BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of KCP&L Greater Missouri Operations Company's Application for Approval of Demand-Side Programs and For Authority to Establish A Demand-Side Programs Investment Mechanism	))))	Case No. EO-2012-0009

POSITION STATEMENT OF
KCP&L GREATER MISSOURI OPERATIONS COMPANY

COMES NOW the KCP&L Greater Missouri Operations Company ("GMO") and for its Position Statement states as follows:

1. On April 11, 2012, the Commission issued its *Order Granting Motion to Modify Procedural Schedule* ("Order") which, inter alia, ordered the parties to file their Position Statements by May 11, 2012 which concisely addresses their position on the List of Issues filed in this matter. Subsequently, the procedural schedule was modified, and the date for filing the Position Statement was extended to June 13, 2012.

2. On June 7, 2012, an Issues List, Witness List, Order of Witnesses, and Order of Opening Statements was filed.

3. In response to the Commission's Order, as modified, GMO files the following Position Statement.

I. STATEMENT OF POSITION ON ISSUES LIST

1. Should the Commission approve GMO's application for approval of demand-side program plan, approve it with modification acceptable to GMO, or reject it, as provided in Rule 4 CSR 240-20.094(3)?

Yes. GMO is requesting Commission approval for the majority of its existing demand-side management ("DSM") programs and is requesting approval for five (5) new

DSM programs. GMO witness Allen Dennis describes the programs that have already been approved by the Commission as well as five (5) new DSM Programs. Mr. Dennis describes several proposals to improve the existing programs, and GMO's proposals to add the Residential Energy Reports Program, the Appliance Turn-In Program, C&I Prescriptive Rebate Program, Multi-Family Rebate Program, and the Residential Lighting and Appliance Program.

GMO's proposed DSM program portfolio is an integral part of its plan to meet the electricity needs of its customers new and in the future. The proposed energy and demand reductions that are the subject of this proceeding will be reflected in GMO's load and resource requirements.

GMO has already invested nearly $22 million in the previously approved DSM Programs. GMO estimates that over 70,000 MWH have been saved through March 31, 2012. In GMO's filed plan, GMO expects to spend approximately $38.8 million in program costs over the next three years. The annualized rate for program costs would be approximately $13 million per year in program cost recovery.

For the first three years of programs, benefits from both energy and capacity over the anticipated life of the programs are approximately $244.4 million. The net present value of this benefit is nearly $137.9 million. This is a conservative time frame in determining the life cycle of the programs, so we expect the benefits for reduced kWh and kW will continue beyond the fifteen years.

Clearly, it makes sense to make these investments, provided there is a reasonable mechanism in place so that shareholders are not disadvantaged by making the substantial investments necessary to achieve these benefits. In addition, approval of the Plan by the

Commission would reflect an appropriate step by the Commission in discharging its obligations under MEEIA. Those obligations are to provide timely cost recovery, to align the utility's financial incentives with helping its customers use energy more efficiently, and to provide timely earnings opportunities. Those obligations are to be discharged in a manner to support the state policy of applying regulatory policies that allow utilities to value investments in demand-side measures equally with investments in traditional supply-side assets.

A. Is GMO's demand-side program plan achievable, realistic and specific? If not, should the Commission order GMO to file an achievable, realistic and specific demand-side program plan?

Yes. GMO's demand-side program plan is achievable, realistic and specific. GMO is currently conducting market research, a market potential study ("Study"), to determine the maximum and realistic achievable potential as defined by 4 CSR 240-3.165 (1) (N) & (T). It is expected that the results of the Study will be available in the first quarter of 2013. However, given the amount of time that has passed to obtain regulatory approval for this plan, GMO has updated its proposed plan to ensure that it is achievable, realistic and more specific. This updated plan is attached to the surrebuttal testimony of GMO witness Joseph O'Donnell as Schedule JMO-5.

B. What annual energy and demand savings targets should the Commission approve for each demand-side program? Should the annual energy and demand savings targets be based on assumed net-to-gross (NTG) ratios equal to 1.0 or should they be based on NTG from EM&V from Program Year 2 from GMO's prior cycle of programs (i.e., October 2009 to September 2010)? Should savings targets be "net savings" or "gross savings"? If the former, will it be necessary for GMO to increase its planned level of spending to achieve the annual energy savings levels on a net savings basis?

Those contained in the Company's testimony.

i. Should the EM&V analysis and report be used to determine deemed energy and demand savings that will be applied on a prospective basis?

The EM&V process should be used to determine deemed energy and demand savings that will be applied on a prospective basis. EM&V analysis is subject to detailed scrutiny and GMO believes that our DSM programs are being adequately and accurately evaluated. For cost-reduction reasons, as well as to reduce program planning uncertainty, the use of deemed savings has gained widespread use in the industry. It is unfair and creates considerable risk if the core assumptions of approved demand-side programs are changed and applied retroactively. Where DSM programs and budgets have been designed with agreed upon values for energy and demand savings, it is reasonable not to change the playing-field after the fact. GMO believes that deemed savings should be regularly updated based upon the most recent EM&V information and applied to the next program cycle.

C. Should the Commission approve the form of GMO's DSM programs' tariff sheets (frozen and original) as filed?

Yes. The tariff sheets comply with all Commission rules applicable to DSM program tariff sheets. GMO does not agree with the Staff's contention that the specific measures and specific incentives must be listed in the tariff sheets themselves, as opposed to effectively being incorporated into the tariff sheets by reference to such information posted on the Company's energy efficiency website.

There is no rule that precludes pointing customers to a utility's website for program details. In fact, the Commission has approved energy efficiency tariffs in the past that did just that. Moreover, with respect to the measures, a measure is not a "promotional practice" at all. A "promotional practice" is the consideration; the thing of value, that a utility offers customers to induce them to install or acquire a measure. The Commission's MEEIA rules also do not require that such details be included in the tariff itself. The MEEIA rules simply require a filing to modify a program provision that is no longer "covered by" the tariffs that were approved.

If the Commission approves tariffs that specifically contemplate and allow reference to the Company's website, a change to a program detail on the website that the tariffs contemplate and allow is covered by the tariff.

Finally, the Staff's contention that a rule requires marketing and promotion strategies to be detailed in the tariff sheets is also mistaken. Under the promotional practices rule, a utility must provide information about advertising plans to the Commission, but by the express terms of the rule, that information is not listed among the information that the tariff must contain. If and to the extent the Commission would believe that there is some technical requirement of one of these rules that would require the level of detail the Staff recommends, the Company has requested a variance from any such requirement.

i. Should the Commission order GMO to file compliance tariff sheets that would provide additional detail in its DSM programs' tariff sheets? If so, what detail?

No. See above response.

D. Should the Commission condition the approval of GMO's application upon GMO filing in this case a total resource cost test for its Appliance Turn-In program consistent with the definition in Rule 4 CSR 240-3.164(1)(X)?

See Schedule JMO-8 attached to the surrebuttal testimony of Joseph O'Donnell.

E. Should the Commission condition the approval of GMO's application upon GMO's commitment to conduct a careful and thorough review and analysis of demand response programs as part of its next DSM market potential study and subsequent Chapter 22 compliance filing and/or annual update filings?

As discussed above, Navigant, Inc. has been engaged by GMO to conduct a Study that will include an analysis of demand response potential and programs. The research for this Study began in January 2012. Commission Staff and other stakeholders have had the opportunity to participate in the development of the Study's scope of work and have participated and commented on several important aspects of the Study research. It is expected that the results of the Study will be available in the first quarter of 2012. GMO will use the results of the Study and will conduct a careful and thorough analysis of all recommendations for use in its next Chapter 22 compliance filings.

i. Should the Commission condition the approval of GMO's application upon GMO making a supplemental filing in this case that includes the program descriptions for the proposed MPower and Energy Optimizer programs the Company provided in their response to Staff's data requests 0028 and 0029?

See Schedules JMO-6 and JMO-7 attached to the surrebuttal testimony of Joseph O'Donnell for program descriptions of the GMO Energy Optimizer and MPower programs.

F. Should the Commission grant the variances requested by GMO that are necessary to approve GMO's demand-side program plan, as filed?

Yes. In addition, to the extent that the Commission decides, based upon the positions of other parties, that additional variances are needed in order to approve GMO's application, DSM Programs, and DSIM, then the Commission should grant those variances in addition to the variances requested to be approved by GMO.

G. Can the Commission order GMO to complete a new DSM Market Potential Study? If so, should it do so?

GMO is in the process of completing a Study as discussed herein.

Can the Commission order GMO to include in all future MEEIA filings the realistic achievable potential portfolio of the Company's Demand-side management Market Potential Study? If so, should it do so?

No. MEEIA does not provide the Commission authority to require that a utility invest a particular amount in DSM or achieve a particular level of energy or demand savings. As discussed earlier, GMO is in the process of conducting a Study to determine the maximum and realistic achievable potential as defined by 4 CSR 240-3.165 (1) (N) & (T). If the Company receives a favorable outcome in this case, GMO intends to include in all future MEEIA filings the realistic achievable potential portfolio as determined by the results of the Study.

I. Have the requirements in Rule CSR 240-3.164(2)(C) been satisfied for GMO's proposed Low-Income Weatherization program?

Yes.

J. Have all of the filing requirements contained in Rule 4 CSR 240-3.164(2)(C) been satisfied for all of GMO's proposed DSM programs which are also current programs of GMO?

Yes.

2. Should the Commission approve the establishment of GMO's proposed Demand-Side Programs Investment Mechanism (DSIM) as per Rule 4 CSR 240-20.093(2)(B)?

The DSIM Rider being proposed by the Company will allow for recovery of:

(1) Program costs—approximately $13 million annually,

(2) There would be an incentive which includes a portion of the annual customer benefits ("shared benefits"). The net present value of these benefits over the first three years is approximately $138 million. The Company is proposing that it be allowed to share 12% of those benefits over a three year period in order to make it financially viable for it to invest in the program. The net present value of those net benefits would be approximately $342.7 million over a twenty (20) year period.

The initial annual collection under the DSIM Rider would be approximately $18.46 million. Each year there would be a retrospective analysis, and the program costs and the annual net shared benefits would be adjusted to reflect the actual program participants and performance levels. As a result of this retrospective analysis, the Company's overall performance with respect to its DSM programs will be reviewed.

Over a three year period, the Company will collect under the DSIM Rider approximately $55.4 Million, including program costs and shared benefits. This would be before any performance incentive was included.

The benefits in the first three years are approximately $138 million on a net present value basis. The Company would collect approximately $55.4 million, so the benefits

exceed what is being requested as recovery by nearly 2.5 times the program costs and shared benefits.

PERFORMANCE INCENTIVE

At the end of the second year of the program and after the Evaluation, Measurement and Verification ("EM&V") analysis has been performed, the Company would be provided an opportunity to earn an annual performance bonus of up to $4 million provided it achieved the targeted efficiency.

The Plan has a targeted energy reduction level of one-half of one percent (.5%) of annual kWh sales. The Plan also has a targeted reduction of KW demand of one (1%) percent.

There would be an additional performance incentive if and only if the Company should show after the fact that it was able to achieve projected efficiency goals. The Company has proposed a Performance Incentive Table that would give the Company a bonus if it achieved or exceeded the energy efficiency goals of the program. If the Company achieves the reductions incorporated into the plan, then the Company would receive an incentive of $3 million per year. If the Company does better than the threshold reduction levels, then it could receive up to $4 million if it reached the 150% threshold reductions. If the Company achieved between 51% and 100% of the targeted reductions, there would be a $2 million performance incentive. On the other hand, if the performance was at 50% of the threshold or less, then there would be no performance incentive included in the program recovery mechanism.

LOST REVENUES

There is also a possibility for the recovery of lost revenues, as defined by the Commission's MEEIA rule. Unless there is a severe downturn in the economy, GMO does not believe that the lost revenue recovery portion of the Commission's rule would ever be implemented since the only time that lost revenues would be collected is if the revenues that occur when the Commission approved demand-side programs cause a drop in net system retail kWh sales below the level of system retail kWh used to set the electricity rates in the Company's last general rate case. If the economy is growing, then there would not be a drop in the retail kWh sales levels used in the last rate case, and the recovery of the lost revenues, as defined by the Commission's MEEIA rule, would not occur.

Assuming for the sake of discussion that that was an actual drop in the level of kWhs from the level included in the last rate case, then lost revenues would only be included on a <u>retrospective</u> basis, and all energy and demand savings will be measured and verified through EM&V prior to recovery. This retrospective analysis is consistent with the MEEIA rules.

In summary, the Company believes that its proposed DSM Programs and DSIM mechanism should be approved. This plan would treat customers and shareholders fairly and would give the Company an incentive to make these substantial DSM investments.

A. How should program costs be collected?

i. Should program costs be trued up for over and under collection?

ii. Should carrying costs be applied to trued-up program costs? If so, at what rate?

See above.

B. Should the Commission allow GMO to include in its revenue requirement in Case No. ER-2012-0175 a percentage of expected net shared benefits?

Yes.

i. Should GMO's percentage of expected net shared benefits be calculated as a percentage of annual net shared benefits (i.e., the utility's avoided costs less program costs) as per Rule 4 CSR 240-3.163(1)(J) or a percentage of gross benefits (i.e., the utility's avoided costs only) as proposed by GMO?

The Company believes the net shared benefits should be calculated on gross benefits. There is considerable controversy regarding the use of net-to-gross ("NTG") ratios. Much of the controversy stems from the potential for error and uncertainty in the measurement of NTG ratios due to difficulties in 1) determining an accurate baseline, 2) identifying and implementing a control group and 3) relying on self-responses to a survey. Sources of error with self-reporting surveys stem from faulty recall, bias towards claiming the program was or was not influential, and from bias introduced by hypothetical questions. Because of this issue, it is rare for program evaluators to report a level of precision or accuracy.

The Commission should also adopt the use of gross energy and demand savings. For resource planning purposes, the gross contributions that energy efficiency improvements make toward reducing the need for additional resources is most important. The utility should be allowed to use gross energy savings to determine the benefits.

ii. Should the annual percentage of shared benefits be based on net energy and demand savings taking into account net-to-gross factors such as free ridership and spillover as proposed by OPC and Staff or gross energy and demand savings as proposed by GMO?

The goal of the NTG assessment is to measure energy savings attributable to the program. Free ridership and spillover are adjustments to gross savings to arrive at "net" program savings. The Commission should recommend that NTG factors should only be used for the purpose of identifying program improvements or other program changes that can reduce free-ridership. See the surrebuttal testimony of GMO witness Joseph O'Donnell for further discussion on this subject.

iii. Should the utility incentive component be based on net shared benefits (i.e. net of program costs) as proposed by OPC and Staff or gross shared benefits as proposed by GMO?

The incentive component should be based on gross shared benefits as discussed above.

C. Should the Commission allow GMO to collect a fixed dollar amount as an incentive after the three-year program plan is concluded, with that dollar amount dependent upon GMO meeting various savings (kWH/kW) thresholds? If so, are the thresholds and dollar amounts proposed by GMO appropriate?

Yes. GMO should be allowed to collect a fixed dollar amount as described in testimony. The dollar amounts are based on reasonable performance thresholds. The thresholds and dollar amounts should be approved by the Commission.

D. Should the Commission approve both the lost revenue component of a DSIM and GMO's proposed annual shared benefits incentive component of a DSIM?

Yes.

E. With regard to items B and C:

i. Should the true-up of the shared benefits be based on the number of program participants or measures as proposed by GMO?

A true-up of the shared benefits should be based upon deemed energy and demand savings that are applied on a prospective basis. The utility should also be allowed the flexibility of using either a prescriptive process that deems energy savings from specific end-use measures or a total building performance process where energy savings are evaluated by the participant using a facility, or building level data. Having the flexibility to use either a prescriptive or a performance-based method is consistent with the methodology for compliance with the 2012 International Energy Conservation Code, the ASHRAE 90.1-2010 Energy Standard requirements for buildings, and the certification requirements for the U.S. Environmental Protection Agency ENERGY STAR® Homes national program.

Many complex energy efficiency projects involve dozens of interactive measures, and in this case, a per participant building performance analysis would be more appropriate. The Commission should also recommend the development of a Technical Reference Manual ("TRM") that identifies and describes a menu of energy efficient end-use measures and outlines the protocol to be used for determining energy and demand savings. The TRM should also include protocols for estimating energy savings from complex custom projects where a total facility or building performance based method is more appropriate.

ii. Should the Commission allow GMO to calculate net benefits as the net benefits from energy and demand saving measures estimated to accrue within 15 years of the first DSIM program year (i.e., use 15-year measure lives for measures installed in Year 1, 14-year measure lives in Year 2, 13-year measure lives in Year 3, etc.) or should another method be used?

In estimating the benefits of DSM programs, it is important to include the full valuation of long-run avoided energy and capacity costs. GMO advocates the use of a 15 year measure life that would be applied to each program year. This method is parsimonious and transparent.

F. Should the Commission order interest/carrying cost to be paid on over- and under-recoveries? If so, should GMO's AFUDC rate or its short term interest rate apply?

Yes. GMO believes that its AFUDC rate, or an AFUDC-like rate should apply.

G. Should the Commission grant the variances requested by GMO necessary to approve GMO's DSIM, as filed?

Yes. In order to implement this plan, there would need to be three variances from the Commission's existing MEEIA Rules.

First, the MEEIA rule requires that the DSIM rates be adjusted every 6 months. GMO believes that the DSIM rates should be adjusted annually, with the option of doing it every 6 months. This would require a variance from the Commission's rule—4 CSR 240-20.093(4)(A).

Second, under the Company's plan, the projected program costs and the annual shared benefits would initially be included in the DSIM mechanism. The costs and net benefits would be trued-up to account for the actual experienced efficiency goals achieved. This true-up would be done after the fact—or trued-up after the EM&V was completed.

The Commission's MEEIA rule requires that any utility incentive component of a DSIM should be implemented on a retrospective basis, and all energy and demand savings used to determine a DSIM utility incentive revenue requirement must be measured and verified through EM&V. Although GMO believes its proposal is consistent with the spirit

of the MEEIA Rule, there is initially the inclusion of the costs and shared benefits in the calculation of the revenue requirement on a prospective basis, which is then true-up to actual experiences. To the extent, that this initial inclusion of projected costs and shared benefits might be viewed as inconsistent with this MEEIA Rule (4 CSR 240-20.093(13)(H), then the Company is asking for a variance from the Commission.

The third variance requested by GMO involves the Customer Opt-Out provisions. 4 CSR 240-20.094(6)(J) requires that "[a] customer electing not to participate in an electric utility's demand-side programs under this section shall still be allowed to participate in interruptible or curtailable rate schedules or tariffs offered by the electric utility."

GMO's proposed tariffs provide that a customer exercising the opt-out provisions cannot participate in the DSM programs approved as part of the DSM portfolio of programs. The Company's MPower program is part of those programs. Customers who opt-out of the DSM portfolio of programs will still be allowed to participate in other interruptible or curtailable rate schedules or tariffs that are not included in the DSM portfolio of programs. Examples of these traditional interruptible and curtailable rate schedules or tariffs include the Company's Special Interruptible Contracts tariff, Voluntary Load Reduction Rider, Standby Service for Sell-Generating Customers, and the Off-Peak Service Rider. However, to the extent that the Commission determines that this rule permits participation in the MPower Program which is part of GMO's DSM portfolio, then GMO requests a variance from the rule since GMO proposal ensures that those customers that are paying for the DSM programs get to participate in the programs, while those customers that "opt-out" are not permitted to be free-riders to the detriment of GMO and its other customers.

GMO does not believe that its MPower Program is a traditional "interruptible or curtailable rate schedules or tariffs offered by the electric corporation" as defined in Section 393.1076(2)(5) since the MPower Program is not "a rate under which a customer receives a reduced charge in exchange for agreeing to allow the utility to withdraw the supply of electricity under certain specified conditions." Instead, the MPower Program is a contracted load curtailment program for large C&I customers that provides a capacity and energy payment to participating customers to curtail their usage during summer months when high electric demand occurs. Customers are eligible to participate in the program by providing a minimum load reduction of 25 kW during GMO's high usage/high cost periods. Assuming the Commission approves the MPower Program in this proceeding, then it is GMO's position that the customers must agree not to opt-out in order to be eligible for the MPower Program.

3. Should the Commission approve any of the modifications to, or alternatives to, GMO's DSIM that have been proposed by other parties? If yes, then what specific modifications to, or alternatives to, the DSIM proposed by other parties should the Commission approve?

No modifications to the Company's proposed DSIM are necessary or appropriate.

4. Should the Commission approve a separate line item to appear on bills relating to charges for the DSM programs approved under MEEIA? If so, should the acronym "DSIM" as proposed by GMO, or the phrase "Energy Efficiency Pgm Charge" or "Demand-Side Investment Charge" as suggested by Staff be used?

A. Should the Commission approve GMO's proposed language to disclose the change to customers' bills for the DSIM?

Yes. The Company's proposed language should be accepted and approved.

5. Is it appropriate for the Commission to determine what, if any, impact this case has upon GMO's requested allowed return on equity in Case No. ER-2012-0175, or should any such determination be reserved for the rate case?

No. No testimony has been filed recommending any change to rate of return in this case or that suggests that the Commission even address this issue in this case. The determination of the appropriate return is a complex, detailed exercise dependent on multiple rate of return methodologies and expert judgment, plus additional relevant factors, that can only be determined in a general rate proceeding.

6. Should the Commission approve GMO's Evaluation, Measurement and Verification plans?

Yes.

7. How should the costs for GMO's proposed Low Income Weatherization program be allocated among the different rate classes?

It is GMO's position that the costs for the Low Income Weatherization program should be allocated to all rate classes.

8. Should the Commission grant the variances requested by GMO that are necessary to approve the Company's DSIM as filed, and any other variances necessary if the Commission approves and the Company accepts a DSIM proposal made by the Staff or other parties in this case?

Yes. See GMO's position on Issue 2.

9. To implement the decision in this case, should separate rates be established for residential customers and for commercial/industrial customers?

GMO believes that the rates proposed in its DSIM tariff sheet should be approved.

10. Should GMO track program expenditures and load reductions arising from GMO's DSM programs separately by L&P and MPS, and by cost of service classes, i.e., residential, SGS, LGS and LP?

GMO believes that all customers benefit uniformly from the benefits generated by DSM programs. Because of this GMO does not advocate tracking program expenditures and load reductions by service jurisdiction or cost of service class.

11. Should the Commission order the establishment of a statewide and/or GMO collaborative(s) that would provide input regarding the possible expansion of GMO programs, program design (possibly including co-delivery of programs with gas/water utilities), EM&V, and a state Technical Reference Manual?

GMO will participate in a statewide or GMO collaborative if it is established by the Commission.

12. Does the Commission have the authority to waive or grant a variance from the statutory requirements in Section 393.1075.10 RSMo?

A. If yes, should the Commission grant GMO a variance from Section 393.1075.10?

The Company does not believe this issue needs to be decided.

13. In the alternative to issue 12, does Section 393.1075 RSMO require that customers who have opted-out of participating in GMO's DSM programs be allowed to participate in interruptible or curtailable rate schedules or tariffs offered by GMO, including GMO's Energy Optimizer and MPower programs?

A. If yes, should the Commission grant GMO a variance from Section 393.1075.10?

No. See GMO's response to Issue 2 G. above.

WHEREFORE, GMO respectfully submits its Position Statement regarding the issues in this case, and prays that the Commission will enter an Report & Order consistent with these positions.

Respectfully submitted,

/s/ James M. Fischer

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 13th day of June, 2012.

/s/ Roger W. Steiner

Roger W. Steiner