

NRDC, Renew Missouri, and Sierra Club's Position Statements
EO-2012-0009

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)?

NRDC's Position: The Commission should approve GMO's application for approval of demand-side program plan with modifications as explained in Philip Mosenthal's Rebuttal Testimony.

- 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?

NRDC's Position: In general, NRDC believes that GMO's demand-side program plan is achievable, realistic, and reasonably specific. NRDC recommends some changes in programs to reflect best practices, but, as explained in Philip Mosenthal's Rebuttal Testimony, we generally support the proposed demand-side programs, which, along with the proposed initial DSM targets, are a reasonable first step in a ramp-up to achieving all cost-effective DSM resources, consistent with the intent of MEEIA.

- 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?

NRDC's Position: NRDC proposes that the Commission approve GMO's proposed energy and demand savings target levels as net savings targets. NRDC does not support GMO's proposal to base these targets on gross savings (i.e., assumed NTG ratios of 1.0). Converting GMO's targets to net savings may require some increase in program spending. However, net savings targets will also incentivize GMO to modify programs to reduce free-ridership and prioritize programs with higher NTG ratios, which will incentivize more cost effective savings. In evaluating performance toward these net savings targets, NRDC proposes that GMO be allowed to deem NTG ratios for all programs that have already been evaluated by using the NTG ratios determined in the most recent prior program evaluations, provided that such programs have not undergone

major changes that would likely dramatically modify their NTG ratios. For new programs and programs that have undergone substantial changes, or where the market has dramatically changed, best estimates of NTG ratios based on currently available information should be used. These estimates could result from review of similar evaluated programs in other jurisdictions combined with various experience around the U.S. and expert judgment.

- 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?

NRDC's Position: As noted above under issue 1(B), NRDC supports deeming of NTG ratios in most circumstances from GMO's past EM&V of existing DSM programs for prospective use to determine energy and demand savings under the current DSM plan. As new NTG ratios from future EM&V become available, these new NTG ratios should be used, either in the next full year of the current program period or in GMO's next MEEIA program plan.

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

NRDC's Position: NRDC takes no position on this issue.

- 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?

NRDC's Position: NRDC takes no position on this issue.

- 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)?

NRDC's Position: NRDC takes no position on this issue.

- 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?

NRDC's Position: NRDC supports conditioning approval of GMO's application upon the company's commitment to conduct a careful and

thorough review and analysis of both energy efficiency and demand-response programs as part of its next DSM market potential study and subsequent Chapter 22 compliance filing and/or annual update filings. See *a/so* NRDC's position on issue 2(G).

- 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?

NRDC's Position: NRDC takes no position on this issue.

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

NRDC's Position: NRDC recommends that the Commission approve variances it finds necessary to approve the demand-side program plan as modified according to the recommendations contained in Philip Mosenthal's Rebuttal Testimony.

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

NRDC's Position: NRDC believes that the Commission can and should order GMO to complete a DSM Market Potential Study. The MEEIA rules require a utility to submit a current market potential study as part of its MEEIA plan filing. In this current MEEIA plan, GMO states that it has not yet conducted a market potential study, but plans to do so in the future. For this first cycle of MEEIA programs, NRDC believes it is appropriate to grant GMO a variance to the study requirement to avoid delay and get GMO's proposed DSM programs, which GMO's analysis shows to be cost-effective, off the ground. However, the Commission should still require GMO to complete a DSM Market Potential Study as soon as practically possible to ensure that GMO pursues all cost-effective DSM opportunities in the future.

- H. 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?

NRDC's Position: The Commission should follow the guidance in the MEEIA statute and rules regarding how to determine whether the

programs are sufficiently aggressive to achieve the full cost-effective potential for energy efficiency. The level of DSM programs in future MEEIA filings should not be limited to the realistically achievable potential (RAP) portfolio, as determined by the company, if RAP is less than the numerical goals in 4 CSR 240.20.094(2).

- I. GMO's proposed Low Income Weatherization program has a TRC of less than one. Have the requirements in Rule 4 CSR 240-20.094(3)(B) been satisfied for this program?

NRDC's Position: NRDC takes no position on this issue.

- 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?

NRDC's Position: NRDC takes no position on this issue.

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)?

NRDC's Position: Yes, in part, but subject to the caveats explained in Philip Mosenthal's Rebuttal Testimony and issues 2(A) through 2(G) below.

- A. How should program costs be collected?

NRDC's Position: NRDC supports GMO's proposal to collect program costs contemporaneously with spending through the use of a DSIM Rider as a fair and reasonable arrangement that will help ensure GMO has no strong disincentives to aggressively pursue DSM.

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

NRDC's Position: Yes. GMO should be allowed to collect actual program costs, and ratepayers should also be entitled to recover overpayments if GMO does not spend at anticipated levels. NRDC supports periodic reconciliation and true up of the DSIM at an appropriate interest rate to adjust for variances in actual expenditures versus collections.

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

NRDC's Position: NRDC supports accounting for the time value of money in true ups for over- and under-recovery in order to protect ratepayer as well as utility interests. However, NRDC takes no position on whether AFUDC or another rate is the most appropriate interest rate.

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?

NRDC's Position: Yes, in order to provide GMO with recovery of its expected lost margins, the Commission should allow GMO to include in its revenue requirement in Case No. ER-2012-0175 a reasonable portion of expected net shared benefits.

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?

NRDC's Position: GMO has proposed to calculate its percentage of expected net shared benefits as a percentage of gross benefits. NRDC believes that tying the DSIM design to gross benefits is a reasonable and workable approach. However, providing GMO with a share of net rather than gross benefits would be more consistent with the MEEIA rules, and arguably provide a better metric to protect ratepayers from excess spending over approved budgets.

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?

NRDC's Position: NRDC believes that the calculation of annual net shared benefits and GMO's percentage of annual net shared benefits should be based on net energy and demand savings and not gross energy and demand savings as proposed by GMO. *See also* NRDC's position on issue 1(B).

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?

NRDC's Position: See NRDC's position on issue 2(B)(i).

- 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?

NRDC's Position: NRDC supports, in concept, allowing GMO to collect an incentive as either a portion of net benefits or a fixed dollar amount to reward the company for good performance in achieving or exceeding its energy and demand savings targets. However, the specific performance incentive proposed by GMO is problematic and should be modified in several ways as described in Philip Mosenthal's Rebuttal Testimony, including by (1) requiring GMO to achieve a level of performance that actually reflects good performance before it receives a performance award; (2) incentivizing all marginal savings by scaling between achievement levels, rather than plateauing at achievement thresholds as proposed by GMO; and (3) better reflecting the real economic benefits to ratepayers by weighting energy savings more highly than demand savings

- 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?

NRDC's Position: No. NRDC supports allowing GMO to recover its lost margins by receiving a portion of net shared benefits, but does not support GMO's second proposed lost revenue recovery mechanism. The proposed DSIM is designed to provide GMO with 100% recovery of its lost margins through a portion of net shared benefits. Including an additional lost revenue recovery mechanism would create the potential for GMO to over-collect its lost margins and is both unnecessary and problematic. This second mechanism should be eliminated.

- 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?

NRDC's Position: NRDC does not support GMO's proposal to calculate annual net shared benefits by using the number of program participants. Instead, NRDC recommends that GMO track the number of measures (or measure bundles) installed and that actual estimated net savings by measure be used as the basis for calculating and trueing up net shared benefits. As described in Philip Mosenthal's Rebuttal Testimony,

calculating net shared benefits based on participant numbers rather than measures (or measure bundles) will significantly reduce the accuracy of the DSIM calculations and could lead to uncertainty and a lack of protection for both ratepayers and GMO.

- 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?

NRDC's Position: As described in Philip Mosenthal's Rebuttal Testimony NRDC supports the use of a fixed 15-year measure life for all measures with expected lives longer than the proposed MEEIA plan for the purpose of calculating net shared benefits and the percentage of net shared benefits GMO is allowed to collect to cover its lost margins. For measures with expected lives of less than 3 years, NRDC recommends that actual measure lives be used. Under NRDC's proposal, a measure would have the same number of years of associated benefits, regardless of whether the measure is installed in Year 1 or Year 3. This proposal is different than GMO's proposal, which is to count only those benefits that accrue within 15 years of the first MEEIA program year. Under GMO's proposal, a measure installed in Year 1 would have 15 years of associated benefits, but a measure installed in Year 2 would have only 14 years of associated benefits, and the same measure in Year 3 would have only 13 years of associated benefits. As a result, under GMO's proposal, identical measures would "count less" if installed during later years of the plan. NRDC supports the use of fixed 15-year measure lives (subject to the caveat above for shorter-lived measures) and does not support GMO's proposal to arbitrarily truncate the benefits of measures installed in Years 2 and 3.

- 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?

NRDC's Position: NRDC supports accounting for the time value of money in true ups for over- and under-recovery in order to protect ratepayer as well as utility interests. However, NRDC takes no position on whether AFUDC or another rate is the most appropriate interest rate.

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

NRDC's Position: NRDC recommends that the commission approve variances it finds necessary to approve the DSIM plan as modified according to the recommendations contained in Philip Mosenthal's Rebuttal Testimony.

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?

NRDC's Position: NRDC recommends that the Commission approve the modifications to the DSIM that are described in Philip Mosenthal's Rebuttal Testimony.

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?

NRDC's Position: Any such line item should not only reflect program costs but also the net costs or benefits after subtracting avoided costs resulting from the programs, and it should be described as a "demand-side investment result."

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

NRDC's Position: NRDC takes no position on this issue.

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?

NRDC's Position: This issue should be taken up in a rate case if at all.

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

NRDC's Position: NRDC supports GMO's general approach and plan for EM&V, although acknowledges that many details need to be worked out. NRDC's position is that the Commission should approve the EM&V plan, but with the caveat that a stakeholder collaborative be established and that it be tasked with further developing the EM&V plan.

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

NRDC's Position: NRDC takes no position on this issue.

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?

NRDC's Position: NRDC recommends that the commission approve variances it finds necessary to approve the DSIM plan as modified according to the recommendations contained in Philip Mosenthal's Rebuttal Testimony.

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

NRDC's Position: NRDC takes no position on this issue.

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?

NRDC's Position: NRDC takes no position on this issue.

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?

NRDC's Position: Yes, the Commission should order the establishment of a statewide and/or GMO-specific DSM collaborative that would provide input regarding the possible expansion or modification of GMO's programs, program design (possibly including co-delivery of programs with gas/water utilities), EM&V standards and priorities, and a GMO-specific or statewide uniform Technical Reference Manual. NRDC believes the most effective collaboratives are those where either the collaborative as a whole or key non-utility parties are able to retain expert advisors as part of the overall collaborative costs, funded through ratepayer efficiency funds.

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

NRDC's Position: The Commission cannot grant a variance from the statute.

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

NRDC's Position: NRDC takes no position on this issue.

- 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?

NRDC's Position: NRDC believes that it does.

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

NRDC's Position: As noted under issue 12, NRDC believes that the Commission cannot do this despite the fact that it is bad policy to allow opt-out customers to participate without paying their share of program costs.