Issue (including three sub-issues) appearing in paragraph 3, page 3 of the List of Issues, Order of Witnesses and Order of Cross-Examination filed October 21, 2009 in the above-styled case. However, the MDNR's silence on the other issues in the above-styled case should not be construed as agreement with the position advocated by any other party to this case.

Section 393.130.1, RSMo states, "[e]very gas corporation…shall furnish and provide such service instrumentalities and facilities as shall be safe and adequate and in all respects just and reasonable." Energy efficiency programs that are designed to reduce natural gas consumption by its customers can potentially lead to the reduction of wholesale natural gas prices as well as generating direct cost savings to natural gas customers, which will be reflected in rates. Therefore, because energy efficiency programs are designed to increase the efficiency, and in turn the adequacy, of the service a gas company provides, the Commission has the ability to authorize such programs in order to ensure that the rates that are charged to the customers are just and reasonable.

Paragraph 3, along with its subparts, states as follows:

ENERGY EFFICIENCY

> A. Should the continuation (for residential customers) or implementation (for small general service customers) of energy efficiency programs be contingent on the adoption of a rate design that recovers all non-gas costs through a fixed customer charge?
>
> B. Should funding for energy efficiency programs be included as an ongoing expense in rates, or should the Company provide upfront funding with such expenditures to be deferred (after expenditure of the surplus unspent funds for residential energy efficiency programs (expected to be approximately $1 million) and included in rate base (with a 10-year amortization period) in subsequent rate cases? What should the annual funding level be and how should the funding level be determined? Should interest be applied to unspent residential energy efficiency funds and, if so, at what rate?
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> C. Should the energy efficiency collaborative formed after MGE's most recently concluded rate case as a result of Commission actions in Case No. GR-2006-0422 and Case No. GT-2008-0005 be modified to an advisory group rather than a consensus group?

MDNR's position on Sub-issue 3.A. is that the Commission should authorize the continuation of MGE's energy efficiency programs, but adjust the funding levels to begin at 0.5 percent of MGE's annual gross operating revenues beginning in the calendar year 2010 and increase to 1.0 percent of its annual gross operating revenues by calendar year 2012. MDNR takes no position regarding rate design. In addition, while MDNR agrees that the energy efficiency initiatives should be expanded to include Small General Service customers, MDNR does not propose to couple the expansion of the current energy initiatives to include Small General Service customers with a specific rate design. MDNR proposes greater investments in energy efficiency by MGE and that MGE expand the program to include Small General Service customer.

MDNR's position on Sub-issue 3.B is that the Commission should authorize all energy efficiency funds expended by MGE to be treated as a cost of providing service by MGE and allow the recovery of such costs through rates. As stated above, the funding levels should be adjusted to begin at 0.5 percent of MGE's annual gross operating revenues beginning in the calendar year 2010 and then increase to 1.0 percent of its annual gross operating revenues by calendar year 2012.

In addition, the Commission should require MGE to place any outstanding funds collected for energy efficiency initiatives as well as future energy efficiency funds into an interest bearing account and to use any proceeds from earned interest to support any energy initiatives undertaken by MGE. MDNR does not have a position on what rate the interest should be applied.

As an alternative, the MDNR would not oppose MGE energy efficiency expenditures to be reported to a regulatory asset account in which MGE is allowed to amortize these costs over a ten (10) year period as proposed by the OPC. MGE would then be authorized to include such costs in its application to recover these and similar expenditures in a future rate case, at which time the Commission would evaluate whether the costs were incurred in a prudent, just and reasonable manner.

MDNR's position of Sub-issue 3.C is that the Commission should authorize the continuation of the EEC (Energy Efficiency Collaborative). However, the EEC should serve in an advisory capacity to help guide MGE's energy efficiency planning and implementation process. MGE should determine and implement the most appropriate and cost-effective slate of energy efficiency programs to meet the needs of its customers and share-holders.

WHEREFORE, MDNR respectfully submits its Statement of Positions.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 22ndth day of October, 2009.

/s/ Shelley A. Woods
SHELLEY A. WOODS