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Witness:	Tim M. Rush
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Case No.:	EO-2012-0008
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EO-2012-0008

DIRECT TESTIMONY

OF

TIM M. RUSH

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
December 2011

Certain Schedules Attached To This Testimony Contain Highly Confidential Information. All Such Information Should Be Treated Confidentially Pursuant To 4 CSR 240-2.135.

DIRECT TESTIMONY

OF

TIM M. RUSH

Case No. EO-2012-0008

Q: Please state your name and business address.

A: My name is Tim M. Rush. My business address is 1200 Main Street, Kansas City, Missouri 64105.

Q: By whom and in what capacity are you employed?

A: I am employed by Kansas City Power & Light Company ("KCP&L" or "Company") as Director, Regulatory Affairs.

Q: What are your responsibilities?

A: My general responsibilities include overseeing the preparation of the rate case, class cost of service and rate design of both KCP&L and KCP&L Greater Missouri Operations Company. I am also responsible for overseeing the regulatory reporting and general activities as they relate to the Missouri Public Service Commission ("MPSC" or "Commission").

Q: Please describe your education, experience and employment history.

A: I received a Master of Business Administration degree from Northwest Missouri State University in Maryville, Missouri. I did my undergraduate study at both the University of Kansas in Lawrence and the University of Missouri in Columbia. I received a Bachelor of Science degree in Business Administration with a concentration in Accounting from the University of Missouri in Columbia.

Q: Please provide your work experience.

A: I was hired by KCP&L in 2001 as the Director, Regulatory Affairs. Prior to my employment with KCP&L, I was employed by St. Joseph Light & Power Company ("Light & Power") for over 24 years. At Light & Power, I was Manager of Customer Operations from 1996 to 2001, where I had responsibility for the regulatory area, as well as marketing, energy consultant and customer services area. Customer services included the call center and collections areas. Prior to that, I held various positions in the Rates and Market Research Department from 1977 until 1996. I was the manager of that department for fifteen years.

Q: Have you previously testified in a proceeding before the MPSC or before any other utility regulatory agency?

A: I have testified on several occasions before the MPSC on a variety of issues affecting regulated public utilities. I have additionally testified at the Federal Energy Regulatory Commission and the Kansas Corporation Commission.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to support KCP&L's Application initiating this proceeding, which includes: 1) KCP&L's requested modification to the current recovery mechanism, compliant with the MEEIA law and the rules of the MPSC through the Demand-Side Programs Investment Mechanism ("DSIM"), and 2) filing MEEIA Demand-Side Program tariffs which address the proposed demand-side management ("DSM") programs. In this Direct Testimony, I will:

(1) present an overview of this filing and KCP&L's requests;

(2) provide a brief discussion of the historical regulatory framework and events that have led to this filing;

(3) provide a roadmap for this filing that would include the requirements of the MEEIA rules; and

(4) outline the overall DSIM being requested in this filing; and

(5) address any variances that are being requested.

I am sponsoring the filing requirements associated with this MEEIA application found in the rules.

My testimony covers the following topics:

A. OVERVIEW

B. MEEIA POLICY

C. BACKGROUND OF DEMAND-SIDE PROGRAMS

D. STATUS OF KCP&L EM&V REPORTS FOR DSM PROGRAMS

E. KCP&L's REQUEST

F. COST RECOVERY AND INCENTIVE MECHANISM

G. VARIANCES

H. FILING REQUIREMENTS

Q: Are any other witnesses presenting testimony in this proceeding?

A: Yes. Company witnesses Kevin E. Bryant and Allen D. Dennis are also presenting testimony in this proceeding.

Q: What areas will Mr. Bryant cover in his testimony?

A: Mr. Bryant will address the following areas:

(1) Provide an overview of the intent of Senate Bill 376 ("SB376") and subsequent MEEIA rules; and

(2) Discuss the current cost recovery business model from an investor's view.

Q: What areas is Mr. Dennis addressing in his testimony?

A: Mr. Dennis is providing a summary of the existing programs that we are proposing to transition from the current recovery mechanism to the MEEIA recovery mechanism proposed in this filing. Regarding the existing programs, Mr. Dennis will provide a general summary of each of the programs, the success the Company has experienced, the current status of the Evaluation, Measurement and Verification ("EM&V") performed and the benefit cost results. Mr. Dennis will provide a summary of several new programs being proposed in this filing along with a general description and the supporting evaluation of these programs. He will also address EM&V plans going forward and how we intend to use them. Mr. Dennis will describe the market potential studies performed that have led up to this filing as well as the current plans for a new market potential study. Finally, he will discuss the true-up process to account for differences in projected verses actual kW and kWh.

<u>OVERVIEW</u>

Q: Please describe the request KCP&L is making with this filing.

A: The MEEIA law and the Commission rules were established to address revenue recovery of demand-side programs, and to provide guiding principles for filing new programs and reporting. This is the first MEEIA filing. KCP&L is requesting a change in the recovery mechanism of the existing demand-side programs established by this Commission in Case No. ER-2010-0355, to a new recovery mechanism under the Commission's recently enacted rules 4 CSR 240-3.163, 4 CSR 240-3.164, 4 CSR 240-20.093 and 4 CSR 240-20.094. The MEEIA rules became effective on May 31, 2011, and were the result of legislation passed in 2009 (“Senate Bill 376”) identified as the Missouri Energy Efficiency Investment Act of 2009 (Section 393.1075, RSMo Cum. Supp. 2010). Additionally, KCP&L is requesting to implement several new programs under the MEEIA rules. As noted above, Company witness Allen Dennis will address these programs in some detail.

Q: What is the immediate impact of this change to customers?

A: There will be no change to a customers bill until the conclusion of our next rate case, at which time KCP&L will begin recovery of program costs, a portion of the annual net benefits of the program to be shared with customers, a reward to the Company for successful implementation of programs and the recovery of lost revenues. The Company is requesting a deferral on the recovery of these costs until the next rate case.

Q: Why are you requesting a change in the recovery mechanism?

A: We are requesting a change in the recovery mechanism because the current recovery mechanism is inadequate and does not put demand-side programs on a level playing field with generation resources. The new rules address many of the issues and concerns that are not addressed in the current recovery method. The Company appreciates the Commission’s recent Order in Case No. ER-2010-0355, in which the Commission modified the previous recovery mechanism which had an amortization period of 10 years to a 6 year amortization period and where the Commission now allows recovery of carrying costs where no costs were being recovered previously. This change was helpful, but does not fully allow for recovery of the cost of demand-side investments.

Q: What are some of the problems with the current recovery mechanism?

A: The current method takes a rearview mirror approach to recovery by waiting until the next rate case before addressing costs incurred between one rate case to the next, and then only allowing recovery of past program expenses. The current recovery method does not allow for recovery of all the costs because it does not address recovery of the lost revenue margins incurred by the implementation of energy efficiency programs. Not allowing recovery of these lost margins results in reduced earnings on this investment. The current recovery mechanism does not provide the utility with an opportunity to earn a market return on its capital deployed on energy efficiency and demand side programs. By waiting until the next rate case to begin recovery of costs that have previously been incurred causes a cost recovery lag and as a result a drain on the cash requirements and earnings of the utility.

The intent of this filing is to address a fair and full recovery mechanism which 1) places demand-side activities on a level playing field with supply-side and 2) is not detrimental to the utility's earnings. Such considerations were the foundation for the enactment and signing of the MEEIA into law. With this type of recovery mechanism in place, we are proposing to expand the number of demand side management programs.

Q: Why is the current cost recovery mechanism not a sustainable solution?

A: Company witness Kevin Bryant will discuss in detail the financial impacts of the current cost recovery. The current cost recovery mechanism only provides for a part of the cost of implementing energy efficiency programs. The current mechanism allows for program cost recovery spread out over a number of years only after a rate case. Expenses between rate cases are placed in a deferred account until the next rate case. No consideration is given under the current recovery mechanism to the delay in cost recovery or the impact successful implementation of these programs has on the Company and its shareholders. The current cost recovery mechanism does not balance the risks of customers and shareholders in its structure. It does not provide KCP&L with the ability to raise capital and continue to aggressively pursue these programs. For KCP&L to continue its programs and to implement a broader portfolio, it must have a more appropriate cost recovery and incentive mechanism. As mentioned above, waiting until the next rate case for recovery causes a lag on cost recovery as well as a drag of the cash requirements of the utility.

MEEIA became law on the principle that greater implementation of cost-effective demand-side programs will be beneficial to all Missourians. The goal of demand-side programs is to reduce customer usage and lower demand. However, under the current recovery mechanism, each kilowatt-hour and kilowatt reduction produces less revenue for the Company, thus creating an inherent disincentive for KCP&L to invest in energy efficiency programs.

Commissioner Jarrett noted during the Commission's December 20, 2010 public hearing in its rulemaking proceeding in this matter: ". . . other than maybe the tobacco industry, I don't know of any other industry that we're saying, What we really want you to do is we want you to encourage people to buy less of our product." (*See* Tr. Vol. 1, Case No. EX-2010-0368, pp. 42-43). MEEIA recognizes this dilemma and includes provisions designed to align the interests of electric service providers and their customers in pursuing demand-side programs. Governor Jay Nixon's press release, issued upon the signing of SB 376, pointed out that the bill would give the Commission the "ability to encourage cost-effective energy efficiency by making utility investments in energy efficiency programs for their customers at least as profitable as building new power plants or making capital investments."

Q: What role did KCP&L take in the development and passage of MEEIA?

A: KCP&L was a strong advocate for the passage of MEEIA. KCP&L has been a strong supporter for energy efficiency and demand side management programs for years and has advocated demand side management programs should be put on a level playing field with generation resources. Demand side management offers a number of advantages in comparison to expansion of generation resources, including that it is often the lowest cost alternative to the customer, it may be scalable to meet the present needs, it offers many environmental benefits, as well as economic benefits through the creation of jobs for the local economy. With the right tools, investing in demand side management programs has the affect of offsetting the need for future energy and generation requirements and essentially establishing a "virtual power plant" that is sustainable for meeting overall needs of the customer.

MEEIA POLICY

Q: What are the policy goals of MEEIA?

A: As set out in the law, there are three public policy goals. They are:

1. Encourage more efficient energy use and cost-effective demand-side programs;
2. Have substantial justice between utilities and their customers;
3. Value demand-side investments equal to traditional investments in supply and delivery infrastructure and allow recovery of all reasonable and prudent costs of delivering cost-effective demand-side programs and, in doing so:

a. Provide timely cost recovery for utilities;

b. Ensure that utility financial incentives are aligned with helping customers use energy more efficiently and in a manner that sustains or enhances utility customers' incentives to use energy more efficiently; and

c. Provide timely earnings opportunities associated with cost-effective, measurable and verifiable efficiency savings.

BACKGROUND OF DEMAND-SIDE PROGRAMS

Q: Please provide background information regarding KCP&L's existing demand-side programs.

A: As I have presented in previous testimony, in August 2005, the Commission approved the Company's Experimental Regulatory Plan in Case No. EO-2005-0329 ("Comprehensive Energy Plan" or "CEP") which included a proposal designed to deliver three key and sustainable benefits to KCP&L's customers:

- Generate affordable electricity to meet the demand in our area;
- Stimulate the economy by creating jobs and keeping utility bills as low as possible; and
- Improve our region's environment through retrofitting our coal fleet and implementing programs to give customers options to reduce their energy usage.

As part of the CEP, the Company committed to implement a suite of customer demand response, energy efficiency and affordability programs. Implementation of each program was subject to Commission approval. The Missouri share of the initial budget for the five-year plan period was $29 million. (Stipulation and Agreement, p. 46 & Appendix

C). The Applications, Recommendations and Orders associated with the suite of DSM programs filed in the CEP case are attached hereto as Schedule TMR-4.

Q: Did other Missouri utilities have DSM programs in place at the time KCP&L proposed implementation of its portfolio in Case No. EO-2005-0329 where the CEP was approved?

A: Few Missouri utilities had pursued DSM programs at that time and none had pursued anything close to the comprehensive portfolio that KCP&L was proposing. KCP&L felt that an aggressive portfolio of DSM programs was an essential ingredient to its CEP and was determined to step out with a portfolio for its service territory. This placed KCP&L as a leader in the state for implementing energy efficiency programs.

Q: Has KCP&L implemented this suite of programs as committed?

A: Yes. Beginning in late 2005, KCP&L submitted each program to the Commission for review and approval ultimately implementing a portfolio of programs including two affordability programs, ten energy efficiency programs, and two demand response programs. Four were approved in 2005, four in 2006, four in 2007, and two in 2008. As a result of our experience we believe we are in the best position to move forward with expanded programs and an opportunity to make a significant impact on meeting the needs of our customers.

Q: Please discuss the demand-side programs and how these programs fit into the Company's overall resource plan.

A: KCP&L's DSM programs are an integral part of its plan to meet the electricity needs of our customers now and in the future. The proposed energy and demand reductions that are the subject of this proceeding are reflected in KCP&L's load and resource requirements. KCP&L's existing and expanded energy efficiency and peak demand reduction efforts are consistent with its focus to meet customers' needs in a balanced, cost-effective and environmentally responsible manner.

Q: Please describe KCP&L's current demand-side program portfolio.

A: KCP&L's current demand-side portfolio includes 13 programs. This portfolio of programs represents a significant commitment on the part of KCP&L to promote energy efficiency and demand response and to ensure that all classes of customers have programs in which they can participate.

The following table presents KCP&L's existing demand-side portfolio of programs split into three categories: Demand Response, Energy Efficiency, and Affordability. The table also shows whether each program serves residential or commercial & industrial customers. The Affordability programs are specifically targeted to low income customers.

KCP&L
DEMAND-SIDE MANAGEMENT PROGRAM PORTFOLIO
(Current)

PROGRAM TYPE	CLASS OF CUSTOMER SERVED	
	Residential	**Commercial & Industrial**
Demand Response	Energy Optimizer	Energy Optimizer MPower
Energy Efficiency	ENERGY STAR® New Homes Cool Homes Home Performance with ENERGY STAR® Home Energy Analyzer	Energy Audit Energy Savings – Retrofit Energy Savings – New Construction Building Operator Certification Business Energy Analyzer
Affordability	Low Income Weatherization Low Income Affordable New Homes	

Q: Have KCP&L's demand-side programs been successful?

A: Yes, in general, most programs have been successful since their launch back in 2005. The Low Income Affordable New Homes program has been a challenge with respect to participation. Allen Dennis will discuss the success of the programs in more detail.

Q: Is KCP&L proposing that all of these programs be a part of this MEEIA application?

A: Yes, with the exception of the Low Income Affordable New Homes program. KCP&L has filed new tariffs for each of these programs except Low Income Affordable New Homes to transition them from the current tariffs to new tariffs in compliance with the MEEIA requirements.

Q: Is KCP&L proposing any additional programs under this MEEIA application?

A: Yes. As will be described in more detail by Allen Dennis, KCP&L has five (5) additional programs that it is requesting approval of in this filing. Each of these programs has a tariff included in this filing as well as the supporting documentation required under the MEEIA rules. Those tariffs are attached as Schedule ADD-16 to the testimony of Allen Dennis.

<u>STATUS OF KCP&L EM&V REPORTS FOR DSM PROGRAMS</u>

Q: Has KCP&L prepared any EM&V reports regarding the existing programs that KCP&L is requesting be transitioned over to this MEEIA application?

A: Yes. KCP&L has prepared EM&V reports for all of the programs currently in place except for the Home Energy Analyzer and Business Energy Analyzer programs. The Analyzer programs are considered educational in nature and do not require formal evaluation. The evaluation reports (with the exception of Low Income Affordable New Homes) are attached as schedules to Company witness Allen Dennis' testimony. Each of the program reports demonstrates the overall success of the programs and an evaluation of the energy and demand savings. The majority of the programs (and the portfolio as a whole) are supported by an overall Total Resource Cost ("TRC") test that demonstrates that the actual program implementation benefits exceed the cost of the programs. If a program does not pass the TRC test, Company witness Mr. Dennis explains why in his testimony.

Q: What are the plans going forward for meeting the requirements of the MEEIA rules with regard to the EM&V evaluations of programs?

A: The EM&V evaluation process will be described in more detail by Company witness Mr. Dennis, but in general, KCP&L intends to have an independent EM&V evaluation performed for each program at least every other year. The results of the EM&V will be used to solidify the success of each program, help in directing any changes that need to be made and provide results to be used in the recovery mechanism.

Q: What are some of the goals behind the EM&V analysis?

A: One of KCP&L's goals of the analysis is to help improve program design and implementation processes in order to improve the effectiveness and operational efficiencies of the programs as well as to be used in the support recovery of the program. Through the process evaluations, the evaluation contractor documents program accomplishments, administrative processes, participant experiences, customer satisfaction and successes and failures. Process evaluation is meant to inform the program implementers, provide corrective guidance regarding program implementation and help to assess whether there is a continuing need for the programs.

The results of the EM&V will also be used to measure the overall impact of the programs to ensure the planned levels are being reached and to determine the actual performance incentive payout.

KCP&L's REQUEST

Q: Please describe KCP&L's request.

A: As described in the Application and in greater detail in the testimony provided, KCP&L is asking for Commission approval of the following:

(1) The Company is requesting approval of the proposed modifications to the current recovery mechanism and the ability to account for costs as set out in the DSIM Tracker described below. KCP&L cannot request a DSIM Rider, as contemplated in the rules of the Commission, KCP&L is requesting approval of a DSIM Tracker to begin collecting in a regulatory asset costs directly attributable to the

demand-side programs approved in this filing and any future demand-side programs and tariffs which may be filed under the MEEIA requirements. The Company seeks to address the demand-side programs by implementing a comprehensive cost recovery approach which includes program costs, a portion of the overall benefits of the program to be shared with customers, as well as a reward to the Company for successful implementation of programs. Additionally, the Company requests the recovery mechanism allow for the recovery of lost revenues.

(2) The Company is requesting approval of the suite of demand-side programs and tariffs attached to the application that are either currently in effect under the current recovery mechanism or the new demand-side programs that are contemplated to be approved in this filing. All programs, once approved, would operate under the new recovery mechanism.

(3) The Company is requesting the termination of one existing demand-side tariff that is being withdrawn in this filing.

Q: Why haven't you asked for a DSIM Rider as was contemplated in the rules?

A: As set out in the stipulation and agreement in the Comprehensive Energy Plan ("CEP" Case No. EO-2005-0329), "KCPL agrees that, prior to June 1, 2015, it will not seek to utilize any mechanism authorized in current legislation known as "SB 179" or other change in state law that would allow riders or surcharges or changes in rates outside of a general rate case based upon a consideration of less than all relevant factors." The agreement goes on to provide details that allow the Company to request an Interim Energy Charge ("IEC") and the specifics surrounding the mechanics of an IEC.

Q: By not having a DSIM Rider, does this place a financial hardship on the Company?

A: Yes. First of all, a number of things have transpired since the CEP was entered. A number of legislative bills have become law specific to the utility industry which are designed around the rider concept.

Senate Bill 179, the Fuel Adjustment Recovery Mechanism was implemented shortly after the CEP was approved and allows utilities in the state a Fuel Adjustment Clause ("FAC"). The Renewable Energy Standard legislation and the MEEIA statutes were both developed with the idea of a rider to address changes in costs to the utility.

Q: What actions will be required by the Company to address the lack of not having a FAC or any of the other mechanisms which are available to other utilities in the state.

A: Not having a FAC has been a real hardship on KCP&L and will continue until the 2015 time period. It will require the Company to file on a more regular basis rate cases to address the dynamics of the fuel and purchased power markets. KCP&L has not been able to recover the increases in fuel and purchased power costs simply because of the affects of regulatory lag. The lack of a FAC has been detrimental to the earnings of the Company in comparison to those utilities with a FAC mechanism.

Q: Is there a way to address this issue going forward?

A: Obviously, one way would be for the parties of the CEP, excluding KCP&L, to recommend to this Commission a FAC mechanism similar to those in the state. This would take a tremendous amount of pressure off the earnings.

Q: Could the same type of recommendation be made in this MEEIA filing and the ability for KCP&L to utilize the "rider mechanism", rather than a tracker?

A: Yes. It could.

COST RECOVERY AND INCENTIVE MECHANISM

Q: Please address what will be included in the DSIM Tracker to be placed in the regulatory asset and how it will operate.

A: The DSIM Tracker the Company is requesting is applicable to all Missouri Retail Rate Schedules for the Company with the exception of Lighting Schedules and customers who opt out of the requirements under the current rules. The DSIM Tracker consists of three components; a.) program costs, b.) incentive and c.) lost revenues. The DSIM Tracker allows for recovery of all program costs, an incentive which includes a portion of the annual customer benefits ("shared benefits") based on the level of program performance plus an incentive reflecting the performance of the plan and lost revenues.

The Company is requesting approval to utilize deferral accounting including carrying costs based on the Company's latest approved weighted average cost of capital until the utility's next general rate proceeding. The Company requests that recovery of the amount deferred in the regulatory asset in the DSIM Tracker begin in the next rate case and be recovered over the same time period as the accumulation in the Tracker. So for example, if the DSIM Tracker were in place for 36 months before the next rate case, then the recovery of the deferred amounts would be 36 months. Recovery of the DSIM Tracker amount will not be applied to customers qualified and approved to opt out of the programs under 4 CSR 240-20.094(6) or the lighting class, once the Company has a rate case to establish the recovery rate.

The Company requests in the next rate case, that the DSIM Tracker would then become recovery of costs based on the DSIM Tracker plan and provide contemporaneous recovery of the costs of the program. At that point, KCP&L will be recovering the deferred amount and the program plan for the next four year period.

Q: Describe how the DSIM Tracker will be set and how it will recover the demand-side costs.

A: **Program Costs:** The plan includes program costs based on a three-year average of the planned budgets for the programs to be implemented. At the first rate case following the implementation of the DSIM Tracker, the average program cost recovery will be based on a four-year period. The reason for selecting a four-year average is the timeframe in which a rate case must be filed to address the DSIM Tracker under the MEEIA requirements and the Fuel Adjustment Clause under the Electric Utility Fuel and Purchased Power Cost Recovery Mechanism (4 CSR 240-20.090 section (6)(A)). The first filing will allow for timing to sync-up with the Fuel Adjustment Clause for purposes of the rate case filing requirements. While this does not initially affect KCP&L, if and when KCP&L implements a Fuel Adjustment Clause, it will need to be in sync with the DSIM Tracker.

KCP&L expects to spend approximately $51 million in program costs over the next three years. The annualized rate for program costs will be approximately $17 million per year in program cost recovery. The Company will make annual filings which will include any adjustments to address changes in the anticipated expenditures for the remainder of the recovery period and to adjust for actual expenses incurred to date. This amount will be included in the deferred account balance.

KCP&L requests that program costs be placed in the deferred account based on a three-year average of the anticipated program costs. By allowing the accumulation of the program costs at the time the programs are in place is critical to the success of this filing and meets the goals as set out in the MEEIA policy guidelines. Both energy savings and capacity savings benefits from the programs will continue for many years through the program life.

Q: Please provide a definition of what will be included in the program costs.

A: Consistent with the MEEIA rules, program costs will include the incremental cost of planning, developing, implementing, monitoring, and evaluating demand-side programs. In addition, all costs incurred by or on behalf of the collaborative process, including but not limited to costs for incremental consultants, employees and administrative expenses, will be included in the program costs. General administrative costs will be included on the basis of the estimated budget from each program. Indirect costs associated with DSM programs, including but not limited to costs of a market potential study and/or the Company's portion of a statewide technical resource manual, will be included in the program costs.

Q: What will be included in the Incentive Component?

A: **Incentive Component:** The Incentive Component consists of a portion of the shared benefits and a performance award.

Q: Please provide a description of what will be included in the shared benefits.

A: The shared benefits will be the sum of the avoided energy and demand savings as obtained by substituting demand-side programs for new supply-side resources. The annual shared benefits were developed by using the DSMoore modeling software to determine the incremental energy benefits attributable to the reduced kWh's for each program in the portfolio. The capacity benefits were developed based on levelized costs of a new combustion turbine for capacity and transmission and distribution costs attributable to reduced kW peak demand for each of the programs in the portfolio.

Q: Please describe the recovery mechanism for the shared benefits portion of the DSIM Tracker?

A: **Shared Benefits:** The second component of the DSIM Tracker is the recovery of shared benefits ("shared benefits"). The recovery of the shared benefits will be based on a percent of the overall energy and capacity benefits from the programs that are planned to be implemented based on the first three years in the initial filing and covering the savings to customers over a fifteen year period. The energy and capacity benefits will be discounted at a discount rate to represent the net present value of the benefits over the 15 year period. Fifteen years was selected as a conservative basis of the overall program benefits life cycle. The Company requests a recovery of 12 percent of these benefits to be recovered over the three year period. The computation would be 12 percent times the net present value of the energy and capacity benefits. The DSIM Tracker will initially include these costs based on the filed plan, but will be trued-up to account for the actual experienced changes reflective of actual participants/measures achieved in the programs. Program analysis outlining estimated participant data and projected benefits by program is attached to the testimony of Allen Dennis as Schedule ADD-14.

KCP&L is requesting that the percent of shared benefits to be recovered by the Company from customers in the future period initially be placed in the deferred account beginning in the first year based on a three-year average of the anticipated savings. By allowing the accumulation of the estimated benefits at the time the programs are in place is critical to the success of this filing and meets the goals as set out in the MEEIA policy guidelines. Both energy savings and capacity savings benefits from the programs will continue for many years through the program life.

Based on the analysis as described above, for the first three years of programs, benefits from both energy and capacity over the anticipated life of the programs are approximately $294 million. The net present value of this benefit is nearly $168.6 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. KCP&L includes in the DSIM Tracker 12% of the net present value of these benefits or approximately $20.2 million or $6.744 million per year.

Further, the Company evaluated the plans using MIDAS modeling and carrying the energy efficiency and demand response programs over the twenty year period, as compared to the three years discussed above, as set out in the rule and determined on a net present value of revenue requirements basis, that a net benefit of over $303.3 million is achieved by implementing these programs with the proposed recovery mechanism in comparison to doing no programs.

The initial annual collection in the deferred account under the DSIM Tracker for KCP&L would be approximately $23.744 million. Each year, both the program costs and the portion (12%) of the shared benefits would be adjusted to reflect the actual program participants/measures, reflecting the performance of the programs.

It is expected that over the three year program period, the Company will defer approximately $71.2 million (i.e. excluding carrying costs, but including program costs and shared benefits and before any performance incentive) to be recovered by customers in rates. As calculated, the benefits are nearly $168.6 million on a net present value basis. Based on this analysis, benefits exceed what is being requested as recovery in this filing by a ratio on nearly 2.5 to 1.

The Company requests in the next rate case, that the DSIM Tracker would then begin recovery of costs based on the DSIM Tracker plan filed in that case and provide contemporaneous recovery of the portion of the shared benefits, along with the program costs. At that point, KCP&L will be recovering the deferred amount, as well as the program plans program costs and incentive for the next four year period.

Q: Please describe the recovery mechanism for the Performance Incentive portion of the DSIM Tracker?

A: **Performance Incentive:** At the end of the second year of the programs and after the EM&V analysis has been performed, an incentive would be considered to be included in the DSIM Tracker based on the execution and performance of the programs. Following the completion of the EM&V analysis, the Company will be provided an opportunity to earn an annual performance incentive of up to $4 million (pre-tax), provided that it achieved demonstrated efficiency. The threshold performance incentive will be based on the percent of kWh and kW savings achieved, compared to the plan established for the demand-side portfolio. The plan targeted an overall one-half of one percent (.5%) reduction in annual kWh sales and a reduction in kW demand of one percent (1%). Both program costs and the net shared benefit recovery are based on the success of achieving these energy and demand savings reductions. If KCP&L can achieve the reduction in sales of kWhs and kW demand, as measured through EM&V, the Company requests an adjustment for an incentive to be included in the DSIM Tracker.

In order to determine the overall threshold, a weighting of 50% energy and 50% demand will be used. This would equate to a threshold of .75% (i.e. .5% energy times 50% plus 1% demand times 50%). If KCP&L achieves the overall .75% reduction in the threshold amount, it would receive an incentive of $3 million. The incentive would be included in the deferred account and included in the next rate case to be recovered over the next cycle. If KCP&L fell below 51% of the threshold, KCP&L would not receive a performance incentive. If it exceeded 150% of the threshold, it would receive a performance incentive of $4 million.

The following is the performance incentives table.

	Low Threshold	High Threshold	Performance Incentive
Tier 1	>150%		$4 Million
Tier 2	101%	150%	$3 Million
Tier 3	51%	100%	$2 Million
Tier 4		<50%	$0

Q: Please provide a description of what will be included in the Performance Incentive portion of the DSIM Tracker?

A: Performance incentives included in the recovery mechanism will be based on the performance of demand-side programs approved by the Commission. The performance incentive is based on the Company's ability to deliver on its plan as documented through EM&V reports, annual energy savings achieved and documented through EM&V reports as a percentage of annual energy savings targets, and annual demand savings achieved and documented through EM&V reports as a percentage of annual demand savings targets will be the basis of determining the performance incentive payouts. The performance incentive award in the DSIM Tracker will be included following the completion of the EM&V at the next regularly scheduled DSIM filing. The thresholds are based on the percent of kWh and kW savings achieved, compared to the respective savings targets established for the DSM Portfolio.

Q: Please describe the recovery mechanism for the Lost Revenues portion of the DSIM Tracker?

A: **Lost Revenues:** The last component of the DSIM Tracker is recovery of lost revenues. Consistent with the MEEIA rule, lost revenues are defined as the result of changes in revenues that occur when commission approved demand-side programs cause a drop in net system retail kWh below the level of system retail kWh used to set the electricity rates in the electric utility's last general rate proceeding. The lost revenues will be based on energy or demand savings from the Company's demand-side portfolio as approved by the Commission and measured and verified through EM&V. Lost revenues will only be included when those fixed costs are not recovered as established in the Company's last general rate case. Lost revenues will be included on a retrospective basis and all energy and demand savings will be measured and verified through EM&V prior to recovery. This component of the DSIM Tracker will only occur if overall sales fall below the level as determined in the last general rate case.

Q: What happens if a rate case occurs prior to the end of year three?

A: The Company has recently filed notice with the Commission that it may be filing a rate case fairly soon. If and when the Company files for a rate change prior to the third year, the plan would be to begin the next sequence with a four-year cycle at that time and the amount included in the deferred account would begin recovery at that time. The rate case filing should not disrupt the MEEIA filing and the request by the Company.

Q: Why does it appear that the DSIM is tied to cycles of rate cases?

A: The reason for this is to "rebase" the sales and demand levels to be in sync with the new rates. For each rate case, the Company and parties evaluate the appropriate normalized and annualized sales levels of customers tied to the test period. By linking the DSIM period to the rate case, we essentially sync-up the sales for customers to be addressed in the energy efficiency and demand response programs to re-establish customer sales levels.

Q: Why are you proposing a shared net benefits approach?

A: The shared benefit proposed by the Company will result in mitigating the negative financial impacts that are currently present for utility investment in demand response and energy efficiency programs. However, absent a satisfactory shared benefits mechanism KCP&L will not continue the proposed level of demand response and energy efficiency programs or increase the level of funding for these programs.

In this filing, KCP&L has demonstrated these programs meet the cost-effectiveness test and these programs have been shown to be less costly to customers than the alternative of no programs and unmitigated peak demand and energy usage. The untapped potential for KCP&L's demand-side programs exists because it is never easy to get customers to pay more today to save an even greater amount later. This is true even under better economic conditions than exist today and has always been the major impediment to sustainable, aggressive, cost-effective, demand response and energy efficiency program implementation.

VARIANCES

Q: Is the Company requesting any variances in this filing?

A: Yes.

Q: Please describe the variances being requested and the basis for the variance requests.

A: KCP&L has two variance requests. They are:

1. Pursuant to 4 CSR 240-20.093(13), KCP&L requests a variance of section H of 20.093 which requires that any utility incentive component of a DSIM shall 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. The incentive component consists of a portion of the annual benefits on a prospective basis. The prospective portion of the annual shared benefit included in the mechanism is critical to the success of the program design of the recovery mechanism to assure financial support for the overall programs. The recovery mechanism will initially include these costs based on the filed plan, but will be trued-up to account for the actual experienced changes reflective of actual participants/measures achieved in the programs. The performance incentive is the portion of the recovery mechanism which is based on the EM&V after the EM&V is completed.

While the Company does not believe that its recovery mechanism in any way violates the MEEIA rules, out of an abundance of caution, it requests this variance. Any performance incentive is only recovered after an EM&V analysis of the programs and the portion of the annual benefits that the Company recovers is trued-up to reflect actual participant/measures achieved.

2. KCP&L's proposal in this case provides that a customer exercising the opt-out provision cannot participate in the DSM programs approved as part of the DSM portfolio. Such a customer can participate in other curtailment or interruptible programs but not those in the DSM portfolio. KCP&L believes that this is consistent with section J of 4 CSR 240-20.094 which states that a customer that opts-out shall still be allowed to participate in interruptible or curtailable rate schedules or tariffs. However, should the Commission determine that this rule permits participation in the curtailment or interruptible programs in KCP&L's DSM portfolio, KCP&L requests a variance pursuant to 4 CSR 240-20.094 (9). Good cause exists for such a variance since KCP&L's proposal ensures that those customers that are paying for the DSM programs get to participate in the programs.

FILING REQUIREMENTS

Q: Would you describe the filing requirements for this application and KCP&L's compliance with those requirements?

A: The MEEIA requirements, along with the appropriate reference or discussion of how this filing meets the compliance requirements, follow:

(A) The customer notice provided describing how the proposed DSIM will work, how rates will be determined and will appear on their bills.

Response: This section of the rule is not considered applicable as KCP&L is not seeking a DSIM recovery mechanism that will appear as a line item on the customer bill. Since there will be no interim recovery through a DSIM, no customer notice is deemed necessary.

(B) Customer bill example showing how proposed DSIM shall be separately identified on the customer bill.

Response: Again, this section of the rule is not considered applicable as KCP&L is not seeking interim recovery through a DSIM recovery mechanism that will appear as a line item on the customer bill.

(C) A complete description and explanation of the design, rationale, and intended operation of the proposed DSIM.

Response: This requirement is addressed in detail in my testimony.

D) Estimates of the effect of the DSIM on customer rates and average bills for each of the next five (5) years for each rate class.

Response: This is contained in Schedule TMR-1.

E) Estimates of the effect of the utility incentive component of DSIM on utility earnings and key credit metrics for each of the next three (3) years which shows the level of earnings and credit metrics expected to occur for each of the next three (3) years with and without the utility incentive component of DSIM.

Response: This is contained in Schedule TMR-2.

(F) A complete explanation of all the costs that shall be considered for recovery under the proposed DSIM and the specific account used for each cost item on the electric utility's books/records.

Response: KCP&L will utilize FERC Account 182 regulatory assets to track MEEIA-related activity. Debits (e.g. increases to this account balance) will include program costs, the portion of shared benefits, with the offset to Account 407, a "below-the-line" revenue account, performance incentive as calculated after

EM&V analysis is performed, with the offset to Account 407 and lost revenues. Credits (e.g. decreases to this account balance) will be recorded as an amortization as agreed to or ordered in a rate case.

Cost Recovery Elements and Accounts

KCP&L and KCP&L Greater Missouri Operations Company (collectively referred to as KCP&L in this Cost Recovery Elements and Accounts section) follow the Generally Accepted Accounting Principles ("GAAP") for financial accounting. GAAP encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. Further, KCP&L maintains their books and records in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts.

Within these structures KCP&L has established an Accounting Distribution Coding system to all for the proper classification of costs. The Accounting Distribution utilizes the following components:

- <u>Department</u> – A code assigned to specific legal entities or regulatory jurisdictions to identify the entity responsible for the cost.
- <u>Account</u> – The prescribed accounts mandated by FERC in the Code of Federal Regulations for the classification of assets, liabilities, revenues and expenses.
- <u>Product</u> – The product represents a type of service being provided.
- <u>Project</u> – The project id identifies the project or initiative associated with the cost.

- Activity – Additional codes to further specify the type of work or specific purpose for the cost.
- Resource Category – Identifies types of costs used to complete projects. A primary example would be labor vs. non labor items.

For the MEEIA-related DSM programs the Company will utilize these components with specific emphasis on Department, Account, Project, and Activity codes to classify the costs. Current, for the Department code, KCP&L uses the following:

570	Marketing Strategy & Planning
571	eServices
572	Marketing Intelligence
573	Demand Response
574	Energy Efficiency
576	Customer Solutions
577	Commercial & residential Sales
578	Energy Efficiency Advocacy
674	Demand Side Mgmt
974	Energy Efficiency MPS
975	Energy Efficiency SJLP

For the Account code, KCP&L currently uses the following:

182440	Deferred Cust Program-MO
182441	Deferred Cust Program-KS

For the Project code, individual codes are established for each program. KCP&L currently uses the following:

SI0000	Strategic Initiative Programs
SIA001	Affordable New Homes
SIA002	Low Income Weatherization
SID001	A/C Cycling
SID002	C&I Curtailment
SID101	In-Home Display
SID102	Home Area Network
SIE001	Residential On-line Analysis
SIE002	Home Performance Energy Star
SIE003	Change a Light
SIE004	Cool Homes
SIE005	Energy Star Homes
SIE006	PAYS program
SIE020	Commercial on-line analysis
SIE021	C&I Energy Audit
SIE022	C&I Custom rebate- retrofit
SIE023	C&I Custom rebate- new construction
SIE024	Building Operator Certification
SIE040	Demand Side Mgmt Research
SIE101	Energy Saver Loan Program
SIE102	C&I Prescriptive Rebate
SIE103	C&I RFP Rebate
SIE151	Res Appliance, Turn In Program

For the Activity code, KCP&L currently uses the following jurisdiction specific codes:

Evaluation	ES01x
Program Delivery	ES02x
Marketing	ES03x
Administration	ES04x
Customer Incentive	ES05x

Jurisdiction	x =
KCPL MO	0
KCPL KS	1
GMO-MPS	2
GMO-SJLP	3

Taken in their entirety the combination of codes will allow for the proper classification of costs and the clear delineation of purpose.

These codes will be expanded as needed to accommodate the programs included in this MEEIA filing.

(G) A complete explanation of any change in business risk to the electric utility resulting from implementation of a utility incentive related to the DSIM in setting the electric utility's allowed return on equity, in addition to any other changes in business risk experienced by the electric utility.

Response: The utility incentive related to the DSIM is intended to put the utility's earnings ability on a level playing field with generation supply resources. The incentive is not intended to be a windfall profit to the utility, but instead a stabilizing factor that will allow for growth in DSM applications that will benefit all stakeholders. The earnings analysis provided in Schedule TMR-2 demonstrates that the incentive mechanism as proposed by the Company essentially keeps the Company whole as compared to the current recovery mechanism which works as a disincentive to promote and implement DSM programs.

(H) A proposal for how the commission can determine if any utility incentives component of a DSIM are aligned with helping customers use energy more efficiently.

Response: In the evaluation of the programs to be implemented under the MEEIA program plan, all programs pass the TRC tests. As provided in this testimony, the overall programs provide benefits to consumers that far exceed the costs. In fact, based on a 15 year analysis, if the programs were stopped after the first three years, the benefits would exceed the costs by a ratio of nearly 2.5 to 1 on a net present value basis.

(I) Annual reports, if any, required by 4 CSR 240-20.093(8).

Response: None are required at this time.

(J) If the utility proposes to adjust its DSIM rates between general rate proceedings, proposed DSIM rate adjustment clause tariff sheets.

Response: The Company is not proposing any such tariffs at this time under this DSIM tracker proposal.

(K) If the utility proposes to adjust the DSIM cost recovery revenue requirement between general rate proceedings, a complete explanation of how the DSIM rates shall be established and adjusted to reflect over-collections/under-collections and the impact on the DSIM cost recovery revenue requirement as a result of approved new/modified/ discontinued demand-side programs.

Response: The Company is not proposing any such tariffs at this time under this DSIM tracker proposal.

Q: Please continue.

A: For the demand-side programs which we are requesting be placed under the DSIM, we are required to provide the following:

(L) An explanation of the current market potential study.

Response: KCP&L has performed six market assessments for both the residential and commercial sectors. These assessments are attached to Allen Dennis' testimony as Schedule ADD-13. As discussed in Mr. Dennis' testimony, KCP&L has recently issued a request for proposals from DSM industry analytic firms to conduct a detailed primary market research potential study and expects to have the results of this study in late-2012.

(M) Demonstration of cost effectiveness for each demand-side program and for the total of all demand-side programs of the utility.

Response: Benefit-cost test results for the existing KCP&L portfolio of DSM programs are attached to the testimony of Allen Dennis as the first sheet of Schedules ADD-5 through ADD-12. The benefit-cost test results for the proposed new programs are included in the program information attached to Mr. Dennis' testimony as Schedule ADD-4.

The impacts on annual revenue requirements are addressed in Sections D and E above and are shown on Schedules TMR-1 and TMR-2.

The net present value of annual revenue requirements as a result of the integration analysis in accordance with 4 CSR 240-22.060 over a twenty year planning horizon is a $303.3 million benefit over not doing programs. This analysis assumes programs continue for the full twenty years.

(N) Detailed description of each proposed demand-side program to include at least:

Response: The following requirements are provided in Schedule ADD-4 attached to the testimony of Allen Dennis:

- Customers targeted; Measures included; Customer incentives; Proposed promotional techniques;
- Specification of program administration by the utility or contractor;
- Projected gross and net annual energy savings;
- Proposed annual energy savings targets and cumulative energy savings targets;
- Projected gross and net annual demand savings;
- Proposed annual demand savings targets and cumulative demand savings targets;
- Net-to-gross factors;
- Size of the potential market and projected penetration rates;
- Any market transformation elements included in the program and an EM&V plan for estimating, measuring, and verifying the energy and capacity savings that the market transformation efforts are expected to achieve;
- EM&V plan including at least the proposed evaluation schedule and the proposed approach to achieving the evaluation goals pursuant to 4 CSR 240-3.163(7) and 4 CSR 240-20.093(7);
- Budget information by category (i.e., program incentive, administrative costs, equipment costs, etc.);
- Description of any strategies used to minimize free riders or maximize spillover; and

- For demand-side program plans, the proposed implementation schedule of individual demand-side programs.

(O) Demonstration and explanation in quantitative and qualitative terms of how the utility's demand-side programs are expected to make progress towards a goal of achieving all cost-effective demand-side savings over the life of the programs.

Response: KCP&L's goal is to achieve all cost effective demand-side savings and demonstrate this commitment by establishing its DSM leadership role in both Kansas and Missouri. The Company was the first utility in both states to develop and implement a comprehensive set of DSM programs over the last five years. This effort has provided the Company with hands on experience with all aspects of specific DSM programs.

KCP&L undertook six comprehensive market potential studies to determine the potential for DSM in KS and MO. In addition to these studies, the Company has reviewed other utilities, stakeholder and industry studies to determine its level of cost effective DSM programs. The Company is currently in the process of engaging an industry leading firm to conduct an additional extensive market potential study that will include direct customer primary market research.

To ensure the effectiveness of these programs the Company conducted an evaluation of each program after its two year implementation anniversary. Each program has had an EM&V report from an independent third party contractor performed with the results of the savings, market penetration, and any process improvements incorporated into the ongoing program analyses.

The Company is acutely cognizant of the potential rate impacts to customers by implementing an aggressive DSM initiative. Effective DSM programs achieve energy savings levels over a longer period of time. This is due to quite a number a factors including: customers' capital-spend, utilities' ability to recover all its DSM costs, and the potential "rate shock" utility customers may experience initially if the DSM effort is too aggressive.

The quantitative requirement is provided as Schedule TMR-3 and attached to my testimony.

(P) Identification of demand-side programs which are supported by the electric utility and at least one (1) other electric or gas utility (joint demand-side programs).

Response: KCP&L partners with Missouri Gas Energy to provide the Home Performance with ENERGY STAR® program, a program that is made a part of this MEEIA filing.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Application for Approval of Demand-Side Programs and For Authority to Establish a Demand-Side Programs Investment Mechanism	))))	Case No. EO-2012-0008

AFFIDAVIT OF TIM M. RUSH

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Tim M. Rush, being first duly sworn on his oath, states:

1. My name is Tim M. Rush. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Director, Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Kansas City Power & Light Company consisting of thirty-seven (37) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Tim M. Rush

Subscribed and sworn before me this 22nd day of December, 2011.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2015

NICOLE A. WEHRY
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: February 04, 2015
Commission Number: 11391200