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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2008-0318

SURREBUTTAL TESTIMONY

OF

RICHARD A. VOYTAS

ON

BEHALF OF

**UNION ELECTRIC COMPANY
d/b/a AmerenUE**

St Louis, Missouri
November, 2008

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APPENDIX – STATEMENT OF QUALIFICATIONS 1

1 **Q. Why should the Commission be concerned with Mr. Kind's proposed**
2 **wording?**

3 A The primary reasons are:

- 4 • The wording is vague to the point that it has no meaning
- 5 • There is no differentiation between energy efficiency and demand response
- 6 • The phrase "from any source" is too broad. AmerenUE has no way of
- 7 knowing how to plan to address the tracking and accounting of potential
- 8 reimbursement of funds "from any source"

9 **Q. Discuss the vagueness of Mr. Kind's proposal.**

10 A The definition of incremental costs is generally well understood. In the case

11 of AmerenUE DSM expenditures, incremental costs means costs incurred by or for the

12 Company in association with its energy efficiency and demand response programs.

13 Incremental costs include: 1) fees, charges, billings or assessments related to the programs,

14 2) costs or expenses associated with equipment, devices, or services that are purchased,

15 provided, installed, operated, maintained, or monitored for the measures, and 3) the revenue

16 requirement of the return of and on a capital investment associated with a program based on

17 the Commission's authorized rate of return. Mr. Kind's proposed wording, however, makes

18 the concept of incremental costs difficult to understand by, in essence, requiring that

19 AmerenUE analyze every source of "funds" and determine if any of those "funds" may be

20 appropriate to credit toward the costs of implementing its DSM programs – both demand

21 response and energy efficiency programs.

22 **Q. Does Mr. Kind accurately portray the Staff report section addressed by**
23 **Staff witness Henry Warren regarding DSM cost recovery?**

1 A No Mr Warren's written report focuses exclusively on AmerenUE demand
2 response programs and not on energy efficiency programs Specifically, Mr Warren
3 addresses the AmerenUE Industrial Demand Response ("IDR") program In that specific
4 program, AmerenUE agreed to book its net expenditures on the IDR program to its DSM
5 regulatory asset account

6 **Q. What is the difference between a demand response program and an**
7 **energy efficiency program?**

8 A A demand response program typically involves a small number of customer
9 load curtailments for a small number of hours in a year An energy efficiency program
10 typically reduces energy consumption across most hours of the year

11 **Q. How does the critical differentiation of demand response and energy**
12 **efficiency impact Mr. Kind's proposal that "AmerenUE shall book the reimbursement**
13 **of incremental costs, in dollars, that are equal to funds from any source that the**
14 **Company receives that are associated with its implementation of DSM programs and**
15 **not otherwise credited"?**

16 A First, the term "DSM" includes both demand response and energy efficiency
17 Second, while the process for attempting to net costs versus revenues for a demand response
18 program focusing on a handful of large industrial customers with a small number of
19 interruptions for a small number of days in a year is complex, it can be done accurately
20 However, it would be practically impossible to attempt to net costs versus revenues for an
21 energy efficiency program that impacts load for almost every hour of every year

22 **Q. Do you agree with the position proposed by Staff witness Mr. Henry**
23 **Warren relative to crediting capacity and energy transactions as the result of the**

1 **availability or implementation of a large industrial customer demand response**
2 **program?**

3 A Yes, I do. Lena Mantle, Manager of the Energy Department for the Staff of
4 the Missouri Public Service Commission, has also indicated that she supports Mr. Warren's
5 recommendations in this matter. Mantle deposition, pp. 79-80, 16-8 (October 31, 2008).

6 **Q. Please discuss why Mr. Kind's wording, specifically the phrase "from any**
7 **source" is overly broad.**

8 A I will use what I consider an extreme example to illustrate this point. One of
9 the primary objectives of DSM is to reduce load. To the extent that AmerenUE load is
10 reduced, AmerenUE generating plants have the capability to sell the generation that would
11 have been used to serve AmerenUE load absent DSM programs into the wholesale markets.
12 The margin that AmerenUE generating plants earn as a result of these sales might be
13 considered one of the "from any source" funds which in Mr. Kind's rebuttal testimony "are
14 associated with its implementation of DSM programs and not otherwise credited."

15 **Q. Please describe what AmerenUE may have to do to book the**
16 **reimbursement of incremental costs, in dollars, that are associated with the prior**
17 **example.**

18 A First, AmerenUE would have to develop hourly load shapes associated with
19 the hundreds of energy efficiency and demand response measures (i.e., program components,
20 like lighting or motors) that are offered via the AmerenUE DSM portfolio. The load shapes
21 would be estimates based on secondary data sources since AmerenUE does not have measure-
22 specific hourly load data for the AmerenUE service territory. Second, AmerenUE would
23 have to know the hourly marginal production costs for its generating fleet for each hour.

1 Third, AmerenUE would need the hourly wholesale market prices for each hour Fourth, to
2 the extent that AmerenUE's DSM programs may have impacted its costs for operating in the
3 Midwest Independent System Operator's ("MISO") ancillary services market, those impacts
4 have to be identified and appropriate costs and/or revenues assigned AmerenUE would
5 likely need a team of additional accountants and analysts to attempt to process the data
6 necessary to account for funds received "from any source" that are associated with the
7 implementation of AmerenUE's DSM programs The process would be based, to a large
8 extent, on assumptions on hourly load impacts of hundreds of energy efficiency measures

9 **Q. Expand on the point that AmerenUE has no way of knowing how to plan**
10 **to address the tracking and accounting of potential reimbursement of funds "from any**
11 **source".**

12 A I believe the prior example illustrates that it is almost impossible to plan how
13 to account for potential funds received "from any source " Equally important to note is that
14 the potential costs to AmerenUE to add incremental resources to attempt to build processes,
15 not to mention to collect and analyze data to identify funds received "from any source," may
16 exceed the value of those funds

17 **Q. Are there adequate protections to keep AmerenUE ratepayers from being**
18 **overcharged for DSM expenditures?**

19 A I believe there are The incremental costs associated with AmerenUE DSM
20 expenditures will be recorded in the AmerenUE regulatory asset account There will be
21 documentation associated with those costs for Commission review and approval Again,
22 AmerenUE supports the written report of Staff witness Henry Warren as it pertains to
23 recording net expenditures for demand response programs for large customers

1 Therefore, there is no contemporaneous cost recovery of DSM program related costs
2 Rather, AmerenUE is allowed to capitalize and amortize its investments over a 10-year
3 recovery period in a regulatory asset account

4 **Q. Does AmerenUE's current DSM cost recovery framework provide**
5 **regulatory disincentives for the Company to invest in DSM relative to the Illinois**
6 **Commerce Commission model based on contemporaneous cost recovery?**

7 A Yes

8 **Q. Please explain.**

9 A Contemporaneous cost recovery reduces regulatory uncertainty when
10 compared to Missouri's capitalization and amortization model in several respects, including

- 11 • Length of time over which an energy efficiency investment is amortized
- 12 • Rate of return on the unamortized balance of the investment
- 13 • A "Regulatory Asset" is not backed by an actual plant or equipment Carrying
14 substantial regulatory assets on the balance sheet can impact a utility's
15 financial rating
- 16 • Creation of a regulatory asset that may grow substantially over time
- 17 • As a corollary to the prior point, potential uncertainty arising from future
18 policy changes relative to DSM cost recovery

19 **Q. Will Mr. Kind's proposal to (1) "cherry pick" certain provisions of the**
20 **Illinois Commerce Commission's DSM cost recovery framework and (2) add more**
21 **stringent requirements to them and (3) then apply them to a totally different Missouri**
22 **model for DSM cost recovery increase regulatory uncertainty?**

1 A. Yes. Mr. Kind's proposed wording will increase regulatory uncertainty in a
2 Missouri DSM cost recovery model that has largely been abandoned throughout the nation
3 and thus will act as a disincentive to AmerenUE to invest in DSM initiatives. Mr. Kind
4 proposes greater complexity than is necessary in the booking of AmerenUE DSM
5 incremental costs which makes investment in DSM more susceptible to disallowance. When
6 compared nationally with other jurisdictions that are heavily involved with the delivery of
7 DSM programs, Staff and OPC's preference for the capitalization model for DSM cost
8 recovery are outside of mainstream thinking.

9 **Q. Please expand on your statement that the Missouri DSM cost recovery**
10 **model has largely been abandoned throughout the nation.**

11 A. I have the privilege of representing Ameren on the National Action Plan for
12 Energy Efficiency ("NAPEE") Leadership group. Through interactions with the Leadership
13 Group and through the development of NAPEE resources to support the expansion of energy
14 efficiency through the elimination of barriers, there is a general consensus that most states
15 have either tried and switched or never elected to go to the capitalization and amortization of
16 DSM program related costs model. In fact the NAPEE guide on "*Aligning Utility Incentives*
17 *with Investment in Energy Efficiency*", published in November 2007, states the following on
18 page 4-5:

19 "*Capitalization currently is not a common approach to energy*
20 *efficiency program cost recovery, although during the peak of the last major*
21 *cycle of utility energy efficiency investment during the late 1980s and early*
22 *1990s many states allowed or required capitalization.*"
23

1 **IV. DISCUSSION OF POTENTIAL FUTURE DSM COST RECOVERY**

2 **PROPOSALS FOR THE MISSOURI COMMISSION TO CONSIDER**

3 **Q. Are there provisions in the *Energy Independence and Security Act of 2007***
4 **(“EISA”) that specifically address state regulatory policy relative to electric energy**
5 **efficiency programs?**

6 A Yes. Section 532 of EISA amends the *Public Utility Regulatory Policies Act*
7 *of 1978* by addressing both integrated resource planning and rate modifications to promote
8 energy efficiency investments.

9 **Q. Please list the provisions relating to integrated resource planning.**

10 A EISA section 532(16) requires that each electric utility shall-

11 (A) integrate energy efficiency resources into utility, state, and regional
12 plans, and

13 (B) adopt policies establishing cost-effective energy efficiency as a
14 priority resource.

15 **Q. Please list the provisions relating to rate design modifications to promote**
16 **energy efficiency investments.**

17 A EISA section 532(17) has multiple considerations for state regulatory
18 commissions' consideration. Considerations include

19 1. Align utility incentives with delivery of cost effective energy efficiency

20 2. Promote energy efficiency investments

21 3. Remove the throughput incentive and other regulatory and management
22 disincentives to energy efficiency

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1 4 Provide utility incentives for the successful management of energy efficiency
2 programs

3 5 Allow timely recovery of energy efficiency related costs

4 **Q. Does AmerenUE's current cost recovery mechanism address the**
5 **considerations specified in EISA?**

6 A. In my opinion, the proposed Missouri DSM cost recovery provisions begin to
7 scratch the surface for considering the direction specified in EISA. The mere fact that the
8 Missouri Commission now has a framework for addressing DSM cost recovery is a major
9 step forward relative to the past where the framework for DSM cost recovery in Missouri had
10 not been addressed by the Commission. However, with that being said, significant regulatory
11 disincentives to the growth of DSM still remain in Missouri. For example, timeliness of
12 DSM cost recovery remains an issue. Lost revenue recovery mechanisms have not been
13 addressed. Incentives for the performance of DSM programs should be designed to truly put
14 DSM and supply-side investments on an equivalent basis.

15 **Q. Does this conclude your surrebuttal testimony?**

16 A. Yes, it does.

1 through 1992 I worked as an Engineer in the Corporate Planning Department, Engineer in the
2 Quality Improvement Department and Engineer in the Rate Engineering Department In
3 1993 I was promoted to Senior Engineer in the Corporate Planning Department In 1995 I
4 was promoted to Supervising Engineer in the Demand-Side Management section of
5 Corporate Planning In July 1998 the Resource Planning, Forecasting, Load Research and
6 Demand-Side Management sections were combined into one section of Corporate Planning
7 and I was named Supervisor of that section known as the Corporate Analysis Department
8 In October 2001 I was promoted to Manager of Corporate Analysis Effective September 1,
9 2007 I was named Manager, Energy Efficiency and Demand Response which is part of the
10 Strategic Initiatives department

11 My duties as Manager, Energy Efficiency and Demand Response include the
12 following energy efficiency/demand response policy and planning, DSM potential study
13 development, program design, high level implementation planning, program evaluation,
14 measurement and verification design, and development of centralized data collection and
15 information systems for energy efficiency programs

16 I have submitted testimony before the Missouri Public Service Commission, the
17 Illinois Commerce Commission, and the Federal Energy Regulatory Commission

