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Witness:	Tim M. Rush
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Sponsoring Party:	Kansas City Power & Light Company
Case No.:	EO-2014-0095
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EO-2014-0095

DIRECT TESTIMONY

OF

TIM M. RUSH

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
January 2014

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-2014-0095

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?

A: I have testified on numerous occasions before the MPSC on a variety of issues affecting regulated public utilities.

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 Missouri Energy Efficiency Investment Act ("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;

(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. <u>OVERVIEW</u>

B. <u>MEEIA POLICY</u>

C. <u>BACKGROUND OF DEMAND-SIDE PROGRAMS</u>

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

E. <u>KCP&L's REQUEST</u>

F. <u>COST RECOVERY AND INCENTIVE MECHANISM</u>

G. <u>VARIANCES</u>

H. <u>FILING REQUIREMENTS</u>

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

A: Yes. Company witnesses Kevin E. Bryant and Kimberly H. Winslow 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 Ms. Winslow addressing in her testimony?

A: Ms. Winslow is providing a summary of the 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, Ms. Winslow 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. Ms. Winslow will provide a summary of several new programs being proposed in this filing along with a general description and discuss the supporting evaluation of these programs. She will also address EM&V plans going forward and how we intend to use them. Ms. Winslow will describe the recently completed market potential study that has led up to this filing. Finally, she will discuss the true-up process to account for differences in projected verses actual program kW and kWh.

A. <u>OVERVIEW</u>

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

A: The MEEIA law[1] and the Commission rules[2] were established to address revenue recovery of demand-side programs, and to provide guiding principles for filing new programs and reporting. KCP&L initiated a MEEIA filing in December, 2011. It was later withdrawn due to a number of factors which were previously discussed in testimony[3]. Since then, KCP&L has completed a market potential study, which is part of this filing and updated its Integrated Resource Plan ("IRP"). In this filing, KCP&L is requesting a change in the recovery mechanism of the existing demand-side programs

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[1] The legislation passed in 2009 ("Senate Bill 376") identified as the Missouri Energy Efficiency Investment Act of 2009 (Section 393.1075, RSMo Cum. Supp. 2010).

[2] MEEIA rules 4 CSR 240-3.163, 4 CSR 240-3.164, 4 CSR 240-20.093 and 4 CSR 240-20.094 became effective on May 31, 2011.

established by this Commission in Case No. ER-2012-0174 to a new recovery mechanism.

KCP&L is requesting to implement several new programs, as well as, to realign the existing programs to conform to the MEEIA requirements and the Company's energy efficiency and demand response plan as presented in the latest IRP.

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

A: Under the Company's proposal in this proceeding, there will be no change to a customer's bill until June 1, 2015, at which time KCP&L proposes to begin recovery of program costs and a portion of the annual net shared benefits of the programs. The Company is requesting deferral of the program costs and net shared benefits until then through utilization of a DSIM Tracker. The performance incentive component of the recovery mechanism will begin after an EM&V for each of the programs is concluded, which should be within a year following the MEEIA plan period end date. The company requests rate base treatment of the unrecovered balance in the next rate case.

While a tariff is not necessary for the deferred program costs and a portion of the net shared benefits initially, a DSIM Charge tariff is proposed as part of this filing to take effect June 1, 2015 for the recovery of program costs, a portion of the net shared benefits and the performance incentive (see Schedule TMR-5).

The following tables show the deferred amounts by vintage and a timeline included for illustrative purposes only.

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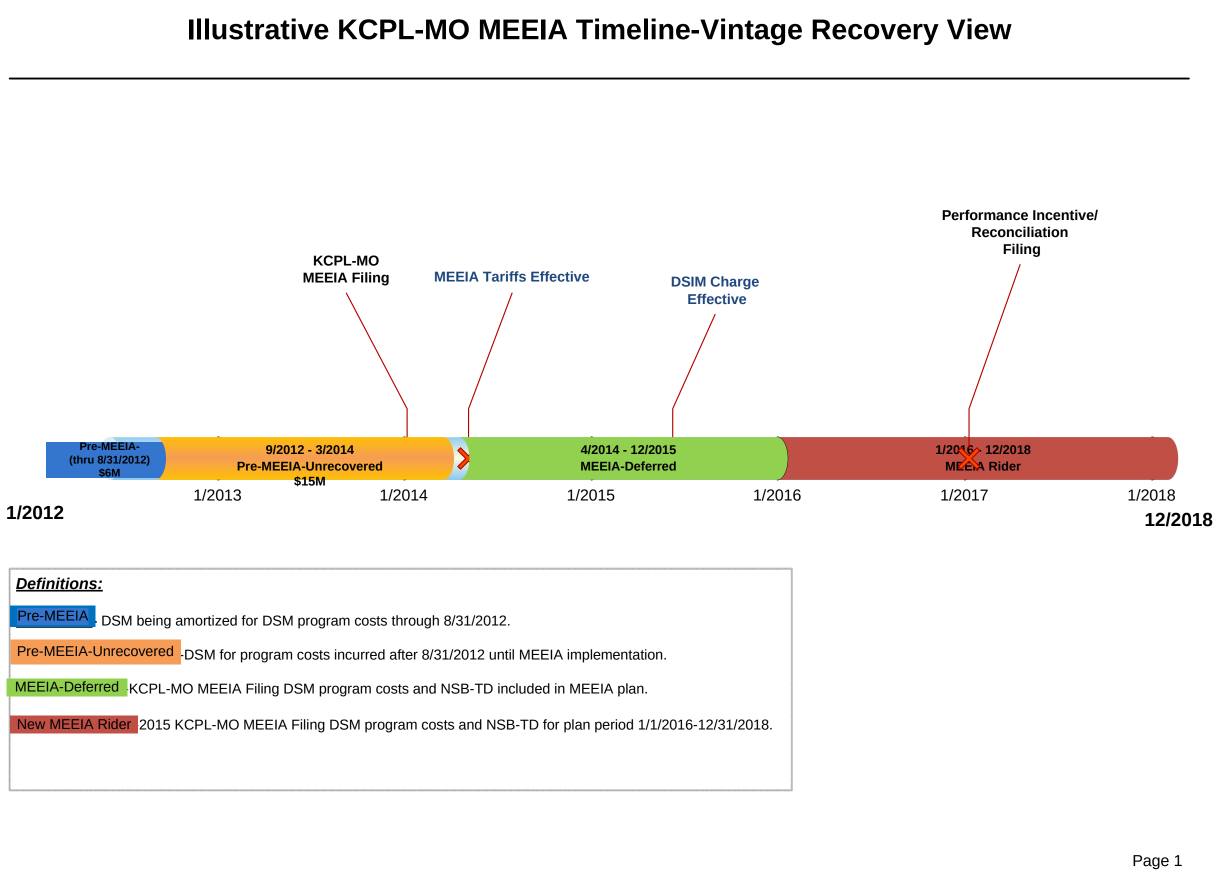
[3] Direct testimony of Darrin R. Ives Direct Testimony, Case No. ER-2012-0174, p. 10.

Case Number	(Vintage 1) EO-2005-0329	(Vintage 2) ER-2007-0291	(Vintage 3) ER-2009-0089	(Vintage 4) ER-2010-0355	(Vintage 5) ER-2012-0174	Deferred $ post Aug-12 True-up in 2012 case
Amortization Start Date	Jan-07	Jan-08	Sep-09	May-11	Feb-13	NA
Years Amortization	10	10	10	10	6	NA
Annual Amort Amount	$239,667	$448,625	$670,501	$2,113,834	$2,516,027	NA
Unamortized Balance at November 30, 2013	$738,972	$1,831,886	$3,855,379	$15,677,600	$12,999,475	$12,353,718



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

A: We are requesting a change from the current recovery mechanism because the recovery mechanism does not allow for recovery of the overall costs and impacts of energy efficiency and DSM programs.

The components in the proposed recovery mechanism are consistent with the components of the recovery mechanisms for both Ameren Missouri ("Ameren") and KCP&L Greater Missouri Operations Company ("GMO"). The recovery mechanism components are also consistent with the recent filing by Empire District Electric Company ("Empire"). The primary difference between the KCP&L application and the other utilities' MEEIA recovery mechanisms is that KCP&L is requesting deferral treatment, while both GMO and Ameren incorporated their MEEIA implementations with a rate case and Empire is requesting a rider outside of a rate case that would result in an increase in rates to customers once approved.

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 allows recovery of past program expenses. While the Company is not requesting recovery begin until June 1, 2015, it is only doing so because of a prior stipulation and agreement[4].

Additionally, the current recovery method does not address all of the financial impacts on the utility. 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. This does not provide the utility with an opportunity to earn a market return on its capital deployed on energy efficiency and demand side programs. Company witness Kevin Bryant will discuss in detail the financial impacts of the current cost recovery.

[4] Stipulation and Agreement, Case No. EO-2005-0329.

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 DSM programs for years and has advocated that DSM programs should be put on a level playing field with generation resources. DSM 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 DSM programs has the effect of offsetting the need for future energy and generation requirements that is sustainable for meeting overall needs of the customer.

B. MEEIA POLICY

Q: What are the policy goals of MEEIA?

A: They are to:

1. Encourage more efficient energy use and cost-effective demand side programs;
2. 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 support of those goals, the Commission shall:
   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.

C. BACKGROUND OF DEMAND SIDE PROGRAMS

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

A: As I have previously presented in 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[5].

Q: Did other Missouri utilities have DSM programs in place at the time KCP&L proposed implementation of its portfolio when 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 introduce a portfolio for its service territory. This made KCP&L 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: How do the demand side 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 were generally reflected in KCP&L's recent IRP updated 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. 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 ("C&I") customers. The Affordability programs are specifically targeted to low income customers.

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[5] Stipulation and Agreement, Case No. EO-2005-0329, p. 46 & Appendix C.

KCP&L
DEMAND SIDE MANAGEMENT PROGRAM PORTFOLIO
(Current)

PROGRAM TYPE	**CLASS OF CUSTOMER SERVED**	
	Residential	**C&I**
Demand Response	Air Conditioning Cycling (Energy Optimizer)	Air Conditioning Cycling (Energy Optimizer) MPower
Energy Efficiency	ENERGY STAR® New Homes Cool Homes Online Energy Information (Home Energy Analyzer) Home Performance with ENERGY STAR®	Energy Audit and Energy Savings Measure Rider • Energy Audit • Energy Savings Measures – Retrofit and New Construction Online Energy Information (Business Energy Analyzer) Building Operator Certification
Affordability	Low Income Weatherization Affordable New Homes	

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

A: Yes, most programs have been successful since their launch in 2005. Company witness Kimberly Winslow 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: In general, yes, with the exception of the Low Income Affordable New Homes and Energy Star New Homes programs. KCP&L has filed new tariffs for each of these programs except Low Income Affordable New Homes and Energy Star New Homes to transition them from the current tariffs to new tariffs in compliance with the MEEIA requirements. There have been modifications to some programs, including a change in names.

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

A: Yes. As will be described in more detail by Company witness Kimberly Winslow, KCP&L has four (4) 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 KHW-3 to the testimony of Company witness Kimberly Winslow.

Q: Is KCP&L requesting approval of the tariffs for all of the programs under MEEIA?

A: Yes. These tariffs are included in the testimony of Company witness Kimberly Winslow as Schedule KHW-3.

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

Q: Has KCP&L completed any EM&V reports for the existing programs that KCP&L is requesting be included with 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 referenced in Company witness Kimberly Winslow's 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 costs of the programs.

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 is described in more detail by Company witness Kimberly Winslow, but in general, KCP&L intends to have an independent EM&V evaluation performed for each program at the end of the program plan period. The results of the EM&V will be used to solidify the success of each program, helping to direct any changes that need to be made and provide results to be used in the recovery mechanism in determining if we have achieved our performance targets, which will be the driving factor for recovery of a performance incentive.

E. 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 is requesting approval of a DSIM Tracker to begin collecting in a regulatory asset account program costs and a portion of the net shared benefits directly attributable to the demand side programs approved in this filing in addition to any future demand side programs and tariffs which may be filed under the MEEIA requirements for the program period.

(2) The Company is requesting approval of the suite of demand side programs and tariffs attached to the application that will replace the existing tariffs for demand response and energy efficiency. The new tariffs replace those currently in effect

under the current recovery mechanism or new demand side programming. All programs, once approved, would operate under the new recovery mechanism.

(3) The Company requests approval of a DSIM Charge tariff to begin recovery of program costs, a portion of the net shared benefits and the performance incentive. This rider would become effective on June 1, 2015 and would be for the MEEIA programs covering the period of May 7, 2014 (the expected tariff effective date) through December 31, 2015 (the anticipated date of the program plan completion period). The DSIM Charge tariff is attached to my testimony as Schedule TMR-5. The calculation of the rate for DSIM Charge will not be filed until closer to the time the rate goes into effect to reflect more actual costs of the programs.

(4) In the next rate case and future rate cases, the Company requests rate base treatment of the unrecovered balance in the DSIM Tracker amount. This is consistent with the current recovery mechanism that the Company has for its current DSM programs.

Q: Why haven't you asked for the DSIM Charge to become effective with initial implementation of the MEEIA tariffs as was contemplated in the MEEIA rules?

A: As set out in the stipulation and agreement in the CEP, "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: Does not having a DSIM Rider when this MEEIA filing is implemented 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 Missouri utilities 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 hardship on KCP&L and will continue until the 2015 time period. It has required the Company to file rate cases on a more regular basis to address the dynamics of the fuel, purchased power and off-system sales markets. KCP&L has not been able to recover the increases in fuel and purchased power costs simply because of the effects of regulatory lag. The lack of an FAC has been detrimental to the earnings of the Company.

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 an FAC mechanism similar to those in the state. The parties, excluding KCP&L, could also recommend to this Commission a MEEIA rider mechanism similar to others in the state.

F. <u>COST RECOVERY AND INCENTIVE MECHANISM</u>

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 allows for recovery of all program costs and a portion of the net shared benefits based on the level of program performance.

The Company is requesting approval to utilize deferral accounting including carrying costs based on the Company's latest approved rate of return allowed in ER-2012-0174 until KCP&L's next general rate proceeding. The Company requests that recovery of the amount deferred in the regulatory asset in the DSIM Tracker begin June 1, 2015 and reflect the actual costs plus estimates through the conclusion of the MEEIA plan period.

The Company requests that program costs be recovered over a six year period and a portion of net shared benefits be recovered over two years through the DSIM Charge. The performance incentive will not be included in the DSIM Charge until after EM&V's have been completed for each of the MEEIA programs, which should be completed in 2016. The performance incentive will be recovered over a two year period.

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

A: **Program Costs:** Provided the Commission approves this MEEIA filing in 120 days, the plan includes program costs based on the planned budgets for the programs to be implemented over 20 months beginning in May 2014. KCP&L expects to spend approximately $29 million in program costs over the next 20 months. KCP&L will include actual program costs incurred in the deferred account balance, along with the portion of the net shared benefits described below.

Net Shared Benefits: The net shared benefits will be the sum of the annual net benefits over the two year plan period times 38.54%. The annual net shared benefits is the sum of the avoided energy and demand savings over the program lives as obtained by substituting demand side programs for new supply side resources less program costs. The annual net shared benefits will be discounted using the latest approved weighted average cost of capital rate—6.961%; to represent the net present value of the net shared benefits. The annual net benefits were developed by using the DSMore modeling software to determine the incremental energy benefits attributable to the reduced kWh for each program in the portfolio. The capacity benefits were developed based on capacity, transmission and distribution costs attributable to reduced kW peak demand for each of the programs in the portfolio. KCP&L will include 38.54% of net shared benefits earned using the actual energy and demand savings achieved based on actual measures installed and tracked each month. Both the program costs and the portion of the net shared benefits (TD-NSB) will be included in the DSIM Tracker until they begin recovery through the DSIM Charge.

Performance Incentive: At the end of the MEEIA plan period, an EM&V analysis will be completed in order to determine the performance of the plan in comparison to the plan targets. Based on the results of the EM&V, the Company will be provided an opportunity to earn a performance incentive of up to $5.89 million (pre-tax) or 13.33% of total net benefits. 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 adjusted to reflect any approved opt outs impacting 2014 and 2015. The plan targets an overall cumulative reduction of 1.87 percent (0.89% incremental for 2014 and 0.98% for 2015) in annual kWh sales and a reduction in kW demand of approximately 3.2 percent (3.2% incremental for 2014 and 2015). 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 kWh and kW demand, as measured through EM&V, the Company will receive recovery of a performance incentive to be included in the DSIM Charge and recovered over two years.

In order to determine the overall threshold, a weighting of 80% energy and 20% demand will be used. The performance incentive will be recovered, along with the program costs and the portion of net shared benefits through the DSIM Charge as attached to my testimony. The Company will file its supporting documents of the EM&V and change the DSIM Charge to begin recovery of the performance incentive, if any, within a year after the completion of the plan. If KCP&L's performance falls below 70% of the kWh/kW target, KCP&L would not receive a performance incentive. If it exceeds 130% of the threshold, it would receive a performance incentive of 13.33% of the actual net shared benefits based on results from the EM&V. An example of how this performance incentive will be calculated is included in TMR-6.

Q: Please describe what will be included in the program costs.

A: Consistent with the MEEIA rules, actual 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 for 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. The initial annual tracking in the deferred account under the DSIM Tracker for KCP&L program costs is expected to be approximately $14 million, but will be booked based on actual program costs incurred.

Q: Please describe the recovery mechanism for the net shared benefits portion?

A: The Company requests recovery of 38.54% of net shared benefits based on actual participant/measures installed and achieved. For purposes of calculating the actual Net Shared Benefits, a Net to Gross ratio of 1.00 (with exception of Home Appliance Recycling Rebate Program) will be used. EM&V results will not be utilized to calculate actual net shared benefits for the purposes of determining the amount of through-put disincentive ("TD-NSB") or lost margins. When the DSIM Charge becomes effective in January, 2016, the Company requests this amount to be recovered over two years.

Based on the analysis as described above, for the first two years of programs, benefits from both energy and capacity over the anticipated life of the programs are approximately $73 million. The net present value of this benefit less program costs is $44 million. KCP&L includes in the DSIM Tracker 38.54% of the net present value of these benefits or approximately $17 million. The detailed support for these values can be found in schedule TMR-4.

Further, the Company evaluated the plans using MIDAS modeling and carrying the energy efficiency and demand response programs over the twenty year period, as set out in the MEEIA rule and determined on a net present value of revenue requirements basis, that a net benefit of over $571 million is achieved by implementing these programs with the proposed recovery mechanism in comparison to doing no programs.

The initial tracking of KCP&L net shared benefits is expected to be approximately $8 million in 2014, but will not be booked to the deferred account until the end of the program plan period. Each year, both the program costs and the portion (38.54%) of the shared benefits would reflect the actual program participants/measures and program costs incurred.

For the entire program plan period, it is expected that the Company will defer approximately $46 million in program costs and net shared benefits (excluding carrying costs, and performance incentive) to be recovered by customers in rates. As calculated, the benefits are nearly $73 million on a net present value basis. Based on this analysis, benefits greatly exceed costs.

Q: Please provide the Performance Incentive table of the DSIM Charge?

A: The following is the performance incentives table.

Percent of kWh/kW Target	2 Year Total ($MM)	Percent of Net Benefits
60	$0.00	0.00%
70	$2.35	5.33%
80	$2.80	6.33%
90	$3.24	7.33%
100	$3.68	8.33%
110	$4.41	9.99%
120	$5.15	11.66%
130	$5.89	13.33%
140		13.33%

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

A: The Performance incentive 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 the annual energy and demand savings achieved and documented through EM&V reports as a percentage of energy and demand savings targets and will be the basis of determining the performance incentive payouts. The performance incentive award in the DSIM Charge will be included following the completion of the EM&V and Energy and Demand Savings targets will be adjusted to reflect any/all approved opt out requests effective for 2014 and 2015. 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: Why are you proposing a net shared benefits approach?

A: The net shared benefits proposed by the Company will help mitigate the negative financial impacts that are currently present for utility investment in demand response and energy efficiency programs. However, absent a satisfactory net shared benefits mechanism, KCP&L will not continue the current 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 the best economic conditions and has always been the major impediment to sustainable, aggressive, cost-effective, demand response and energy efficiency program implementation.

G. 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 several variance requests. They are:

1. Pursuant to 4 CSR 240-20.093(13), KCP&L requests a variance of section C (net shared benefits) of 20.093 which requires that all energy and demand savings used to determine a DSIM utility incentive must be measured and verified through EM&V. The recovery mechanism will include net shared benefits calculated based on actual participants/measures achieved in the programs. The calculation of net shared benefits, as utilized for calculating lost margins, will not utilize the EM&V results.

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/reward is only recovered after an EM&V analysis of the programs and the portion of the annual net shared benefits that the Company recovers is trued-up to reflect actual participant/measures achieved. Other sections of the MEEIA rules that relate to the above (non-utilization of EM&V results for NSB and utilization of EM&V for Performance Incentive) include: 20.093(2)(H); 20.093(2)(H)3; 20.093(1)(EE);

20.093(1)(C); 20.094(1)(Z); 20.094(1)(C); 3.163(1)(A); 20.093(2)(H); 20.093(1)(EE); 20.094(1)(C); 20.094(1)(Z); .

2. Pursuant to 4 CSR 240-20.093(13), KCP&L requests a variance of section (7) (E) of 20.093 (7) which requires that any EM&V contractors use a statewide technical resource manual (TRM), if available, when performing EM&V work. As KCP&L does not have a statewide TRM for this, the EM&V contractor will need to utilize an alternative method in their EM&V work.

3. Pursuant to 4 CSR 240-20.093(13), KCP&L requests a variance from 4 CSR 240-20.093(8) which requires filing of the annual report within 60 days of the end of the calendar year. There are multiple requirements of the annual report that will not be available within 60 days of the end of the calendar year, including results from the EM&V.

4. Pursuant to 4 CSR 240-20.093(13), KCP&L requests a variance from 4 CSR 240-14.030 Promotional Practices in order to allow program flexibility as outlined in proposed tariffs.

H. 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 MEEIA rule requirements for 4 CSR 240-3.163 (2) A through K, 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 at this time. However, since KCP&L has proposed a DSIM Charge tariff to become effective June 1, 2015 that will include a line item DSIM Charge on a customer's bill, KCP&L includes an example of this in TMR-1.

(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 initially seeking recovery through a DSIM recovery mechanism that will appear as a line item on the customer bill. However, since KCP&L has proposed a DSIM Charge tariff to become effective June 1, 2015 that will include a line item DSIM Charge on a customer's bill, KCP&L includes an example of this in TMR-1.

(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-2.

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-3.

(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 and calculated carrying costs, a portion of net shared benefits and calculated carrying costs and performance incentive as calculated after EM&V analysis is performed. Credits (e.g. decreases to this account balance) will be recorded as an amortization as agreed to or ordered in a rate case.

KCP&L follows 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.

KCP&L has established an Accounting Distribution Coding system to all for the proper classification of costs for MEEIA-related DSM programs. The Accounting Distribution utilizes the following components:

- Department – A code assigned to specific legal entities or regulatory jurisdictions to identify the entity responsible for the cost.
- Account – The prescribed accounts mandated by FERC in the Code of Federal Regulations for the classification of assets, liabilities, revenues and expenses.

- Operating Unit- The operating unit identifies the jurisdiction associated with the cost.
- Project – The project id identifies the project or initiative associated with the cost.
- Work ID – 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, or what was used to get the work done. A primary example would be labor vs. non labor items.

For the Department code, KCP&L uses the following:

574	Energy Efficiency
674	Demand Side Mgmt.

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

182440	Deferred Cust Programs - MO

For Operating Unit, KCP&L uses the following:

10200	KCPL MO General

For the Project code, individual codes have been established for each program by jurisdiction. KCP&L currently uses the following projects for its Missouri jurisdiction. The proposed program names are shown in parentheses.

SI0000MO	Strategic Initiative Programs
SIA002MO	Low Income Weatherization (Income-Eligible Weatherization)
SID001MO	A/C Cycling (Optimizer) (Programmable Thermostat)

SID002MO	C&I Curtailment (MPower) (Demand Response Incentive)
SIE001MO	Residential On-Line Analysis (Home Energy Analyzer)
SIE002MO	Home Performance Energy Star (Home Energy Improvements)
SIE004MO	Cool Homes (Air Conditioning Upgrade Rebate)
SIE020MO	Commercial On-Line Analysis (Business Energy Analyzer)
SIE022MO	C&I Custom Rebate – Retrofit (Business Energy Efficiency Rebates – Custom)
SIE024MO	Building Operator Certification
SIE102MO	C&I Prescriptive Rebate (Business Energy Efficiency Rebates – Standard)
SIE151MO	Res Appliance, Turn in Program (Home Appliance Recycling Rebate)
SIE162MO	Residential Lighting & Appliance (Home Lighting Rebate)
SIE165MO	Residential Energy Reports Program (Home Energy Report Pilot)

For Work ID code, KCP&L currently uses the following codes:

ES010	Evaluation
ES020	Program Delivery
ES030	Marketing
ES040	Administration
ES050	Customer Rebates
ES060	Implementation

For Resource code, KCP&L uses the following codes:

10XX	Labor
1265	Program and Incentive Rebates
1299	Office Expenses Other
1320	Consulting Fees

1370	Temp Employee Services (Contractor Labor)
1405	Business Meals
1420	Mileage Reimbursement
3150	Carrying Cost
4200	Accounting and CIS Use Only

*The resource list above is a partial listing and provides examples of the types of costs to be tracked.

Taken in their entirety, the combination of codes above will allow for the proper classification and clear delineation of costs. 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-3 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, with the exception of Low Income Weatherization, 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 25 year analysis, if the programs were stopped after the first two years, the benefits would exceed the costs by a ratio of greater than 1.5 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 a rate adjustment mechanism initially during the MEEIA plan period, but instead is proposing a DSIM tracker. As described in my testimony, the Company is proposing a DSIM Charge to begin at the end of the MEEIA plan period which does have an adjustment mechanism as described in my testimony.

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

Q: Are there additional filing requirements that you have not addressed?

A: Yes. For the demand-side programs which we are requesting be placed under the DSIM, we are also required to provide the following per 4 CSR 240-3.164 (2):

A) A current market potential study.

Response: KCP&L recently completed a market potential study for both the residential and commercial sectors. This final report is attached to Kim Winslow's testimony as Schedule KHW-5.

B) 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 from Case No. EO-2012-0008as 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 Ms. Winslow's' testimony as Schedule KHW-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 $571 million benefit over not doing programs. This analysis assumes programs continue for the full twenty years.

	Preferred Plan Rev Req'mts ($ Millions)	No DSM Plan Rev Req'mts ($ Millions)	Change ($ Millions)
	$1,490	$1,490	($0)
	$1,637	$1,637	($0)
	$1,718	$1,696	$22
	$1,748	$1,724	$24
	$1,778	$1,754	$24
	$1,830	$1,803	$27
	$2,149	$2,133	$16
	$2,070	$2,152	($82)
	$2,069	$2,152	($83)
	$2,143	$2,233	($91)
	$2,193	$2,300	($107)
	$2,193	$2,297	($104)
	$2,252	$2,408	($156)
	$2,267	$2,434	($167)
	$2,279	$2,440	($161)
	$2,336	$2,499	($163)
	$2,377	$2,553	($175)
	$2,484	$2,649	($165)
	$2,585	$2,750	($165)
	$2,614	$2,788	($175)
NVPRR	**$20,666**	**$21,237**	**($571)**

C) Detailed description of each proposed demand-side program.

Response: The following requirements are provided in Schedule KHW-2 attached to the testimony of Kimberly Winslow:

- 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.

D) 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 in 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 Kansas and Missouri. 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 recently completed another market potential study that was used in preparing the Company's IRP filing as well as this filing.

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 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 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-4 and attached to my testimony.

(E) 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 (MGE) to provide the Home Performance with ENERGY STAR® program. This has been modified for this

MEEIA filing and we will continue to collaborate with MGE to offer this program to overlapping customers.

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	))))	File No. EO-2014-0095

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-five (35) 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
Tim M. Rush

Subscribed and sworn before me this 7th day of January, 2014.

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

Legacy KCP&L

Billing Vehicle: Message

Description: KCP&L MEEIA Programs Available

Cycles when message should run: TBD (after the filing)

Customers: All Customers

Priority: High

INITIAL CUSTOMER NOTIFICATION

You now have more ways to save energy and money. You can earn rebates from KCP&L for home improvements you may already be considering. Find out more about our expanded suite of energy-efficiency programs *at **www.kcpl.com/MoreRebates**.*

NOTIFICATION IMMEDIATELY PRIOR TO JUNE 1, 2015

A Demand Side Program Investment Mechanism (DSIM) charge will be added to monthly KCP&L bills beginning June 2015. This charge reimburses KCP&L for costs spent developing the programs on behalf of Missouri customers and establishes an incentive sharing mechanism where the Company and the Customer both benefit from program savings. By helping customers save energy, KCP&L is able to better manage regional energy demand and keep costs affordable, proactively support environmental initiatives and defer the costs of constructing new power plants and generation units. The DSIM Charge will appear as a new line item in the Billing Details section of your bill and is calculated based on the number of kilowatt-hours you use each month. The DSIM Charge rate is calculated by multiplying the DSIM charge rate times the kWh sales to the customer. The DSIM Charge rate will be adjusted and reviewed by the Commission semi-annually to account for any changes in the portfolio. For more information on the MEEIA DSIM Charge and new suite of MEEIA energy efficiency programs, please visit www.kcpl.com\MEEIA.

Customer Bill Example*:

Account Number:	[redacted]	
Billing Date:	7/15/2015	
Amount Billed:	XXXX	
Customer Charge		XXXX
Energy Charge	1000 kWh@ __	XXXX
DSIM Charge	1000 kWh@ .00175	1.75
Total		XXXX

Beginning June 1, 2015

SCHEDULE TMR-2

THIS DOCUMENT CONTAINS HIGHLY CONFIDENTIAL INFORMATION NOT AVAILABLE TO THE PUBLIC

SCHEDULE TMR-3

THIS DOCUMENT CONTAINS HIGHLY CONFIDENTIAL INFORMATION NOT AVAILABLE TO THE PUBLIC

SCHEDULE TMR-4

THIS DOCUMENT CONTAINS HIGHLY CONFIDENTIAL INFORMATION NOT AVAILABLE TO THE PUBLIC

Demand Side Investment Mechanism (DSIM) Charge
For MEEIA Cycle 1 Plan

APPLICABILITY:

The DSIM Charge ("DSIM Charge") is applicable to all kilowatt-hours (kWh) of energy supplied to customers served by Kansas City Power & Light Company ("KCP&L" or "Company"), for residential and non-residential classes, excluding lighting rate classes and applicable "opt-out" customers from Missouri Energy Efficiency Investment Act ("MEEIA") and non-MEEIA rates charges. The DSIM charge covers the MEEIA Plan ("Plan") filed by the Company and approved by the Missouri Public Service Commission ("Commission") in Case No. EO-2014-0095.

DSIM Charge DETERMINATION:

Charges passed through this DSIM charge reflect the recovery of approved amounts being deferred from the implementation of the Plan, and the Performance Incentive Award (if any) from the Plan. The DSIM Charge includes:

1. recovery of the KCP&L Program Costs for the Plan shall be recovered over a 6 year period and determined by dividing the deferred amounts for the MEEIA plan by six and then dividing that amount by the anticipated kwh retail sales for residential and non-residential adjusted for opt-outs.
2. recovery of the KCP&L portion of net shared benefits ("TD-NSB") for the Plan will be recovered over a two year period and determined by dividing the deferred amounts for the MEEIA plan by two and then dividing that amount by the anticipated kwh retail sales for residential and non-residential adjusted for opt-outs.
3. recovery of the KCP&L Performance Incentive Award (if any) will be recovered over a two year period beginning after the EM&V is completed for the Plan and determined by dividing the deferred amounts for the MEEIA plan by two and then dividing that amount by the anticipated kwh retail sales for residential and non-residential adjusted for opt-outs.
4. interest on the unrecovered amount using the Company's last authorized weighted cost of capital, and
5. adjustments to the DSIM Charge may be made on a semi-annual basis to reflect true-up of over or under recovered amounts or other changes in the DSIM Charge
6. charges under this DSIM Charge shall begin at the conclusion of the MEEIA Plan period.

DSIM Charges arising from the Plan shall be separately stated on the customers' bills.

DSIM Charge:

Residential - rate per kWh	$0.0000
Non-Residential - rate per kWh	$0.0000

Energy/Demand Performance Incentive Plan Calculation Example- *For Illustrative purposes only*
KCP&L-MO MEEIA Filing EO-2014-0095
80/20 Weighting Example
Period Covered 2014-2015

EXAMPLE 1

	Net Benefit (PV)	$42.66		
	Percent of Savings earned	7.63%		
	Initial Sharing Amount (PV)	$3.25		
	Class	RES	BUS	
	Percent Allocation*	32.6%	67.4%	
	Before-Tax Rev. Req (PV)	$1.06	$2.19	
6.96%	Revenue Requirement (2-Year Recovery)	$0.55	$1.13	$1.68 +

+This amount will be recovered over 2 years (i.e. 1.68+1.68=3.36)
**Allocation based on kWh levels established at the conclusion of the ER-2012-0174 case.*

EXAMPLE 1-Detailed Calculation

	Savings Targets***	Savings Results from EM&V **	Ratio - Results to Target	Weighting	Incentive Threshold			
	Kwh	Kwh						
Annual Energy 80 % weighted	155,597,753	150,000,000	0.96	80%	0.77			
	Kw	Kw						
Annual Demand* 20 % weighted	77,093	75,000	0.97	20%	0.19			
Overall Performance					0.97	7.33+((100-97)/10)*(8.33-7.33) 0.3 1.0	= 7.63	% of actual net benefits

****Note-Demand Savings include all demand savings associated with both EE and DR programs for 2nd year only.***
*****Savings results reflect actual savings achieved with adjustments made for actual NTG factors realized.***
******No adjustments for opt outs were made to savings targets. Savings targets would be adjusted down to reflect actual customers opting out for 2014-2015.***

Assumes Net Benefits $42.66

Actual energy savings from EM&V of 150,000,000 KWh

Actual demand savings from EM&V of 75000 KW

Net to gross from EM&V .95

Weighted performance incentive award 97 percent of KWh/KW target

Results in 7.6% award of Net Benefits of $42.66M or $3.25 million award

EXAMPLE 2

	Net Benefit (PV)	$45.50	
	Percent of Savings earned	8.83%	
	Initial Sharing Amount (PV)	$4.02	
	Class	RES	BUS
	Percent Allocation*	32.6%	67.4%
	Before-Tax Rev. Req (PV)	$1.31	$2.71
6.96%	Revenue Requirement (2-Year Recovery)	$0.68	$1.40

$2.076

Allocation based on %age of Retail Sales (Kwh) in GMO's last rate case update (3/31/2012)

EXAMPLE 2

	Savings Targets	Savings Results from EM&V **	Ratio - Results to Target	Weighting	Incentive Threshold				
	Kwh	Kwh							
Annual Energy 80 % weighted	155,597,753	160,000,000	1.03	80%	0.82				
	Kw	Kw							
Annual Demand* 20 % weighted	77,093	80,000	1.04	20%	0.21				
Overall Performance					1.03	8.33+((103-100)/10*(9.99-8.33) 0.3	= 1.66	8.83	% of actual net benefits

Note-Demand Savings include all demand savings associated with both EE and DR programs for 2nd year only.

*****Savings results reflect actual savings achieved with adjustments made for actual NTG factors realized.***

Assumes Net Benefits $45.50

Actual energy savings from EM&V of 160,000,000 KWh

Actual demand savings from EM&V of 80000 KW

Net to gross from EM&V 1.05

Weighted performance incentive award 103 percent of KWh/KW target

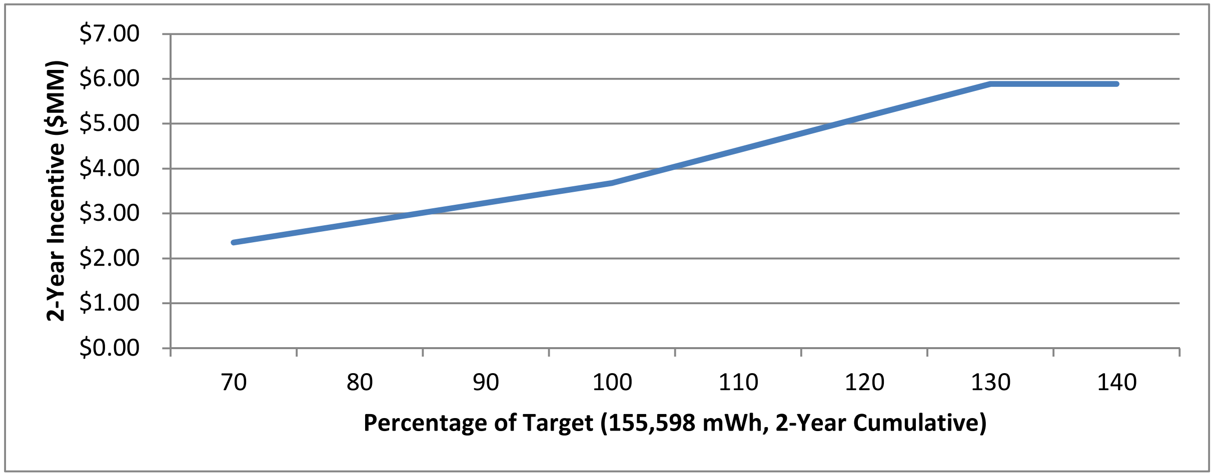
Results in 8.83% award of Net Benefits of $45.50M or $4.02 million award

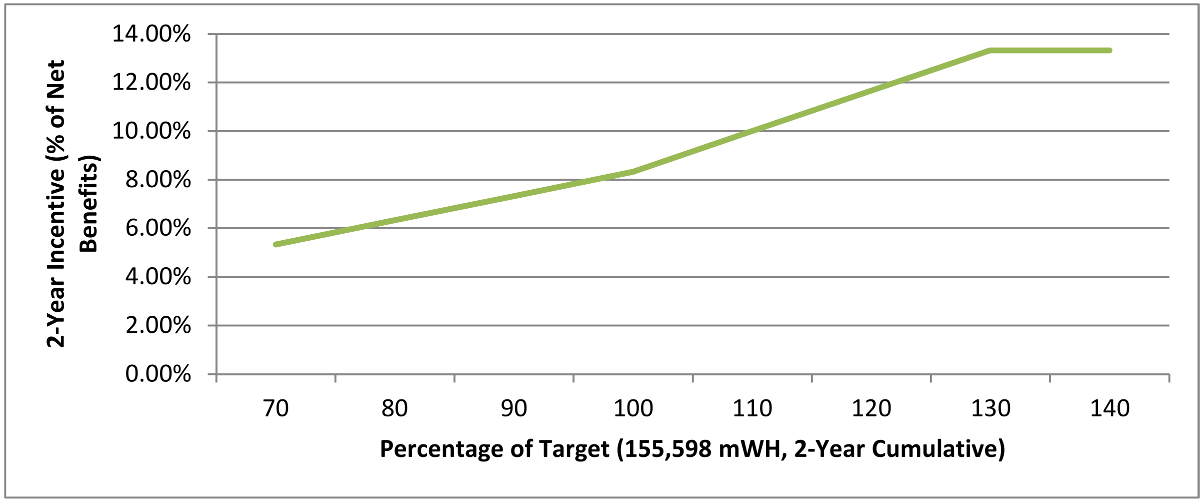
Percent of KWh/Kw Target	2 Year Total ($MM)	Percent of Net Benefits
60	$0.00	0.00%
70	$2.35	5.33%
80	$2.80	6.33%
90	$3.24	7.33%
100	$3.68	8.33%
110	$4.41	9.99%
120	$5.15	11.66%
130	$5.89	13.33%
140		13.33%

Performance Incentive

Percent of KWh/Kw Target	2 Year Total ($MM)	Percent of Net Benefits
60	$0.00	0.00%
70	$2.35	5.33%
80	$2.80	6.33%
90	$3.24	7.33%
100	$3.68	8.33%
110	$4.41	9.99%
120	$5.15	11.66%
130	$5.89	13.33%
140		13.33%

*Includes income taxes (i.e. results in revenue requirements without adding income taxes). Dollar figures shown in the table above are for initial design purposes only. The performance incentive awarded will be based upon percent of net benefits. The percentages are interpolated linerarly between the performance levels.





2-Year Incentive (% of Net Benefits)
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
70
80
90
100
110
120
130
140
Percentage of Target (155,598 mWH, 2-Year Cumulative)