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REBUTTAL TESTIMONY
OF
ASHOK GUPTA

ON BEHALF
OF
THE NATURAL RESOURCES DEFENSE COUNCIL

Q. Please state your name, address, and affiliation.

A: My name is Ashok Gupta. I work for the Natural Resources Defense Council ("NRDC"). My work address is NRDC, 20 N. Wacker Drive, Chicago, Illinois 60606.

Q. Describe your background and professional qualifications?

A: Since 1991, I have been with NRDC working as a Senior Energy Economist on energy related matters including energy efficiency, renewables, and utility regulatory policy. I have served as NRDC's Director of the Air & Energy program for ten years and most recently as Director of Programs for almost three years. I was NRDC's representative on Mayor Bloomberg's Energy Policy Task Force and Sustainability Advisory Board. Prior to NRDC, I worked at the City of New York and the Public Utility Law Project of New York as an energy policy analyst.

My educational training includes undergraduate degrees in Physics and Math from Georgetown University and a master's degree in Economics from American University.

Q. On whose behalf are you testifying?

A: I am testifying on behalf of NRDC.

Q. What is the purpose of your testimony?

A: The purpose of my testimony is to advance a simpler way to align the interest of utility shareholders, its customers, and efficient use of electricity.

Q. What is the throughput disincentive?

A. That term commonly refers to the incentive an electric or gas utility has to sell more electricity or gas in order to recover its authorized revenue requirement. When the collection of authorized revenues depends upon a utility selling, at a minimum, the amount of electricity as was estimated in a rate case, the utility has a disincentive to promote energy efficiency or conservation measures.

Q. What does the MEEIA statute require with respect to the throughput disincentive?

A: The statute requires the Commission to "ensure that utility financial incentives are aligned with helping customers use energy more efficiently and in a manner that sustains or enhances the utility customer's incentives to use energy more efficiently." A reasonable interpretation of this provision would be that, due to energy efficiency, the Commission is required to adopt policies and mechanisms so that utilities are not at greater risk of under-recovering their revenue requirement as determined in a rate case.

Q. How does Ameren propose to address the throughput disincentive?

A: Ameren describes its approach on pp. 28-38 of its MEEIA plan. Ameren proposes using the same mechanism for addressing the throughput incentive that was approved by the Commission for its current 2012-2015 plan. Specifically, the company would capture a share of the estimated net benefits of the efficiency programs as compensation for its lost revenues and lost sales.

Q. What do you propose as an alternative mechanism for addressing the throughput disincentive?

A: Ameren has suggested on p. 93 of its filing that declining avoided costs may suggest a need to address the throughput disincentive in another way. While we may not agree that the avoided costs are or will be declining over the course of the life of the measures being installed under this plan, we do agree that there are many reasons to explore other ways of addressing this problem. NRDC presented testimony in December of 2009 in which its witness, Pamela Lesh, recommended an annual revenue adjustment mechanism "that reconciles actual, not weather-adjusted, revenues to the most recent test year approved revenues on an annual basis, applying any adjustment over the following year, and spreads those adjustments on a general basis to all customers." My testimony today is consistent with that recommendation. Then, as now, we recommend this approach as one key part of a three-part policy to achieve MEEIA's goal of aligning utility financial incentives with the goal of capturing all cost-effective potential for energy savings for Missouri electric customers. The other two legs of that three-legged stool include timely recovery of energy efficiency program costs and an earnings opportunity. My testimony today focuses just on the throughput disincentive mechanisms and does not address the other two legs of the stool.

Q: How is an annual adjustment mechanism simpler, less expensive, and more comprehensive than the current lost revenue mechanism?

A: NRDC argued as early as 2009 that a lost revenue mechanism would cost customers more, be more contentious during implementation, and accomplish less than a simple regular annual adjustment to ensure that the utility recovers no more and no less than the annual revenue requirement. I agree with this earlier testimony and reiterate the reasons below.

- First, the lost revenue mechanism does not eliminate the throughput disincentive. Ameren's proposal fundamentally does not make Ameren Missouri neutral as to its sales volumes, which is its purported goal. While it compensates the company for lost revenues resulting from its programs, it does not make it neutral to non-utility initiatives to save energy, such as building codes, appliance standards, municipal benchmarking requirements for building owners - or voluntary energy efficiency initiatives. Therefore, even after application of the lost revenue mechanism, the utility is left at risk for revenue erosion resulting from these non-utility initiatives. Consequently, instead of leveraging these initiatives, a utility with a lost-revenue mechanism has reasons to oppose efforts that would result in lower sales and lost revenues for the company.
- Second, the lost revenue mechanism can be substantially more expensive for customers than an annual adjustment of authorized versus actual recovery of the utility's revenue requirement. In this filing, Ameren Missouri estimates that compensating it for lost revenues resulting from the implementation of this three-year energy efficiency portfolio will cost $44 million, which is roughly equivalent to the budget for one year of this portfolio. Under the current proposal, Ameren would collect this $44 million whether it actually loses any revenue relative to its

authorized revenue requirement or not. The lost-revenue mechanism, including the one approved in the last MEEIA case, will compensate the utility for "lost" revenues even when the company has already over-recovered compared to its authorized fixed cost revenue requirement as might happen when sales are higher than projected due to other factors. Ameren Missouri argues that it benefits financially when it recovers more than its revenue requirement due to higher than projected sales, and that any erosion of this over-recovery should be compensated. However, the goal of making the company neutral with respect to sales volumes is best served when the utility knows that it will recover exactly its revenue requirement, no more and no less, regardless of whether sales volumes are higher or lower than projected during a rate case. Maintaining the company's ability to collect revenues above its authorized revenue requirement is not a legitimate public policy goal and is inconsistent with the Commission's mission to ensure just and reasonable rates.

- Third, determining the amount of lost revenues to be recovered involves a number of assumptions, inviting contentious and costly proceedings at the conclusion of which many parties remain skeptical of the results.

Q. Could you achieve the same effect by increasing the fixed customer charge?

No. The MEEIA statute wisely specifies that any mechanisms the Commission approves to align the utility's financial incentives with the goal of achieving energy savings must be carried out, "in a manner that sustains or enhances utility customers' incentives to use energy more efficiently." Increasing fixed charges diminishes the customer's incentives to use energy more efficiently, by lengthening the payback period for a customer who invests in an efficiency project. It also shifts costs from high-use customers to low-use customers – often low-income and the elderly. Therefore, addressing the throughput disincentive by increasing fixed costs would be problematic for low-use customers and would run counter to MEEIA's specific requirements.

Q. Would the RAM reduce the Company's incentive to control costs?

A. No. In fact, precisely the opposite is true. The regular adjustment we propose would provide assurance to the Company and its customers that the utility will recover only authorized *revenues*, that is, the amount that regulators have already determined is necessary and prudent in order to deliver energy services to customers. The Company's profit will continue to be driven by its revenues and costs, as well as other regulatory decisions that determine its authorized rate of return on capital. Without the regular annual adjustment, profit would be tied both to sales growth and cost control. With the regular annual adjustment, controlling costs takes on even greater importance, as a means to increase profits.

Q. Does this conclude your testimony?

A: Yes.