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Witness: John A. Rogers
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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

REBUTTAL TESTIMONY

OF

JOHN A. ROGERS

KCP&L GREATER MISSOURI OPERATIONS COMPANY

FILE NO. EO-2012-0009

Jefferson City, Missouri
March 2012

** **Denotes Highly Confidential Information** **

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of KCP&L Greater Missouri Operations Company's Notice of Intent to File an Application for Authority to Establish a Demand-Side Programs Investment Mechanism	)))))	Case No. EO-2012-0009

AFFIDAVIT OF JOHN A. ROGERS

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

John A. Rogers, of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 50 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

John A Rogers
John A. Rogers

Subscribed and sworn to before me this 20th day of March, 2012.

SUSAN L. SUNDERMEYER
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: October 03, 2014
Commission Number: 10942086

Susan L Sundermeyer
Notary Public

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FILE NO. EO-2012-0009

Q. Please state your name and business address.

A. My name is John A. Rogers, and my business address is Missouri Public Service Commission, P. O. Box 360, Jefferson City, Missouri 65102.

Q. What is your present position at the Missouri Public Service Commission ("Commission")?

A. I am a Utility Regulatory Manager in the Energy Unit of the Regulatory Review Division.

Q. Please state your educational background and experience.

A. These are contained in Schedule JAR-1.

Q. Would you please summarize the purpose of your rebuttal testimony?

A. I identify the Commission's Missouri Energy Efficiency Investment Act of 2009 ("MEEIA") rules[1] which require actions or decisions by the Commission and provide the Commission Staff's ("Staff's") recommendation(s)[2] concerning each required action or

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[1] The Commission's rules promulgated as a result of the Missouri Energy Efficiency Investment Act of 2009 ("MEEIA") (Section 393.1075, RSMo, Supp. 2011) include Rules 4 CSR 240-3.163, 4 CSR 240-3.164, 4 CSR 240-20.093 and 4 CSR 240-20.094.

[2] Staff witnesses include: 1) Hojong Kang on compliance with Rules 4 CSR 240-3.164 and 4 CSR 240-20.094 concerning energy efficiency and education programs, 2) Randy S. Gross on compliance with 4 CSR 240-3.164 and 4 CSR 240-20.094 concerning demand response programs, 3) Mark L. Oligschlaeger on business risk and accounting issues concerning DSIM, 4) Zephania Marevangepo on business risk and financial analysis concerning DSIM, 5) John A. Rogers on compliance with Rules 4 CSR 24-03.163 and 4 CSR 240-20.094 and Staff's analysis and recommendations concerning Rule 4 CSR 240-20.094(2), 6) Michael S. Scheperle on DSIM rates, and 7) Michelle A. Bocklage on issues concerning tariff sheets.

decision regarding KCP&L Greater Missouri Operations Company's ("GMO's" or "Company's") proposed demand-side management ("DSM") programs and proposed demand-side programs investment mechanism ("DSIM").

I identify the variances – requested and not requested by GMO - from the Commission's MEEIA rules required for approval of GMO's proposed DSM programs and for approval of GMO's proposed DSIM and provide Staff's recommendations concerning each required variance.

Because this is the first time an electric utility is requesting approval of DSM programs and approval of a DSIM under the Commission's MEEIA rules, I discuss the vision of Missouri leaders regarding the MEEIA and why this case is important for the State of Missouri and, specifically, for Missouri's regulated electric utilities and their customers.

I provide an overview of Staff's review, analysis and recommendations concerning GMO's DSM programs and DSIM. I provide Staff's analyses and recommendations concerning: 1) GMO's demand-side program plan, 2) whether GMO's demand-side program plan reflects progress toward an expectation that GMO's demand-side programs can achieve a goal of all cost-effective demand-side savings, 3) GMO's performance incentive component of its DSIM, and 4) GMO's lost revenue component of its DSIM.

<u>MEEIA rules requiring actions or decisions by the Commission and Staff's recommendations concerning each action or decision</u>

Q. What are the actions or decisions, other than rulings on variances from the Commission's MEEIA rules, required of the Commission for its approval of demand-side programs and/or approval of a DSIM?

A. Rule 4 CSR 240-20.094 *Demand-Side Programs* includes the following subsections with *requirements* for Commission actions or decisions concerning the

Company's initial application for approval of its demand-side programs. I provide Staff's recommendation concerning the Commission's actions or decisions required in each rule subsection.

Rule <u>4 CSR 240-20.094(2)(A) and (B) states:</u>

> (A) The *commission shall* use the greater of the annual realistic achievable energy savings and demand savings as determined through the utility's market potential study or the following incremental annual demand-side savings goals as a guideline to review progress toward an expectation that the electric utility's demand-side programs can achieve a goal of all cost-effective demand-side savings: . . . .
>
> (B) The *commission shall* also use the greater of the cumulative realistic achievable energy savings and demand savings as determined through the utility's market potential study or the following cumulative demand-side savings goals as a guideline to review progress toward an expectation that the electric utility's demand-side programs can achieve a goal of all cost-effective demand-side savings: … .
>
> (Emphasis added)

Concerning Rule 4 CSR 240-20.094(2)(A) and (B) Staff recommends:

1. The Commission reject GMO's demand-side program plan[3] and order GMO to file an achievable, realistic and specific demand-side program plan[4] for its DSM programs to be delivered according to a specified implementation plan and budget as required by Rule 4 CSR 240-20.094(1)(K); and

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[3] <u>GMO's demand-side program plan as filed has no specific implementation schedule and is not achievable</u>, since GMO has all of its DSM programs operating at the assumed 0.5% of sales "annual run rate" beginning in January 2012, and an order in this case is not expected until June 19, 2012. Further, in an email to Staff, GMO revealed that it will take approximately six (6) months before the Company can begin implementation of its five (5) new DSM programs following an order approving these programs.

[4] Rule 4 CSR 240-20.094(1)(K) provides: Demand-side program plan means a particular combination of demand-side programs to be delivered according to a specified implementation schedule and budget.

2. The Commission find that GMO's estimated incremental and cumulative annual energy and demand savings for the first three (3) program years[5] demonstrates progress toward an expectation that GMO's demand-side programs can achieve a goal of all cost-effective demand-side savings.

Rule 4 CSR 240-20.094(3), in part, states:

> [T]he *commission shall* approve, approve with modification acceptable to the electric utility, or reject such application for approval of demand-side program plans …
> (A) For demand-side programs and program plans that have a total resource cost test ratio greater than one (1), the *commission shall* approve demand-side programs or program plans, and annual demand and energy savings targets for each demand-side program it approves, provided it finds that the utility has met the filing and submission requirements of 4 CSR 240-3.164(2) and the demand-side programs and program plans—
> 1. Are consistent with a goal of achieving all cost-effective demand-side savings;
> 2. Have reliable evaluation, measurement, and verification plans; and
> 3. Are included in the electric utility's preferred plan or have been analyzed through the integration process required by 4 CSR 240-22.060 to determine the impact of the demand-side programs and program plans on the net present value of revenue requirements of the electric utility;
>
> (Emphasis added)

Concerning this part of Rule 4 CSR 240-20.094(3) Staff recommends:

1. Following GMO filing an achievable, realistic and specific demand-side program plan, the Commission approve GMO's proposed energy efficiency and demand response programs conditioned upon:

[5] Schedule JAR-5 is Staff 's analysis to show how the annual energy and demand savings for GMO's three- (3-)year demand-side program plan beginning in 2013 (and not in 2012 as presented in the Company's filing) compare to the goals for annual energy and demand savings in 4 CSR 240-20.094(2)(A) and (B).

A. GMO making a filing in this case that meets all of the requirements of Rule 4 CSR 240-3.164(2)(C) for its proposed energy efficiency and demand response programs which are also current GMO DSM programs;[6]

B. GMO filing in this case the total resource cost ("TRC") test for its MPower and Appliance Turn-In programs consistent with the definition in Rule 4 CSR 240-3.164(1)(X); and

C. The Commission order GMO to include a careful and thorough review and analysis of its MPower program as part of its currently ongoing DSM market potential study and subsequent Chapter 22 compliance filings and/or annual update filings.

2. If the achievable, realistic and specific demand-side program plan GMO files includes the annual energy and demand savings for Program Years 1-3, contained in Schedule JAR-7, the Commission approve the annual energy and demand savings for each DSM program in Schedule JAR-7 as the annual energy and demand savings targets for GMO's Commission-approved DSM programs;

3. The Commission find that GMO has a reliable evaluation, measurement and verification ("EM&V") plan;

4. The Commission reject GMO's current tariff sheets for its DSM programs and DSIM and order GMO file tariff sheets that comply with the Commission's decisions following the conclusion of this case and prior to implementation of GMO's Commission-approved DSM programs and Commission-approved DSIM;

[6] GMO's proposed DSM programs which are also current DSM programs include: Residential Energy Star New Homes, Residential Cool Homes, Residential Home Energy Analyzer, Residential Home Performance with Energy Star, Residential Low-Income Weatherization, Commercial and Industrial ("C&I") Prescriptive Energy Efficiency Measures, C&I Custom Energy Efficiency Measures, C&I Business Energy Analyzer, C&I Building Operator Certification, C&I MPower, and Residential and C&I Energy Optimizer.

5. The Commission order GMO to include as part of its tariff compliance filing DSM programs' tariff sheets containing information required by Commission MEEIA rules[7] and information necessary for general ease of use and clarification;[8] and

6.. The Commission require GMO to complete its current DSM market potential study and to include in its future MEEIA filings the Company's current DSM market potential study's realistic achievable potential ("RAP") portfolio. The RAP portfolio of DSM programs should be either in the preferred resource plan in the Company's most recent Chapter 22 compliance filing, or annual update filing, or have been analyzed through the integration process required by Rule 4 CSR 240-22.060 to determine the impact of the demand-side programs and programs plans on the net present value of revenue requirements.

<u>Rule 4 CSR 240-20.094(3)(B), in part,</u> states:

> The *commission shall* approve demand-side programs having a total resource cost test ratio less than one (1) for demand-side programs targeted to low-income customers or general education campaigns, if the commission determines that the utility has met the filing and submission requirements of 4 CSR 240-3.164(2), the program or program plan is in the public interest, and meets the requirements stated in paragraphs (3)(A)2. and 3.
>
> (Emphasis added)

Concerning Rule 4 CSR 240-20.094(3)(B):

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[7] Specific language is needed to comply with 1) Rule 4 CSR 240-20.094(6)(J): "A customer electing not to participate in an electric utility's demand-side programs under this section shall still be allowed to participate in interruptible or curtailable rate schedules or tariffs offered by the electric utility;" and 2) 4 CSR 240-20.094(7) which contains language excluding participation in DSM programs providing monetary incentive by customers that receive tax credits "under sections 135.350 through 135.362, RSMo, or under sections 253.545 through 253.561, RSMo."

[8] Staff recommends that the DSM programs' tariff sheets include: measure incentive and/or rebate amounts whenever appropriate, information regarding each programs marketing strategy, relationship of a DSM program to any other DSM program to determine whether or not programs can be combined to maximize the incentives and/or rebates associated with each program, and annual energy and demand savings goals for each DSM programs.

1. Staff recommends the Commission approve GMO's proposed Low-Income Weatherization, Home Energy Analyzer, Business Energy Analyzer, and Building Operator Certification programs; and
2. Staff recommends the Commission approve GMO's Low-Income Weatherization and Building Operator Certification programs conditioned upon GMO making a filing in this case to satisfy all of the requirements of Rule 4 CSR 240-3.164(2)(C) for these programs.

Rule 4 CSR 240-20.094(3)(E) states:

> The *commission shall* simultaneously [with its approval of demand-side programs or program plan] approve, approve with modification acceptable to the utility, or reject the utility's DSIM proposed pursuant to 4 CSR 240-20.093.
>
> (Emphasis added)

Concerning Rule 4 CSR 240-20.094(3)(E), Staff's recommendations are included with its recommendations for the subsection identified as Rule 4 CSR 240-20.093(2)(C) in the next paragraph.

Rule 4 CSR 240-20.093 *Demand-Side Programs Investment Mechanism* includes the following subsections with *requirements* for Commission actions or decisions concerning the Company's initial application for approval of a DSIM. I provide Staff's recommendation concerning the Commission's actions or decisions required for each rule subsection.

Rule 4 CSR 240-20.093(2)(C) states:

> The *commission shall* approve the establishment of a DSIM and associated tariff sheets if it finds the electric utility's approved demand-side programs are expected to result in energy and demand savings and are beneficial to all customers in the customer class in which the programs are proposed, regardless of whether the programs are utilized by all customers and will assist the commission's efforts to implement state policy contained in section 393.1075, RSMo, to—

> 1. Provide the electric utility with timely recovery of all reasonable and prudent costs of delivering cost-effective demand-side programs;
> 2. 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
> 3. Provide timely earnings opportunities associated with cost-effective measurable and/or verifiable energy and demand savings.
>
> (Emphasis added)

Concerning Rule 4 CSR 240-20.093(2)(C) Staff recommends:

1. The Commission approve GMO's proposed cost recovery component of its DSIM and order that the approved cost recovery component include short-term interest on monthly under or over-recovery of DSM programs' costs[9];
2. The Commission reject GMO's proposed shared benefits incentive component of its DSIM and approve a mechanism to book a regulatory asset equal to GMO's proposed shared benefit incentive component to be trued-up based on measured and verified annual net shared benefits[10] as a result of EM&V;
3. GMO and the parties continue to analyze the impacts of a variance from Rule 4 CSR 240-20.093)(2)(H),[11] which is required for approval of GMO's proposed shared benefits component of its DSIM;

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[9] GMO's M.P.S.MO. No. 1, Original Sheet No. 127.8: "Interest on deferred electric energy costs calculated at a rate equal to the weighted average interest paid on short-term debt applied to the month-end balance of deferred electric energy costs."

[10] Rule 4 CSR 240-20.093(1)(C) provides: "Annual net shared benefits means the utility's avoided costs measured and documented through evaluation, measurement and verification (EM&V) reports for approved demand-side programs less the sum of the programs' costs including design, administration, delivery, end-use measures, incentive, EM&V, utility market potential studies, and technical resource manual on an annual basis."

[11] Rule 4 CSR 240-20.093(2)(H) provides, in part: Each utility incentive component of a DSIM shall define the relationship between the *utility's portion of annual net shared benefits achieved and 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. . . . ." (Emphasis added).

4. The Commission reject GMO's performance incentive component and approve the following alternative performance incentive component for GMO as a way to more effectively incent GMO to achieve a goal of all cost-effective demand-side savings and to reward GMO for its actual achievement toward that goal:

% of Target	Low Threshold	High Threshold	Performance Incentive
130%	> 125%	135%	$3,300,000
120%	> 115%	125%	$2,500,000
110%	> 105%	115%	$2,200,000
100%	> 95%	105%	$1,900,000
90%	> 85%	95%	$1,600,000
80%	> 75%	85%	$1,300,000
70%	65%	75%	$1,000,000

5. If the Commission approves GMO's lost revenue component, the Commission order GMO to define lost revenues consistent with the definition in Schedule JAR-6 to help remove any uncertainty concerning the definition of lost revenue in Rule 4 CSR 240-20.093(1)(Y); and

6. The Commission order GMO to comply with Section 393.1075 10 RSMo. and Rule 4 CSR 240-20.094(6)(J), and allow customers who opt-out of participating in the Company's DSM programs to participate in interruptible or curtailable rate schedules or tariffs offered by GMO, including GMO's Energy Optimizer and MPower programs.

<u>Rule 4 CSR 240-20.093(2)(D) states</u>:

> In addition to any other changes in business risk experienced by the electric utility, the *commission shall* (Emphasis added.) consider changes in the utility's business risk resulting from establishment, continuation, or modification of the DSIM in setting the electric utility's allowed return on equity in general rate proceedings.
>
> (Emphasis added)

Concerning Rule 4 CSR 240-20.093(2)(D) Staff makes no recommendation at this time. However, Mr. Oligschlaeger and Mr. Marevangepo provide analyses and discussions in their direct testimony related to business risk and impact on return on equity resulting from the various components of GMO's proposed DSIM.

<u>Rule 4 CSR 240-20.093(2)(E), in part, states</u>:

> In determining to approve a DSIM the *commission shall* consider, but is not limited to only considering, the expected magnitude of the impact of the utility's approved demand-side programs on the utility's costs, revenues, and earnings, the ability of the utility to manage all aspects of the approved demand-side programs, the ability to measure and verify the approved program's impacts, any interaction among the various components of the DSIM that the utility may propose, and the incentives or disincentives provided to the utility as a result of the inclusion or exclusion of cost recovery component, utility lost revenue component, and/or utility incentive component in the DSIM . . . .
>
> (Emphasis added)

Concerning Rule 4 CSR 240-20.093(2)(E), Staff recommends the Commission reject GMO's proposed lost revenue component of its DSIM, because the Company will recover any lost revenue through Staff's proposed mechanism for GMO to book a regulatory asset equal to GMO's proposed shared benefit incentive component to be trued-up based on measured and verified shared benefits as a result of EM&V.

<u>Rule 4 CSR 240-20.093(2)(K) states</u>:

> The *commission shall* apportion the DSIM revenue requirement to each customer class.
>
> (Emphasis added)

Concerning Rule 4 CSR 240-20.093(2)(K), Staff recommends the Commission approve in this case a DSIM rate of $0.00220 per kWh for residential customers and a DSIM rate of $0.00100 per kWh for commercial and industrial ("C&I") customers.

<u>Rule 4 CSR 240-20.093(6) states:</u>

> Disclosure on Customers' Bills. Regardless of whether or not the utility requests adjustments of its DSIM rates between general rate proceedings, any amounts charged under a DSIM approved by the commission, including any utility incentives allowed by the commission, *shall be separately disclosed on each customer's bill*. Proposed language regarding this disclosure *shall be submitted to and approved by the commission* before it appears on customers' bills.
>
> (Emphasis added)

Concerning Rule 4 CSR 240-20.093(2)(K), Staff recommends:

1. The Commission reject GMO's proposed wording to identify the separate DSIM charge on each customer bill and order GMO to use either "Energy Efficiency Pgm Charge xxx kWh @ $0.xxxxx" or "Demand-Side Investment Charge xxx kWh @ $0.xxxxx" to identify the separate DSIM line item charge. However, should the Commission approve GMO's proposed line description of "DSIM xxx kWh @ $0.xxxxx," the Staff recommends that the Commission order GMO to include the wording, "This bill includes a DSIM charge effective [date] allowing recovery of costs and incentives for investments in demand-side programs," on each customer's bill; and
2. The Commission approve GMO's proposed language to disclose the change to customers' bills for the DSIM on the condition that GMO also seek and receive Commission approval of the DSIM Rider insert referred to in the language:[12]

> Message Board – Demand-Side Program Investment Mechanism Rider – This month you will notice a new charge on your monthly bill that allows KCP&L to recover costs associated with the development of energy efficiency programs on behalf of Missouri customers. By helping customers save energy, KCP&L is able to better manage regional energy demand and keep costs affordable, proactively support

[12] *Direct testimony of Tim M. Rush*, Schedule TMR-3, page 1 of 2.

> environmental initiatives and defer the costs of constructing new power plants and generation units. For more information, please read the enclosed DSIM Rider insert or visit www.kcpl.com/about/moERate.pdf.

<u>Variances from the Commission's MEEIA rules required for approval of GMO's proposed DSM programs and GMO's proposed DSIM, and Staff's recommendation concerning each</u>

Q. What is Staff's recommendation concerning the variances GMO has requested?

A. Concerning the variances requested by GMO, Staff recommends:

1. The Commission reject GMO's request for a variance from Rule 4 CSR 240-20.093(2)(H)(3) which requires that all energy and demand savings used to determine a DSIM utility incentive revenue requirement be measured and verified through EM&V, because GMO has not yet attempted to show good cause - through quantitative analysis - why the prospective recovery of its shared benefit component of its DSIM is superior to a baseline DSIM that does comply with the requirements of 4 CSR 240-.093(2)(H)(3);
2. The Commission grant GMO a variance from Rule 4 CSR 240-20.093(4)(A) which requires that DSIM rates be adjusted once every six (6) months, because approval of this variance does not introduce unnecessary risk to customers or to the Company until more experience is gained and can be used to evaluate the impact, if any, from making DSIM rate adjustments annually; and
3. The Commission reject GMO's request for a variance from Rule 4 CSR 240-20.094(6)(J) which allows customers that elect to opt-out of participation in DSM programs to participate in interruptible or curtailable rate

schedules offered by the utility, because the Commission does not have the authority to grant a variance from the statutory language of the MEEIA.

Q. What are Staff's recommendations concerning the variances which are required, but GMO did not request?

A. Concerning variances which are required but which were not requested by GMO, Staff recommends:

1. The Commission grant GMO a variance from Rule 4 CSR 240-20.094(3)(A)(3) on the condition that GMO include all proposed DSM programs in the preferred resource plan in its April 1, 2012 Chapter 22 compliance filing, or if not in the preferred resource plan, GMO should file in this case the results of its analysis of the DSM programs through integrated analysis required by 4 CSR 240-22.060; and
2. The Commission grant GMO a variance from Rule 4 CSR 240-3.164(2)(A), since GMO has engaged Navigant to perform a DSM market potential study for its service territory. This work has started and is expected to be completed in early 2013 for use by the Company in its future MEEIA filings and its future Chapter 22 analyses and filings.

Organization of rebuttal testimony

Q. Please describe how the remainder of your rebuttal testimony is organized.

A. My testimony is organized into the following sections:

1. Staff witnesses and areas of responsibility;
2. Vision for the MEEIA;
3. GMO's MEEIA application;
4. Implications of procedural schedule and technical conferences;
5. Summary of Staff's review and analyses of GMO's proposed DSM programs;

6. Expectation of GMO's proposed DSM programs achieving a goal of all cost-effective demand-side savings;
7. GMO's proposed DSIM;
8. Variances from the Commission's MEEIA rules necessary to approve GMO's proposed DSM programs and proposed DSIM; and
9. Proposed modifications to GMO's DSIM.

<u>Staff witnesses and areas of responsibility</u>

Q. Please identify all Staff witnesses who filed rebuttal testimony in this case and the issues each witness is responsible for.

A. The following are the names of Staff witnesses and the issues each is responsible for:

- Doctor Hojong Kang – compliance with Rules 4 CSR 240-3.164 and 4 CSR 240-20.094 pertaining to energy efficiency and education programs;
- Randy S. Gross – compliance with Rules 4 CSR 240-3.164 and 4 CSR 240-20.094 pertaining to demand response programs;
- Mark L. Oligschlaeger – business risk and accounting issues concerning the DSIM;
- Zephania Marevangepo – business risk and financial analysis concerning the DSIM;
- John A. Rogers – compliance with Rules 4 CSR 240-3.163 and 4 CSR 240-20.093; and Staff's review and analysis of whether GMO's proposed DSM programs can be expected to achieve a goal of all cost-effective demand-side savings when using the guidelines in Rule 4 CSR 240-20.094(2);
- Michael S. Scheperle – DSIM rates; and
- Michelle A. Bocklage – DSM programs tariff sheets and DSIM tariff sheets.

<u>Vision for the MEEIA</u>

Q. What is your understanding of the vision of Missouri's leaders for the MEEIA?

A. My understanding of the vision of Missouri's leaders for the MEEIA is best summed up in the following quotations from Missouri Governor Jay Nixon's news release of July 13, 2009:

- Governor Jay Nixon: *"Energy efficiency saves customers money, creates jobs and is good for our economy. Missourians spend approximately $20 billion each year on all of our energy needs and import nearly 95 percent of the primary energy sources we use. By becoming more energy efficient and reducing our expenditures on energy, we keep more of these energy dollars in Missouri's economy and in Missourians' pockets."*

- State Senator Brad Lager: *"Missouri currently stands at the crossroads of how to best meet our energy needs. In order to help keep energy costs from continuing to rise dramatically, it is critical that we must become more efficient and effective with our current consumption. With the passage of this bill and the adoption of energy efficient practices, Missourians can dramatically reduce their energy consumption and benefit immediately from the savings. Now, energy companies can partner with their customers to better utilize the energy they currently consume. Energy efficiency programs are the cleanest, easiest and quickest ways to protect our precious resources and energy efficiency programs are a vital component of any successful comprehensive energy policy. Senate Bill 376 finally adds this tool to the toolbox."*

- Kansas City Power & Light Company President Bill Downey: *"On behalf of the more than 100 member of the statewide coalition that sponsored and supported Senate Bill 376, I would like to thank Governor Nixon for his leadership in signing this important piece of legislation into law. With this legislation, KCP&L has more tools to meet the challenge of managing our region's increasing demand for electricity, keeping costs for that power among the lowest in the nation and protecting our environment now and for future generations."*

- Kansas City Power & Light Company Chairman and Chief Executive Officer Michael Chesser: *"This legislation will allow us to expand our energy efficiency efforts and invest more money locally in our customers. By investing money in our region with companies and institutions that are our partners in efficiency programs, we are investing in Missouri, creating jobs and helping Missouri companies become more competitive. It is a winning combination for our region, for our customers and for our company."*

Also in the Governor's July 13, 2009 news release, Senior Advocate with the National Resources Defense Council, Rebecca Stanfield, accurately summed up what is at stake: *"Encouraging investment in energy efficiency is one of those rare public policy initiatives where everyone wins. Customers win with less expensive energy, utilities are able to invest in* *a solid business proposition, and communities win as we move towards a cleaner environment and more sustainable economy."*

Q. What process did the Commission use for promulgating its MEEIA rules?

A. The MEEIA became law in the State of Missouri on August 28, 2009, when Governor Jay Nixon signed Senate Bill 376 into law. At the Commission's direction Staff held a series of public workshops (with facilitation support from The Regulatory Assistance Project and technical support from the American Council for an Energy-Efficient Economy) from April through June 2010 to use a stakeholder process[13] to develop proposed MEEIA rules which the Staff provided to the Commission on June 29, 2010[14]. Following receipt of written public comments, the Commission held a public hearing to receive comments on January 6, 2011. The Commission issued its final order of rulemaking on March 14, 2011, and the Commission's MEEIA rules were published in the Missouri Code of State Regulation on April 30, 2011 and became effective on May 30, 2011.

Q. What is your understanding of the purpose of the MEEIA?

A. With passage of the MEEIA in 2009 by the Missouri Legislature, and the subsequent signing by Governor Nixon to become law, the State of Missouri has declared and directed in the MEEIA the following purposes:

> 3. It shall be the policy of the state to 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. In support of this policy, the commission shall:
> (1) Provide timely cost recovery for utilities;
> (2) Ensure that utility financial incentive 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
> (3) Provide timely earning opportunities associated with cost-effective measurable and verifiable efficiency savings.

[13] File No. EW-2010-0265
[14] The rulemaking case for the Commission's MEEIA rules is File No. EX-2010-0368.

> 4. The commission shall permit electric corporations to implement commission-approved demand-side programs proposed pursuant to this section with a goal of achieving all cost-effective demand-side savings. Recovery for such programs shall not be permitted unless the programs are approved by the commission, result in energy or demand savings and are beneficial to all customers in the customer class in which the programs are proposed, regardless of whether the programs are utilized by all customers.

Q. What are Staff's responsibilities in MEEIA cases?

A. Staff is responsible for reviewing the utility's application for proposed DSM programs and proposed DSIM and for analyzing whether the application complies with the MEEIA and with the Commission's MEEIA rules. When performing its review and analysis, Staff has a responsibility to *consider and value equally* the risk and financial interest of customers and the risk and financial interest of the Company resulting from the utility's proposed DSM programs and proposed DSIM. Staff is responsible for providing discussion of its review and analysis, and for making recommendations to help assure that the vision for the MEEIA is achieved, and that the policy of the State and the mission of the Commission are carried out.

<u>GMO's MEEIA application</u>

Q. Is GMO the only electric utility with a MEEIA application pending before the Commission?

A. No. GMO, Ameren Missouri and The Empire District Electric Company each have MEEIA applications pending before the Commission.[15] These MEEIA applications present the first opportunities to significantly change the regulatory framework in Missouri as

[15] GMO's MEEIA application filing was made in File No. EO-2012-0009 on December 22, 2012. Ameren Missouri's MEEIA application filing was made in File No. EO-2012-0142 on January 20, 2012. The Empire District Electric Company's MEEIA application filing was made in File No. EO-2012-0206 on February 28, 2012.

a result of the MEEIA and to help Missouri begin to achieve the Legislature's vision stated in the MEEIA.

Q. As background, would you please summarize GMO's experience with DSM programs and the current regulatory treatment for GMO's DSM program costs?

A. Yes. GMO has a DSM Advisory Group[16] which provides suggestions and advice to GMO on DSM program selection and other issues. There is a funding goal of one percent of annual revenues to implement cost-effective DSM programs as ordered and approved in stipulation and agreements in File Nos. ER-2007-0004 and EO-2007-0298. GMO implemented its current DSM programs (see Schedule JAR-2) during 2008 and modeled its current DSM programs after those of its affiliate electric utility – Kansas City Power & Light Company – which implemented similar programs beginning late 2005 through early 2008. Except for education DSM programs, each of GMO's current DSM programs has an EM&V report[17] for evaluation of each DSM program's process, and measurement and verification of each DSM program's impacts (i. e., energy (kWh) savings and/or demand (kW) savings) estimated by an independent third-party evaluator[18] hired by the Company. Currently, GMO's DSM programs' costs are placed in a regulatory asset account which earns interest at its AFUDC (allowance for funds used during construction) rate. If in the Company's subsequent general rate case, the programs' costs are found to be prudent, these costs will be included in rate base, earn a return, and be amortized.[19]

[16] GMO DSM Advisory Group meets quarterly in person or by telephone conference and includes the following organizations: Staff, The Office of Public Counsel, Missouri Department of Natural Resources, The Empire District Electric Company, Missouri Industrial Energy Consumers, and Praxair, Inc.
[17] *Direct testimony of Allen Dennis*, Schedules ADD-3 through ADD-10 (HC).
[18] Opinion Dynamics Corporation.
[19] Prudent costs incurred since the last rate case will be amortized over six (6) years per the Commission's *Report and Order* dated May 4, 2011 in File No. ER-2010-0356, pages 117 – 120. Prudent programs' costs prior to the Company's last general rate case are included in rate base, earn a return and are amortized over ten (10) years.

Q. Would you please briefly describe GMO's MEEIA application?

A. Yes. GMO's MEEIA application was filed on December 22, 2011. This is GMO's first application under the Commission's MEEIA rules and the MEEIA. It includes requests for approval of thirteen (13) DSM programs (eight (8) current programs and five (5) new programs) and for approval of a DSIM "rider" which includes the following features and components: 1) DSIM rates for all customer classes except Lighting, 2) a cost recovery component, 3) a shared benefits component, 4) a performance incentive component, 5) a lost revenue component, and 6) an opt-out provision. In its application, GMO requests variances from the Commission's MEEIA Rules 4 CSR 240-20.093(4)(A), 4 CSR 240-20.093(H) and 4 CSR 240-20.094(J).[20]

GMO's preparation for its MEEIA application represents a significant undertaking by the Company. Staff recognizes and appreciates the initiative and the extra effort by the Company to be the first to make a MEEIA filing.

<u>Implications of procedural schedule and technical conferences</u>

Q. Would you briefly review the technical conferences GMO and the parties to this case have undertaken together and their impacts on Staff's processing of this case?

A. Yes. Schedule JAR-4 includes the procedural schedule approved by the Commission for this case and the schedule for weekly technical conferences. During the technical conferences the Company and parties have been working together to gain a common understanding of the Company's proposed DSM programs and proposed DSIM and to conduct additional analyses primarily related to modifications of GMO's proposed DSIM. Because this is the first MEEIA filing and because there are several variances requested - and

[20] *Direct testimony of Tim M. Rush*, pp. 22-24. Staff notes that the correct and complete subsection references for GMO's requested variances are Rules 4 CSR 240-20.093(4)(A), 4 CSR 240-20.093(2)(H)3, and 4 CSR 240-20.094(6)(J).

still others not requested - by the Company, the technical conference process has proven very valuable overall to help accelerate the learning process. Staff appreciates the cooperation of GMO and the parties during the technical conferences.

<u>Summary of Staff's review and analyses of GMO's proposed DSM programs</u>

Q. Would you provide an overview of the Company's proposed DSM programs?

A. In its application, GMO requests approval of thirteen (13) DSM programs to be implemented following Commission approval in this case. Eight (8) programs are current DSM programs,[21] with six current programs having EM&V reports.[22] GMO's current Home Energy Analyzer program and Business Energy Analyzer program are education programs which do not require formal evaluation.[23] If approved, GMO plans to transition the eight (8) current programs to MEEIA programs as soon as possible following the Commission's approval of these programs. The Company's five (5) new DSM programs were selected to enhance the Company's DSM portfolio. GMO plans to implement the five (5) new programs approximately six (6) months after the Commission approves the new programs. Schedule JAR-3 lists all of GMO's proposed DSM programs (current and new) and provides the estimated cumulative annual energy and demand savings for each proposed program for the period 2012 through 2018. Note that Schedule JAR-3 assumes that GMO's proposed DSM programs are delivered for the entire period 2012 – 2018 (and not just 2012 – 2015) in order to quantify and evaluate the proposed DSM programs' incremental and cumulative annual energy and demand savings over a longer time period necessary to review progress toward an expectation that GMO's demand-side programs can achieve a goal of all cost-effective

[21] GMO will discontinue one current DSM program: Low-Income Affordable New Homes program due to a lack of participation.
[22] *Direct testimony of Allen Dennis*, Schedules ADD-3, 4, 5, 6, 7, 8, 9, and 10.
[23] *Direct testimony of Tim M. Rush*, p. 12, lines 6 - 8.

demand-side savings[24]. Following Commission-approval and implementation of its proposed DSM programs, GMO intends to have an independent EM&V performed on each of its DSM programs at least once every other year.[25]

Q. Would you please summarize Staff's review of and recommendations concerning GMO's proposed DSM programs?

A. Staff witnesses Hojong Kang and Randy S. Gross reviewed and analyzed the Company's energy efficiency programs and demand response programs, respectively. The rebuttal testimony of Dr. Kang and Mr. Gross present Staff's overall assessment of the Company's DSM programs as favorable. Dr. Kang and Mr. Gross find the energy and demand savings levels to be reasonable for all of GMO's proposed DSM programs. Dr. Kang and Mr. Gross recommend approval of GMO's proposed energy efficiency and education programs and GMO's proposed demand response programs, respectively; however, both Staff witnesses condition their recommendations upon GMO making a filing that meets the filing requirements of Rule 4 CSR 240-3.164(2)(C) for its current DSM programs which are proposed DSM programs in this case.

Dr. Kang also found that the TRC values for GMO's proposed Appliance Turn-In and MPower programs[26] were not calculated consistent with the definition of the TRC test in Rule 4 CSR 240-3.164(1)(X). He recommends the Commission order GMO to calculate the TRC for all of its DSM programs consistent with the definition in Rule 4 CSR 240-3.164(1)(X).

Dr. Kang and Mr. Gross identify that a variance from Rule 4 CSR 240-20.094(3)(A)(3) is required for approval of GMO's proposed DSM programs,

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[24] 4 CSR 240-20.094(2)(A) and (B) requires the Commission review progress toward an expectation that the electric utility's demand-side programs can achieve a goal of all cost-effective demand-side savings.
[25] *Direct testimony of Tim M. Rush*, p. 12, lines 18 – 22.
[26] Correctly calculated TRC values were provide to Staff through GMO's responses to Staff's data requests numbers 0008 and 0008.1.

since none of them[27] are included in GMO's currently filed preferred resource plan, nor have any of them been analyzed through the integration process required by Rule 4 CSR 240-22.060 to determine the impact of the programs on the net present value of the Company's revenue requirements. GMO has not requested this variance. Staff recommends the Commission grant GMO a variance from Rule 4 CSR 240-20.094(3)(A)3 in this case on the condition that GMO include all proposed DSM programs in the preferred resource plan in its April 1, 2012 Chapter 22 compliance filing.

Dr. Kang and Mr. Gross find that GMO does not have a current market potential study which complies with the requirements in Rule 4 CSR 240-3.164(2)(A). However, Staff recommends approval of a variance from Rule 4 CSR 240-3.164(2)(A), since GMO has engaged Navigant to perform a DSM market potential study for its service territory and this work has started and is expected to be completed in early 2013 for use by the Company in its future MEEIA filings and its future Chapter 22 analyses and filings.

Q. Would you please summarize Staff's review of and recommendations concerning GMO's proposed tariff sheets for its DSM programs?

A. Through the rebuttal testimony of Staff witness Michelle A. Bocklage, Staff identifies and discusses its concerns regarding the format of the DSM programs' tariff sheets and the absence of important content in the tariff sheets. Ms. Bocklage recommends that GMO withdraw its DSM programs' tariff sheets and its DSIM tariff sheets and then make a tariff compliance filing following the conclusion of this case and prior to implementation of its Commission-approved DSM programs and Commission-approved DSIM. Should GMO choose not to withdraw its DSM program tariff sheets in this case, Ms. Bocklage recommends

[27] Although some DSM programs in GMO's preferred resource plan (in File NO. EE-2009-0237) have the same names as some of the proposed DSM programs, the proposed DSM programs are different than the DSM programs in the preferred resource plan as discussed in the rebuttal testimony of Dr. Kang and Mr. Gross.

that the Commission reject the tariff sheets and order GMO to make a tariff compliance filing following the conclusion of this case and prior to implementation of its Commission-approved DSM programs and Commission-approved DSIM. Ms. Bocklage's rebuttal testimony includes the recommendation that any re-filed DSM programs' tariff sheets include additional information required by Commission MEEIA rules[28] or that is necessary for general ease of use and clarification.[29]

<u>Expectation of GMO's proposed DSM programs achieving a goal of all cost-effective demand-side savings</u>

Q. Is it important for an electric utility to propose DSM programs which can be expected to achieve a goal of all cost-effective demand-side savings?

A. Yes. Section 393.1075 4 directs that: "The commission shall permit electric corporations to implement commission-approved demand-side programs proposed pursuant to this section with *a goal of achieving all cost-effective demand-side savings*." (Emphasis added).

Q. Does the Commission have guidelines to review progress toward an expectation that the electric utility's demand-side programs can achieve a goal of all cost-effective demand-side savings?

A. Yes. The Commission's guidelines are contained in Rule 4 CSR 240-20.094(2)(A) for consideration of estimated incremental annual energy and demand savings

[28] Specific language is needed to comply with 1) Rule 4 CSR 240-20.094(6)(J): "A customer electing not to participate in an electric utility's demand-side programs under this section shall still be allowed to participate in interruptible or curtailable rate schedules or tariffs offered by the electric utility;" and 2) Rule 4 CSR 240-20.094(7) which contains language excluding participation in DSM programs providing monetary incentive by customers that receive tax credits "under Sections 135.350 through 135.362, RSMo, or under Sections 253.545 through 253.561, RSMo."
[29] Staff recommends that the DSM programs' tariff sheets include: measure incentive and/or rebate amounts whenever appropriate, information regarding each programs marketing strategy, relationship of a DSM program to any other DSM program to determine whether or not programs can be combined to maximize the incentives and/or rebates associated with each program, and annual energy and demand savings goals for each DSM programs.

from the utility's DSM programs and in Rule 4 CSR 240-20.094(2)(B) for consideration of estimated cumulative annual energy and demand savings from the utility's DSM programs.

Rule 4 CSR 240-20.094(2)(A) provides:

> (A) The commission shall use the greater of the annual realistic achievable energy savings and demand savings as determined through the utility's market potential study or the following incremental annual demand-side savings goals as a guideline to review progress toward an expectation that the electric utility's demand-side programs can achieve a goal of all cost-effective demand-side savings:
>
> 1. For 2012: three-tenths percent (0.3%) of total annual energy and one percent (1.0%) of annual peak demand;
> 2. For 2013: five-tenths percent (0.5%) of total annual energy and one percent (1.0%) of annual peak demand;
> 3. For 2014: seven-tenths percent (0.7%) of total annual energy and one percent (1.0%) of annual peak demand;
> 4. For 2015: nine-tenths percent (0.9%) of total annual energy and one percent (1.0%) of annual peak demand;
> 5. For 2016: one-and-one-tenth percent (1.1%) of total annual energy and one percent (1.0%) of annual peak demand;
> 6. For 2017: one-and-three-tenths percent (1.3%) of total annual energy and one percent (1.0%) of annual peak demand;
> 7. For 2018: one-and-five-tenths percent (1.5%) of total annual energy and one percent (1.0%) of annual peak demand;
> 8. For 2019: one-and-seven-tenths percent (1.7%) of total annual energy and one percent (1.0%) of annual peak demand; and
> 9. For 2020 and for subsequent years, unless additional energy savings and demand savings goals are established by the commission: one-and-nine-tenths percent (1.9%) of total annual energy and one percent (1.0%) of annual peak demand each year:

Rule 4 CSR 240-20.094(2)(B) provides:

> (B) The commission shall also use the greater of the cumulative realistic achievable energy savings and demand savings as determined through the utility's market potential study or the following cumulative demand-side savings goals as a guideline to review progress toward an expectation that the electric utility's demand-side programs can achieve a goal of all cost-effective demand-side savings:
>
> 1. For 2012: three-tenths percent (0.3%) of total annual energy and one percent (1.0%) of annual peak demand;
> 2. For 2013: eight-tenths percent (0.8%) of total annual energy and two percent (2.0%) of annual peak demand;

> 3. For 2014: one-and-five-tenths percent (1.5%) of total annual energy and three percent (3.0%) of annual peak demand;
>
> 4. For 2015: two-and-four-tenths percent (2.4%) of total annual energy and four percent (4.0%) of annual peak demand;
>
> 5. For 2016: three-and-five-tenths percent (3.5%) of total annual energy and five percent (5.0%) of annual peak demand;
>
> 6. For 2017: four-and-eight-tenths percent (4.8%) of total annual energy and six percent (6.0%) of annual peak demand;
>
> 7. For 2018: six-and-three-tenths percent (6.3%) of total annual energy and seven percent (7.0%) of annual peak demand;
>
> 8. For 2019: eight percent (8.0%) of total annual energy and eight percent (8.0%) of annual peak demand; and
>
> 9. For 2020 and for subsequent years, unless additional energy savings and demand savings goals are established by the commission: nine-and-nine-tenths percent (9.9%) of total annual energy and nine percent (9.0%) of annual peak demand for 2020, and then increasing by one-and-nine-tenths percent (1.9%) of total annual energy and by one percent (1.0%) of annual peak demand each year after 2020.

Q. Does GMO's application contain incremental and cumulative annual realistic achievable energy savings and demand savings as determined through the utility's market potential study?

A. No.

Q. Does Staff consider this to be a deficiency in the Company's application?

A. Yes, it is. However, Staff recommends that the Commission grant GMO a variance from Rule 4 CSR 240-3.164(2)(A).

Q. Why?

A. GMO does not have a comprehensive current DSM market potential study for its service territory in compliance with Rule 4 CSR 240-3.164(2)(A). Also, GMO's application does not include estimates of incremental and cumulative realistic achievable annual energy and demand savings as defined in Rule 4 CSR 240-3.164(1)(T). However, GMO has engaged Navigant Consulting to perform a DSM market potential study for the GMO service territory with a goal of having this project completed in early 2013. Staff is encouraged that work on the GMO DSM market potential study has been started and that this work is expected to be completed in early 2013 for use by the Company in its future MEEIA filings and its future Chapter 22 analyses and filings. In 2011, Staff expressed its desire that GMO make its MEEIA filing as soon as possible and not wait for the completion of its planned DSM market potential study. Therefore, Staff recommends the Commission approve a variance from the requirements of Rule 4 CSR 240-3.164(2)(A).

Q. Has Staff completed an analysis of the estimated incremental and cumulative annual energy and demand savings for GMO's DSM programs and compared these estimated savings to the incremental and cumulative annual energy and demand savings goals in Rule 4 CSR 240-20.094(2)(A) and (B)?

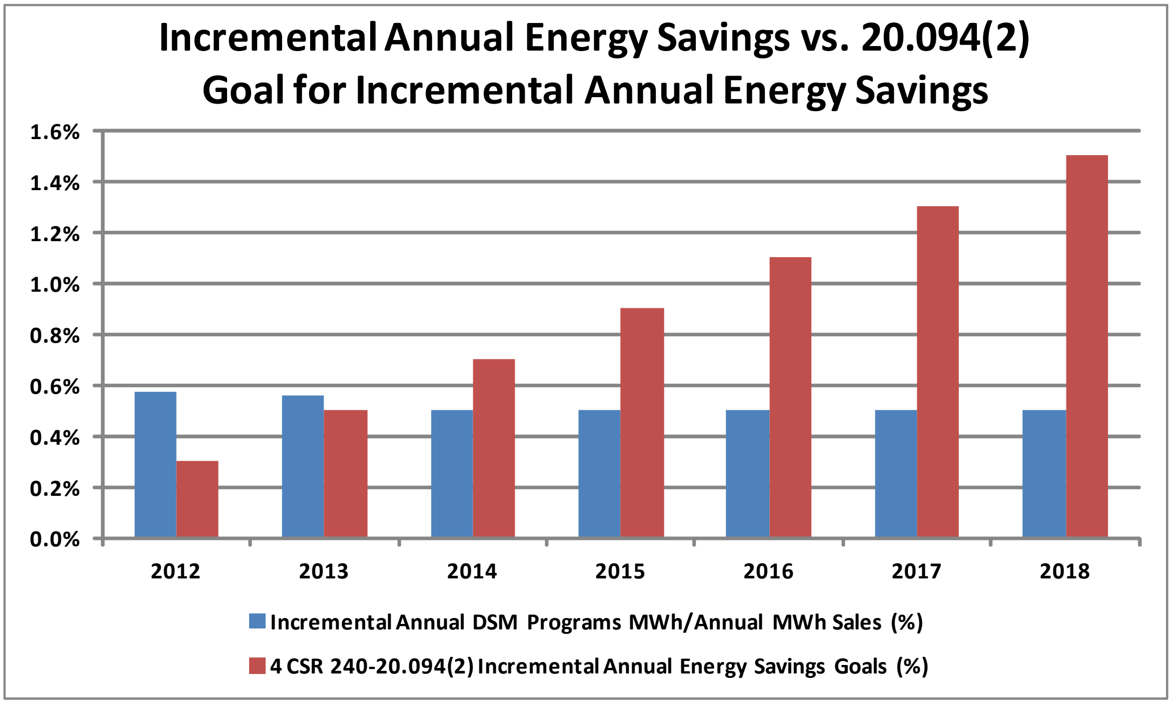
A. Yes. A summary of the results of Staff's analysis are presented in the following tables and charts:

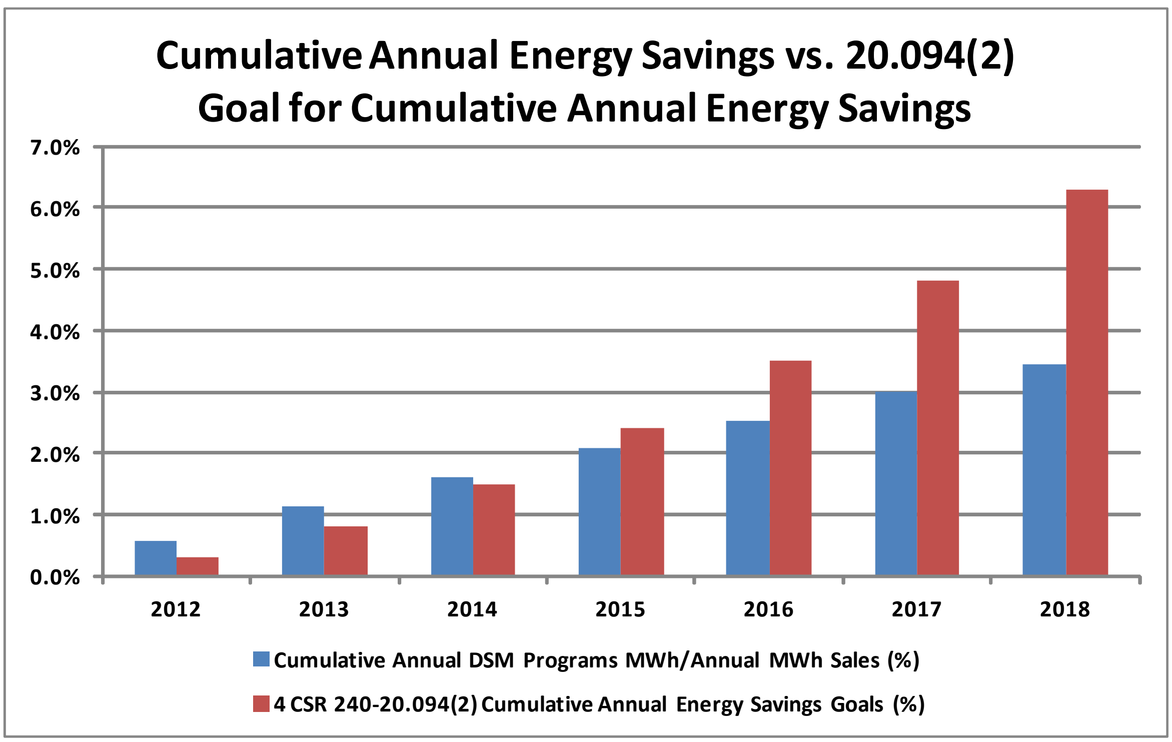
Estimated Annual Energy Savings *(GWh)*

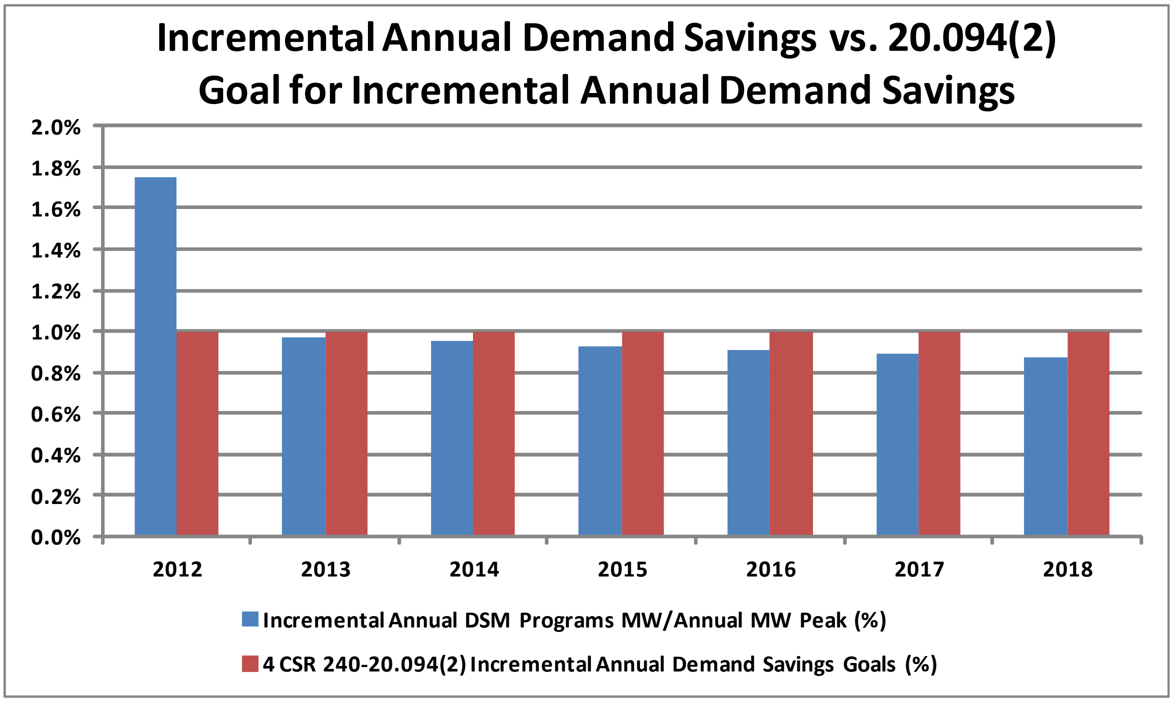
	2012	2013	2014	2015	2016	2017	2018
Residential EE Programs	*19*	*36*	*49*	*62*	*76*	*89*	*103*
C&I EE Programs	*29*	*59*	*89*	*119*	*150*	*182*	*214*
Total DSM Programs	*48*	*95*	*138*	*182*	*226*	*271*	*317*
Annual Energy Sales (GWh)	*8,334*	*8,433*	*8,573*	*8,726*	*8,885*	*9,027*	*9,163*
Cumulative % DSM Energy Savings	*0.6%*	*1.1%*	*1.6%*	*2.1%*	*2.5%*	*3.0%*	*3.5%*
Incremental % DSM Energy Savings	*0.6%*	*0.6%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*
% from Residential Programs	39%	38%	36%	34%	33%	33%	32%
% from C&I Programs	61%	62%	64%	66%	67%	67%	68%
Total	100%	100%	100%	100%	100%	100%	100%

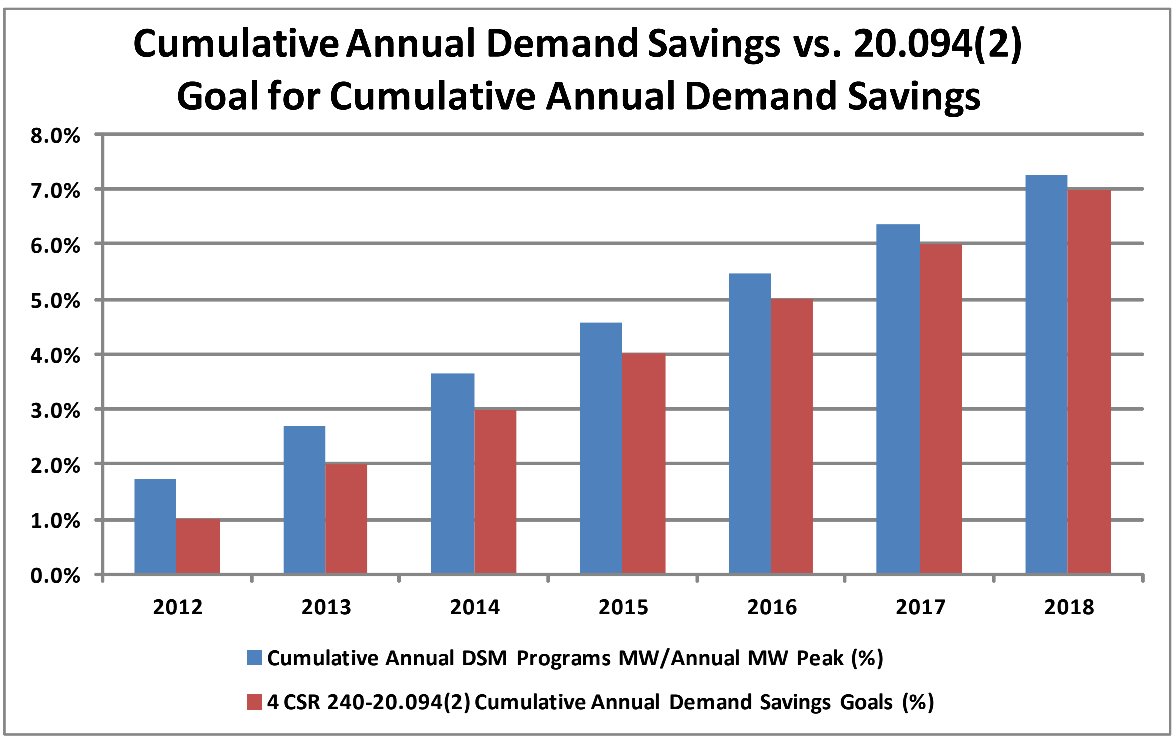
Estimated Annual Demand Savings *(MW)*

	2012	2013	2014	2015	2016	2017	2018
Demand Response Programs	*17*	*24*	*30*	*36*	*41*	*46*	*51*
C&I EE Programs	*8*	*14*	*20*	*26*	*33*	*39*	*46*
Residential EE Programs	*10*	*16*	*23*	*30*	*38*	*45*	*52*
Total DSM Programs	*35*	*54*	*74*	*93*	*112*	*131*	*149*
Annual Peak Demand (MW)	*1,990*	*2,017*	*2,037*	*2,059*	*2,084*	*2,107*	*2,129*
Cumulative % DSM Demand Savings	*1.7%*	*2.7%*	*3.6%*	*4.5%*	*5.4%*	*6.2%*	*7.0%*
Incremental % DSM Demand Savings	1.7%	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%
% from Demand Response Programs	49%	44%	41%	39%	37%	36%	34%
% from C&I Programs	24%	26%	27%	29%	29%	30%	31%
% from Residential Programs	28%	30%	32%	33%	34%	34%	35%
Total	100%	100%	100%	100%	100%	100%	100%


Incremental Annual Energy Savings vs. 20.094(2)
Goal for Incremental Annual Energy Savings
1.6%
1.4%
1.2%
1.0%
0.8%
0.6%
0.4%
0.2%
0.0%
2012
2013
2014
2015
2016
2017
2018
Incremental Annual DSM Programs MWh/Annual MWh Sales (%)
4 CSR 240-20.094(2) Incremental Annual Energy Savings Goals (%)


Cumulative Annual Energy Savings vs. 20.094(2)
Goal for Cumulative Annual Energy Savings
7.0%
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
2012
2013
2014
2015
2016
2017
2018
Cumulative Annual DSM Programs MWh/Annual MWh Sales (%)
4 CSR 240-20.094(2) Cumulative Annual Energy Savings Goals (%)


Incremental Annual Demand Savings vs. 20.094(2)
Goal for Incremental Annual Demand Savings
2.0%
1.8%
1.6%
1.4%
1.2%
1.0%
0.8%
0.6%
0.4%
0.2%
0.0%
2012
2013
2014
2015
2016
2017
2018
Incremental Annual DSM Programs MW/Annual MW Peak (%)
4 CSR 240-20.094(2) Incremental Annual Demand Savings Goals (%)


Cumulative Annual Demand Savings vs. 20.094(2)
Goal for Cumulative Annual Demand Savings
8.0%
7.0%
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
2012
2013
2014
2015
2016
2017
2018
Cumulative Annual DSM Programs MW/Annual MW Peak (%)
4 CSR 240-20.094(2) Cumulative Annual Demand Savings Goals (%)

Q. What observations does Staff make as a result of its analysis in Schedule JAR-3 and the tables and charts above?

A. From its analysis Staff observes that:

1. GMO assumes that all thirteen (13) of the proposed DSM programs (eight (8) current programs and five (5) new programs) are performing at their planned "annual run rates" of 0.5% of expected annual energy sales[30] during each year of the 2012 – 2015 period;[31]
2. Incremental energy savings are estimated to be approximately 0.5% of expected annual energy sales throughout the 2012 – 2018 period and do not increase over time;
3. Incremental annual energy savings are approximately equal to the goal (of 0.5%) for incremental annual energy savings in Rule 4 CSR 240-20.094(2) for 2013. However, beginning in 2014 and going through 2018, incremental annual energy savings levels increasingly "lag" behind the goals for incremental annual energy savings in Rule 4 CSR 240-20.094(2);
4. Cumulative annual energy savings approximate overall the goals for cumulative energy savings in Rule 4 CSR 240-20.094(2) for the period 2012 – 2015;
5. Annual demand savings result primarily from energy efficiency programs and not from demand response programs for the period 2012 – 2018, with the annual

[30] This assumes no adjustment from the baseline forecast of annual energy sales for customers who are approved to opt-out of the DSM programs. At this time, Staff is not aware of any GMO customers who have been approved to opt-out of participation in the GMO DSM programs.

[31] GMO's demand-side program plan as filed has no specific implementation schedule and is not achievable, since GMO has all of its DSM programs operating at the assumed 0.5% of sales "annual run rate" beginning in January 2012, and an order in this case is not expected until June 19, 2012. Further, in an email to Staff, GMO revealed that it will take approximately six (6) months before the Company can begin implementation of its five (5) new DSM programs following an order approving these programs.

demand savings from energy efficiency programs growing at a faster rate than that of demand response programs; and

6. Incremental and cumulative annual demand savings are approximately equal to the goals for incremental and cumulative annual demand savings in Rule 4 CSR 240-20.094(2).

Q. Does Staff recommend that the Commission find that GMO's DSM programs can make reasonable progress toward an expectation that the programs can achieve a goal of all cost-effective demand-side savings?

A. Yes. However, Staff answers this question with reservations as a result of the following concerns:

1. GMO has not provided an achievable, realistic and specific demand-side program plan[32] for its DSM programs to be delivered according to a specified implementation plan and budget. GMO's proposed demand-side program plan has all DSM programs delivering service at the "annual run rate" of 0.5% of forecasted energy sales during 2012. This demand-side program plan is not achievable, since an order in this case is not expected until June 19, 2012, and it will take approximately six (6) months following an order in this case before the Company can begin implementation of its five (5) new DSM programs.[33] Staff has performed an alternative analysis to show how annual energy and demand savings for GMO's three (3) year demand-side program plan beginning in 2013 (and not in 2012 as presented in the Company's filing) compare to the goals for annual

[32] 4 CSR 240-20.094(1)(K): Demand-side program plan means a particular combination of demand-side programs to be delivered according to a specified implementation schedule and budget.
[33] In an email dated February 27, 2012 sent at 10:42 AM from Carol Sivils to John Rogers: "Implementation of the GMO DSM programs are anticipated as follows: Existing programs – immediately upon approval, New programs – 6 months after approval."

energy and demand savings in Rule 4 CSR 240-20.094(2)(A) and (B). This analysis is in Schedule JAR-5 and demonstrates that simply delaying implementation of the demand-side program plan by one (1) year increases the amount of "lag" behind the goals for incremental and cumulative annual energy savings in Rule 4 CSR 240-20.094(2);

2. GMO does not have a current DSM market potential study for its service territory that complies with Rule 4 CSR 240-3.164(2)(A). Therefore, GMO has not presented a long range plan for its DSM programs to achieve all cost-effective demand-side savings. Staff can only evaluate the information provided for delivery of program services for three (3) years[34] at a nearly-constant rate of annual program delivery and spending. The Company has decided to constrain its annual spending on DSM programs during the three (3) year implementation period at a nearly-constant annual spending level, instead of "ramping up" its annual spending levels as part of a long range plan to achieve all cost-effective demand-side savings. Staff recommends the Commission direct GMO to complete its current DSM market potential study and to include in its future MEEIA filings the Company's current DSM market potential study's RAP portfolio which is either in the preferred resource plan in the Company's most recent Chapter 22 compliance filing, or annual update filing, or which has been analyzed through the integration process required by Rule 4 CSR 240-22.060 to determine the impact of the demand-side programs and program plans on the net present value of revenue requirements.

[34] Schedule JAR-3 assumes that GMO's proposed DSM programs' are delivered for the entire period 2012 – 2018 (and not just 2012 – 2015) in order to quantify and evaluate the proposed DSM programs' incremental and cumulative annual energy and demand savings over a longer time period.

Staff notes that GMO's demand-side program plan as filed represents a significant move forward in terms of GMO's annual spending levels and annual energy and demand savings as reflected in the following chart. Staff concludes that despite its concerns, it is in the best interest of the Company and its customers that GMO's demand-side program plan – when modified to reflect an achievable specific implementation plan - be approved by the Commission.

		Incremental Program Year Cost and Energy Savings		
	Historic Total (1)	**Program Year 1**	**Program Year 2**	**Program Year 3**
Programs' Cost ($ 000)	*$ 18,000*	*$ 12,150*	*$ 13,002*	*$ 13,683*
Energy Savings (MWh)	*47,600*	*47,764*	*47,267*	*42,862*

(1) Direct testimony of Allen Dennis pages 6 - 7, historic total are through September 2011.
(2) Schedule JAR-2 indicates that all of GMO's current programs were implemented in 2008. Thus, historic totals are for roughly three years.

<u>GMO's proposed DSIM</u>

Q. What are the features and components of GMO's proposed DSIM?

A. Should the Commission approve GMO's proposed DSM programs, GMO requests approval of a DSIM Rider which includes the following features and components:

1. A separate **<u>DSIM rate</u>** to recover the proposed modifications to the current recovery mechanism and the costs resulting from the proposed DSIM Rider;[35]
2. A **<u>cost recovery component</u>** to recover the annualized direct and indirect DSM program costs[36] for the first three (3) program years of $12,945,000 per year with annual filings to address changes in the anticipated costs for the remainder of the

[35] See File No. YE-2012-0405, PSC MO. No. 1 Original Sheet No. 143, which includes a DSIM rate of $0.00220 for each of the following customer classes: Residential, Small General Service, Large General Service and Large Power.
[36] *Direct testimony of Tim M. Rush*, p. 15, lines 5 – 14 for a description of direct and indirect DSM program costs.

recovery period and to track and true-up annually to actual program costs[37] based on "the actual program participants/measures";[38]

3. A **<u>shared benefit component</u>** to recover 12% of the annualized expected shared benefits which is equal to $5,515,000 per year[39] based on the Company's estimates of avoided energy costs and avoided demand costs[40] and an "assumed" 15-year life of all program measures, and to be tracked and trued-up annually to actual shared benefits based on "the actual program participants/measures";

4. A **<u>performance incentive component</u>** to reward the Company based upon a 50/50 weighting of actual energy and demand savings levels - based on full EM&V after at least two (2) years of programs' performance - relative to the energy and demand savings targets[41] established by the Commission for the Company's DSM portfolio. The annual performance incentive paid will be based on the following 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

[37] *Direct testimony of Tim M. Rush*, p. 15 line15 through p. 16, line 6.
[38] *Direct testimony of Tim M. Rush*, p. 18, line 7.
[39] *Direct testimony of Tim M. Rush*, Schedule TMR-5, p. 1 of 3.
[40] *Direct testimony of Tim M. Rush* beginning on p. 16, line 13: "The annual shared benefits were developed by using the DSMore 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 reduce kW peak demand for each of the programs in the portfolio."
[41] Annual energy savings target and annual demand savings target are defined in 4 CSR 240-20.093(1)(A) and (B), respectively.

The performance incentive award will be included in the DSIM rate following "the completion of the EM&V at the next regularly scheduled DSIM filing."[42]

5. A **<u>lost revenue component</u>** to recover lost 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. … 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."[43]

6. An **<u>opt-out provision</u>** which specifies that customers who qualify and are approved to opt-out under the provisions of Rule 4 CSR 240-20.094(6) will not be billed the DSIM rate and will not be allowed to participate in any of the GMO Commission-approved MEEIA DSM programs, which includes the MPower program.[44]

<u>Variances from the Commission's MEEIA rules required for GMO's proposed DSIM</u>

Q. What variances from Commission rules does GMO request for its proposed DSIM?

A. GMO requests the following variances[45] from the Commission's MEEIA rules for its proposed DSIM:

1. A variance from Rule 4 CSR 240-20.093(4)(A) to allow its DSIM rates to be recalculated annually vs. the once every six (6) months required by rule;

[42] *Direct testimony of Tim M. Rush*, p. 20, lines 14 – 16.
[43] *Direct testimony of Tim M. Rush*, p. 21, lines 3 – 13.
[44] *Direct testimony of Tim M. Rush*, p. 24, lines 5 – 6.
[45] *Direct testimony of Tim M. Rush*, p. 22 line 17 through p. 24 line 13.

2. A variance from Rule 4 CSR 240-.093(2)(H)(3) to allow for prospective recovery of its shared benefit component of its proposed DSIM vs. the rule requirement 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."
3. A variance from Rule 4 CSR 240-20.094(6)(J) to exclude customers who opt-out of participation in GMO's DSM programs from taking part in interruptible or curtailable rate schedules or tariffs vs. the rule requirement and the legislative mandate in Section 393.1075 10 RSMo that " A customer electing not to participate in an electric corporation's demand-side programs under this section shall still be allowed to participate in interruptible or curtailable rate schedules or tariffs offered by the electric corporation."

Q. Does Staff support any of GMO's variance requests?

A. Staff only supports the variance from Rule 4 CSR 240-20.093(4)(A) for which the Company provides the following showing of good cause: "Under GMO's proposal, DSIM rates are recalculated annually, with an option for a semi-annual filing, to reflect changes in DSIM cost recovery revenue requirement, lost revenue requirement and utility incentive revenue requirement. GMO believes that a mandatory six-month DSIM adjustment will be counterproductive until it has more experience with the MEEIA rule, the EM&V process and the DSIM mechanism."[46] Approval of this variance does not introduce unnecessary risk to customers or to the Company until more experience is gained and can be evaluated.

[46] *Direct testimony of Tim M. Rush*, p. 23, lines 3 – 7.

Q. Why does Staff not support approval at this time of GMO's other variance requests?

A. Concerning a variance from Rule 4 CSR 240-20.093(2)(H)(3), GMO has not yet attempted to show good cause - through quantitative analysis - why the prospective recovery of its shared benefit component of its DSIM is superior to a baseline DSIM that complies with the requirements of Rule 4 CSR 240-.093(2)(H)(3). It is GMO's responsibility to show good cause for approval of this variance. The values of annual shared benefits will not be equal to the values of annual net shared benefits, since there is no direct correlation between total (direct and indirect) programs' costs and gross shared benefits. Staff has been using, and will continue to use, the technical conferences to lead an effort to develop analyses of modifications to GMO's proposed DSIM which do comply with 4 CSR 240-.093(2)(H)(3), so the Company, the parties and the Commission can better understand the relevance and impact of this variance for customers and for the Company. Finally, Staff also notes that a variance from Rule 4 CSR 240-20.093(2)(H)(3) to allow GMO prospective recovery of a portion of the annual shared benefits will also necessitate a simultaneous and similar variance from Rules 4 CSR 240-20.093(1)(EE), 4 CSR 240-20.094(1)(Z), 4 CSR 240-3.163(1)(A), 4 CSR 240-20.093(1)(C), 4 CSR 240-20.094(1)(C), 4 CSR 240-3.163(1)(F)(5), 4 CSR 240-20.093(1)(M)(5), and 4 CSR 240-20.094(1)(J)(5).

A variance from Rule 4 CSR 240-20.094(6)(J), GMO's request to exclude customers who opt-out of participation in GMO's DSM programs from taking part in interruptible or curtailable service is in direct conflict with the MEEIA. This is because Rule 4 CSR 240-20.094(6)(J) simply restates a MEEIA requirement that is statutorily codified at Section 393.1075(10), RSMo Supp. 2011. The Commission does not have the authority to grant a variance from the MEEIA; therefore, a variance from compliance with Rule 4 CSR 240-20.094(6)(J) would be ineffectual.

Q. What additional variances should GMO have requested for its proposed DSM programs or DSIM, but did not?

A. Based on Staff's review, GMO has not requested variances from: 1) Rule 4 CSR 240-20.094(3)(A)(3) which requires that the proposed DSM programs are included in the electric utility's preferred resource plan or have been analyzed through the integration process required by Rule 4 CSR 240-22.060 to determine the impact of the demand-side programs and program plans on the net present value of revenue requirements of the electric utility; 2) Rule 4 CSR 240-3.164(2)(A) which requires a current DSM market potential study for GMO's service territory that includes energy and demand market potentials and baseline energy and demand forecasts for its service territory, and 3) Rule 4 CSR 240-20.093(2)(H) which requires the use of annual net shared benefits when defining the methodology for the utility incentive component of its proposed DSIM.

Q. If GMO were to request variances from Rules 4 CSR 240-20.094(3)(A)(3), 4 CSR 240-3.164(2)(A) and 4 CSR 240-20.093(2)(H), would Staff support them?

A. Staff would support approval of variances from Rules 4 CSR 240-20.094(3)(A)(3) and 4 CSR 240-3.164(2)(A) for the reasons presented in the section of my testimony titled "Summary of Staff's review and analyses of GMO's proposed DSM programs."

Concerning a variance from Rule 4 CSR 240-20.093(2)(H), Staff has identified the real potential to shift risk from the utility to customers with this variance. Under its proposed DSIM, the <u>Company will recover from its customers all program costs</u> through the cost recovery component of its proposed DSIM, while at the same time, the Company will receive prospectively 12% of the all shared benefits from all DSM programs through the shared benefits component of its proposed DSIM, irrespective of the actual total costs to generate the programs' benefits. Staff has not completed its analysis of a variance from Rule 4 CSR 240-20.093(2)(H), and, therefore, has no recommendation for granting of this variance. Staff does recommend that the parties continue to analyze the impacts of a variance from Rule 4 CSR 240-20.093(2)(H) required for approval of GMO's proposed shared benefits component of its DSIM.

Proposed modifications to GMO's DSIM

Q. Would you please summarize Staff's review and recommendations concerning GMO's proposed cost recovery component of its proposed DSIM?

A. Dr. Kang and Mr. Gross find that the direct and indirect program cost for each of GMO's proposed DSM programs are reasonable for the program designs and the annual energy and demand savings levels estimated by the Company. Staff witness Mark L. Oligschlaeger finds that it is not clear why the Company is proposing to recover a three-year average of projected program costs through the DSIM, when the structure of the DSIM would allow the amount of rate recovery to be updated at least annually to reflect actual or projected changes in incurred expense for each year of the three-year life of the DSIM. However, given the relatively small amount of the proposed pre-collection of program costs from customers through the DSIM, and the fact that rate recovery from customers will be reconciled against GMO's actual cost levels, Staff is willing to accept this proposed DSIM structure for program costs, with one modification. Given that GMO's proposal is projected to result in differences in the amounts of DSM programs' costs collected in rates and the amounts of actual incurred programs' costs, it is appropriate for interest to be applied to any difference between monthly

DSM programs' costs recovered in rates and monthly DSM programs' costs actually expended by GMO. This under- or over-recovery of DSM programs' costs from customers should be measured monthly and treated in the same manner,(i.e., interest provided at a short-term interest rate) as under or over-recoveries from customers are treated in GMO's Fuel Adjustment Clause.[47]

Q. Does Staff support GMO's proposal to track and true-up annually program costs based on "the actual program participants/measures"[48]?

A. Yes, Staff supports GMO's proposal for this MEEIA filing to track and true-up annually DSM programs' costs based on "the actual program participants/measures" for its cost recovery component of its DSIM. However, Staff does have some concerns with this approach and will review the results of future EM&V reports for GMO's DSM programs to reassess the appropriateness of this approach in future MEEIA filings.

Q. Please summarize Staff's review and recommendation concerning GMO's proposed shared benefits component of its proposed DSIM.

A. Mr. Oligschlaeger is Staff's primary witness concerning GMO's proposed shared benefits component of its DSIM. Mr. Oligschlaeger notes that "lost margins" is GMO's term for the loss of revenues associated with the offering of DSM programs, net of five percent (5%) of variable fuel/purchased power expenses not expended and net of off-system sales revenues due to reduction in customer loads.[49] GMO's "lost margins" has a different meaning than the term "lost revenues" in the MEEIA rules in that any reduction in

[47] GMO's M.P.S.MO. No. 1, Original Sheet No. 127.8: "Interest on deferred electric energy costs calculated at a rate equal to the weighted average interest paid on short-term debt applied to the month-end balance of deferred electric energy costs."
[48] *Direct testimony of Tim M. Rush*, p. 18, line 7.
[49] Under GMO approved Fuel Adjustment Clause (P.S.C.MO. No. 1, Sheet Nos. 124 through 127.10) GMO's customers receive 95% of the net savings resulting from reduced fuel and purchased power costs and increases in off-system sales revenue resulting from GMO's DSM programs.

customer loads due to DSM programs are included in the Company's references to lost margins, while only the portion of lost margins due to DSM programs that cause the level of GMO's retail energy sales to fall below the level used to set rates for the Company in its last rate filing is included in the term "lost revenues" in the MEEIA rules. GMO asserts that experiencing an amount of lost margins that is not large enough to meet the MEEIA rules definition of "lost revenues" will still act as a disincentive to the offering of DSM programs. Further, GMO witness Timothy M. Rush states in his testimony that unless the lost margins disincentive is adequately offset through the operation of a DSIM, the Company will significantly reduce the amount of its DSM investment from the level it proposes in its Application.[50]

Mr. Oligschlaeger finds that GMO's proposal to pre-collect amounts from customers to recover estimated lost margins impacts through its shared benefits incentive component of its DSIM should be rejected, as pre-collection in rates is not necessary to protect GMO against either negative earnings impacts or negative cash flow impacts[51] resulting from DSM programs. A better alternative would be to allow the Company to book a regulatory asset equal to GMO's proposed shared benefits incentive component, subject to true-up based on measured and verified shared benefits as a result of an EM&V process. This alternative approach would provide reasonable protection to GMO's earnings levels from DSM programs' impacts, would allow the Company to maintain adequate cash flows, and is consistent with the Commission's MEEIA rules.

[50] *Direct testimony of Tim M. Rush*, p. 22, lines 6 - 8.

[51] Mr. Oligschlaeger and Mr. Marevangepo both testify that the impact of GMO's proposed DSM programs on the Company's credit metrics would not be great enough to cause a downgrade in the Company's credit rating should GMO's proposed shared benefits component not be approved by the Commission.

Q. Other than Mr. Oligschlaeger, what other testimony does Staff provide concerning GMO's proposed shared benefit component of its proposed DSIM?

A. GMO has not yet attempted to show good cause - through quantitative analysis - why the prospective recovery of its shared benefits component of its DSIM is superior to a baseline DSIM that does comply with the requirements of Rule 4 CSR 240-.093(2)(H)(3). It is GMO's responsibility to show good cause for approval of this variance. The values of annual shared benefits will not be equal to the values of annual net shared benefits, since there is no direct correlation between total (direct and indirect) programs' costs and gross shared benefits. In the absence of any quantitative showing of good cause, Staff recommends that any shared benefits component approved by the Commission be a function of annual net shared benefits and not annual shared benefits.

Q. Would you please summarize Staff's review of and recommendation concerning GMO's performance incentive component of its proposed DSIM?

A. GMO's performance incentive component is based upon a 50/50 weighting of actual energy and demand savings levels - based on full EM&V after at least two (2) years of programs' performance - relative to the annual energy and demand savings targets[52] established by the Commission for the Company's DSM portfolio. GMO's annual performance incentive is based on the following 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

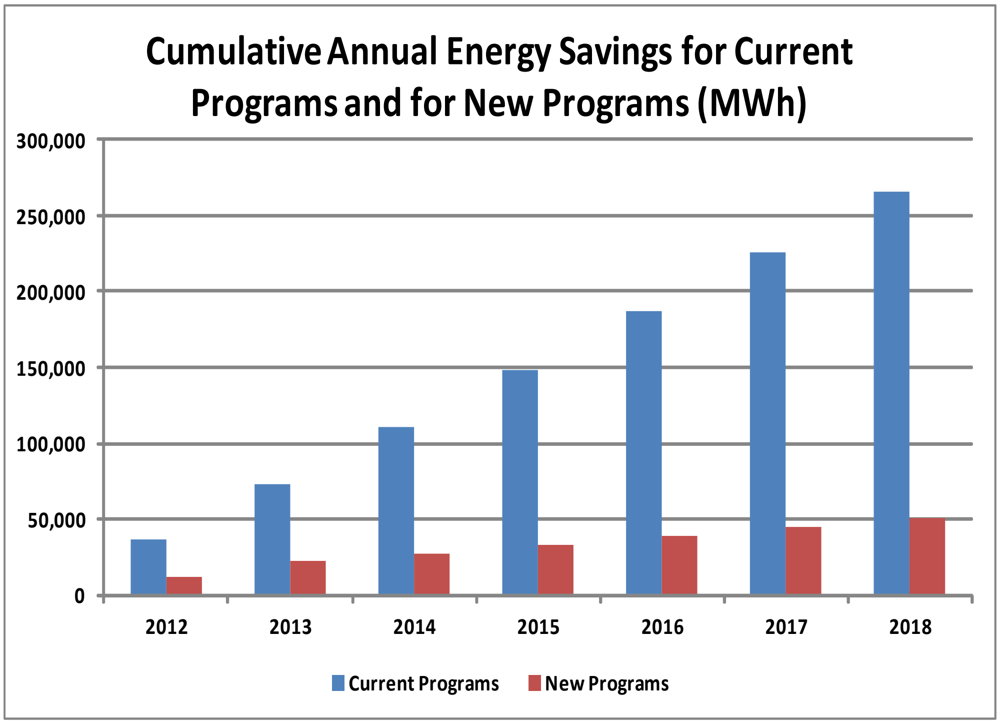
[52] Annual energy savings target and annual demand savings target are defined in Rule 4 CSR 240-20.093(1)(A) and (B), respectively.

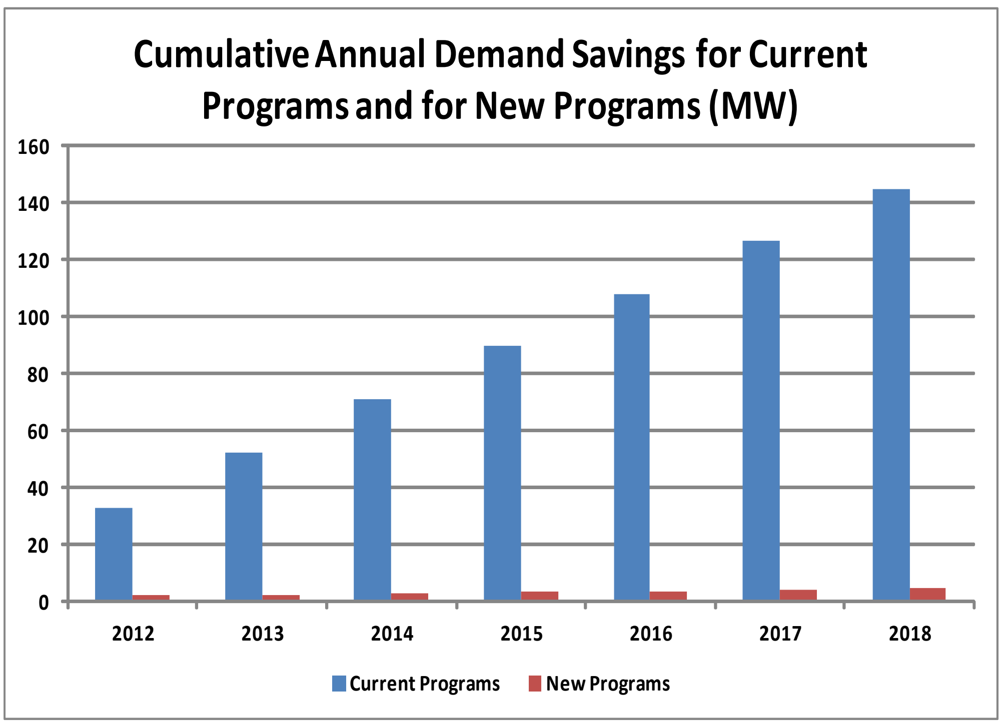
The performance incentive award will be included in the DSIM rate following "the completion of the EM&V at the next regularly scheduled DSIM filing."[53]

Staff finds GMO's proposed performance incentive component is overly generous for the following reasons:

1. The vast majority of the annual energy savings and annual demand savings for GMO's proposed (current and new) DSM programs is expected to come from GMO's current DSM programs as reflected in the following charts:

[53] *Direct testimony of Tim M. Rush*, p. 20, lines 14 – 16.





Since the Company has been operating its current programs for several years, and because the vast majority of the annual energy savings and annual demand savings for GMO's proposed (current and new) DSM programs is expected to come from

GMO's current DSM programs, GMO should be able to achieve 51% of its 50/50 weighting of actual energy and demand savings levels with very little or no "stretch" in performance from its current programs alone;

2. The very large ranges (50% increments) for the "Low Threshold to High Threshold" ranges could result in the Company being satisfied when it is able to just reach and exceed the Low Threshold of a range and then not continuing to "stretch" to improve its performance further to achieve an even higher level of performance and performance award;
3. Staff witness Zephania Marevangepo testifies that $2 million equates to approximately fifteen (15) basis points increase to the Commission's allowed ROE of 10.00% ordered in GMO's last rate case (10.15%); $3 million results in a twenty-three (23) basis points increase (10.23%); and $4 million results in a thirty (30) basis points increase (10.30%); and
4. A $2 million award for achieving slightly more than 50% of annual energy and demand savings targets which require very little or no "stretch" to achieve is clearly not an appropriate utility performance incentive mechanism.

Q. What is Staff's recommendation concerning a performance incentive mechanism for GMO?

A. Staff recommends that there be a performance incentive for GMO structured similar to that proposed by GMO, but with the following characteristics:

1. Smaller ranges (10% increments) for the "Low Threshold to High Threshold" ranges in order to incent GMO to continue to "stretch" for higher performance and awards once it reaches any given level of performance;

2. Awards begin at 70% of actual 50/50 achievement relative to target, since a 50% performance level does not represent a "stretch" in performance as explained my last answer; and
3. Minimum awards lower than $2 million.

Staff recommends the Commission approve the following alternative performance incentive component for GMO as a way to more effectively incent GMO to achieve a goal of all cost-effective demand-side savings and to reward GMO of its actual achievement toward that goal.

% of Target	Low Threshold	High Threshold	Performance Incentive
130%	> 125%	135%	$3,300,000
120%	> 115%	125%	$2,500,000
110%	> 105%	115%	$2,200,000
100%	> 95%	105%	$1,900,000
90%	> 85%	95%	$1,600,000
80%	> 75%	85%	$1,300,000
70%	65%	75%	$1,000,000

Q. Why does Staff's recommended performance incentive component include different incremental performance incentive amounts?[54]

A. Achievement of the 70% of target performance level would result in the minimum award. For GMO $1,000,000 equates to about eight (8) basis points on the Company's return on equity ("ROE"). Staff recommends that eight (8) basis points be the minimum award so that achievement of the minimum award materially impacts returns to shareholders. Achieving from 80% of the target performance to 120% of the target performance will result in an increase of approximately 2.3 basis points for each incremental

[54] Achievement of the 70% of target performance level provides an initial award amount of $1,000,000, while achievement of the 130% of target performance provides an incremental increase in award amount of $800,000, and achievement of all other target performance levels provide an incremental increase in award amount of $300,000.

increase of 10% of the target performance. The $800,000 incremental award for achievement of the 130% of target performance is designed to provide an extra incentive to the Company to continue to "stretch" to achieve this higher level of award, i. e., $800,000 equates to six (6) basis points and $3,400,000 total award equates to twenty-five (25) basis points.

Q. Does Staff have any concerns about the 50/50 weighting of annual energy savings performance and demand savings performance relative to the Commission-approved annual energy savings and demand savings targets feature of GMO's proposed performance incentive?

A. Yes. Mr. Gross has identified that GMO has placed a moratorium on new contracts for the MPower program and is not currently accepting and/or processing new program applications.[55] Staff is concerned that the MPower program may not be expanded and may even be suspended in the future although the Company has indicated that it will accept new applications going forward.[56] On the other hand, because the MPower program is under a moratorium, there is the potential for GMO to remove the moratorium temporarily and to "game" the DSIM to some extent in order receive performance awards short term through an emphasis on demand response programs and, possibility, not through a balanced approach to achieve all cost-effective demand-side savings.

Q. Does Staff have a recommendation for the Commission to address Staff's concern?

A. Yes. Staff recommends the Commission order GMO to include a careful and thorough review and analysis of the MPower program as part of its currently ongoing DSM

[55] Company response to Data Requests No. 0001 and 0025.
[56] Company response to Data Request No. 0025.

market potential study and subsequent Chapter 22 compliance filings and/or annual update filings.

Q. Please summarize your review of and recommendation concerning GMO's lost revenue component of its proposed DSIM.

A. In his testimony Mr. Oligschlaeger discusses how GMO's proposed 12% shared benefits incentive component is "sized" to recover GMO's lost margins due to its DSM programs. Further, Staff's recommended regulatory asset shared benefits component[57] presented by Mr. Oligschlaeger will also result in GMO recovering its lost margins due to GMO's DSM programs. Should the Commission approve either GMO's proposed shared benefits incentive component or Staff's recommended regulatory asset shared benefits component, Staff recommends the Commission reject the Company's lost revenue component of a DSIM, because any lost revenues as defined in the MEEIA rules[58] will be recovered through the Commission approved mechanism (either GMO's proposed share benefits incentive or Staff's recommended regulatory asset shared benefits component).

Q. Does Staff have any additional concerns or recommendations concerning the lost revenue component?

A. Yes. GMO has commented during the technical conferences that it does not have a clear understanding of the definition of lost revenue in Rule 4 CSR 240-20.093(1)(Y). Should the Commission approve GMO's lost revenue component, the Staff recommends the Commission order GMO to define lost revenues consistent with the definition in Schedule JAR-6 to help remove any uncertainty concerning the definition of lost revenue in Rule 4 CSR 240-20.093(1)(Y).

[57] Regulatory asset equal to GMO's proposed shared benefit incentive component, subject to true-up based on measured and verified net shared benefits as a result of an EM&V process.
[58] 4 CSR 240-20.093(1)(Y).

Q. Would you please summarize Staff's review of and recommendations concerning disclosure of GMO's DSIM rates on its customers' bills?

A. In the rebuttal testimony of Staff witness Michael S. Scheperle Staff discusses the wording GMO proposes for the DSIM line item on its customer bills (i. e., "DSIM xxx kWh @ $0.00231"[59]). Mr. Scheperle recommends the wording be "Energy Efficiency Pgm Charge xxx kWh @ $0.xxxxx" or "Demand-Side Investment Charge xxx kWh @ $0.xxxxx" to better inform customers. Mr. Scheperle discusses and expresses Staff's agreement with GMO's proposal to have one set of DSIM rates throughout GMO's service area. However, Mr. Scheperle states that Staff does not agree with GMO proposal to have common DSIM rates for GMO's various customer classes. He recommends the Commission approve Staff's methodology for calculating the DSIM rates that, consistent with Staff's positions in this case, would result in a DSIM rate of $0.00220 per kWh for residential customers and a DSIM rate of $0.00100 per kWh for C&I customers.

Mr. Scheperle presents Staff's conditional recommendation that the Commission approve GMO's proposed language disclosing the change to customer bills concerning the DSIM on the condition that GMO also seek and receive Commission approval of the DSIM Rider insert referred to in the language:[60]

> "Message Board – Demand-Side Program Investment Mechanism Rider – This month you will notice a new charge on your monthly bill that allows KCP&L to recover costs associated with the development of energy efficiency programs on behalf of Missouri customers. 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. For more information, please read the enclosed DSIM Rider insert or visit www.kcpl.com/about/moERate.pdf."

[59] *Direct testimony of Tim M. Rush,* Schedule TMR-3.
[60] *Direct testimony of Tim M. Rush,* Schedule TMR-3, page 1 of 2.

Q. Do you have any further rebuttal testimony?

A. No.

John A. Rogers

Educational Background and Work Experience

I have a Master of Business Administration degree from the University of San Diego and a Bachelor of Science degree in Engineering Science from the University of Notre Dame. My work experience includes 34 years in energy utility engineering, system operations, strategic planning, regulatory affairs and management consulting. From 1974 to 1985, I was employed by San Diego Gas & Electric with responsibilities in gas engineering, gas system planning and gas system operations. From 1985 to 2000, I was employed by Citizens Utilities in leadership roles for gas operations in Arizona, Colorado and Louisiana. From 2000 to 2003, I was an executive consultant for Convergent Group (a division of Schlumberger) providing management consulting services to energy companies. From 2004 to 2008, I was employed by Arkansas Western Gas and was responsible for strategic planning and resource planning. I have provided expert testimony before the California Public Utilities Commission, Arizona Corporation Commission, Arkansas Public Service Commission and Missouri Public Service Commission in general rate cases, applications for special projects, gas resource plan cases and electric resource plan cases. I have been employed by the Missouri Public Service Commission since December 2008 and am responsible for Staff's review of electric utility resource planning compliance filings, demand-side management programs and fuel adjustment clauses.

Testimony, Reports and Rulemakings

BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION

File Number	Company/Organization	Issues
ER-2010-0036 (DSM)	Ameren Missouri	Fuel Adjustment Clause Demand-Side Programs DSM Cost Recovery
EX-2010-0368 EW-2010-0254	Missouri Public Service Commission	Missouri Energy Efficiency Investment Act Rulemaking
EX-2010-0254 EW-2009-0412	Missouri Public Service Commission	Electric Utility Resource Planning Rulemaking
EO-2009-0237	KCP&L Greater Missouri Operations Company	Electric Utility Resource Planning Compliance Filing
ER-2009-0090	KCP&L Greater Missouri Operations Company	Fuel Adjustment Clause
ER-2010-0355	Kansas City Power and Light	DSM Cost Recovery Fuel Switching
ER-2010-0356	KCP&L Greater Missouri Operations Company	Fuel Adjustment Clause DSM Cost Recovery Fuel Switching
EO-2011-0066	Empire District Electric Company	Electric Utility Resource Planning Compliance Filing
ER-2011-0028	Ameren Missouri	DSM Cost Recovery
EO-2011-0271	Ameren Missouri	Electric Utility Resource Planning Compliance Filing

BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION

Docket Number	Company	Issue
07-079-TF Program	Arkansas Western Gas	Arkansas Weatherization
07-078-TF Programs	Arkansas Western Gas	Initial Energy Efficiency
07-041-P	Arkansas Western Gas	Special Contract
06-028-R	Arkansas Western Gas	Resource Planning Guidelines for Electric Utilities
05-111-P	Arkansas Western Gas	Gas Conservation Home Weatherization Program

GMO DSM Programs Summaries

Program	Description	Term	Tariff Sheets
Lighting The Future (formerly Change A Light)	Buy down/markdown of CFLs and targeted door to door delivery with educational material	3/12/2008 – Dec. 2011 or depletion of program funds	P.S.C. MO. No. 1 3rd Revised Sheet No. R-62.01 & R-62.01.1
Low-Income Affordable New Homes	Incentives to builders to install Energy Star measures	3/12/2008 – 3/11/2013	P.S.C. MO. No. 1 Original Sheet No. R-62.02
Low-Income Weatherization	Supplement CAP funds for additional weatherization measures	3/12/2008 – n/a	P.S.C. MO. No. 1 1st Revised Sheet No. R-62.03, 1st Revised Sheet No. R-62.04, Original Sheet No. R-62.04.1, Original Sheet No. R-62.04.2
Energy Star New Homes	Offer builders $800 rebate for at least 15% upgrade above standard efficiency levels for shell and equipment	3/12/2008 – 3/11/2013	P.S.C. MO. No. 1 1st Revised Sheet No. R-62.05, 1st Revised Sheet No. R-62.06, 1st Revised Sheet No. R-62.07
Building Operator Certification	Building operator certification through the Northwest Energy Efficiency Council's curriculum	3/12/2008 – 3/11/2013	P.S.C. MO. No. 1 Original Sheet No. R-62.08
Energy Optimizer	Company controlled cycling of participants' AC units to limit overall system peak load	10/11/2008 – terminable on 90 days written notice	P.S.C. MO. No. 1 1st Original Sheet No. R-62.09, Original Sheet No. R-62.10
Cool Homes	Re-commissioning or early replacement of central AC units	10/11/2008 – 10/10/2013	P.S.C. MO. No. 1 Original Sheet No. R-62.11, Original Sheet No. R-62.12, Original Sheet No. R-62.13
Home Energy Analyzer	Online audits and incentives to save energy	10/11/2008 – 10/10/2013	P.S.C. MO. No. 1 Original Sheet No. R-62.14
Home Performance with Energy Star	Enhanced whole-house energy audits and promotion of Energy Star	4/30/2008 – 4/29/2013	P.S.C. MO. No. 1 1st Revised Sheet No. R-64.01, 1st Revised Sheet No. R-64.02, 1st Revised Sheet No. R-64.03

Energy Audit & Energy Saving Measures	Rebates for EE upgrades in building shell, new construction or replacement of inefficient equipment	4/30/2008 – 4/29/2013	P.S.C. MO. No. 1 1st Revised Sheet No. R-64.04, 1st Revised Sheet No. R-64.05
MPower	Voluntary rider pay incentives/credits to qualifying non –residential customers to reduce peak demand	10/11/2008 – n/a	P.S.C. MO. No. 1 Original Sheet No. 128, Original Sheet No. 129, Original Sheet No. 130, Original Sheet No. 131, Original Sheet No. 132

Schedule JAR-3

Is Deemed

Highly Confidential

In Its Entirety

File Nos. EO-2012-0009 - - Procedural Schedule and Technical Conference Work Plan

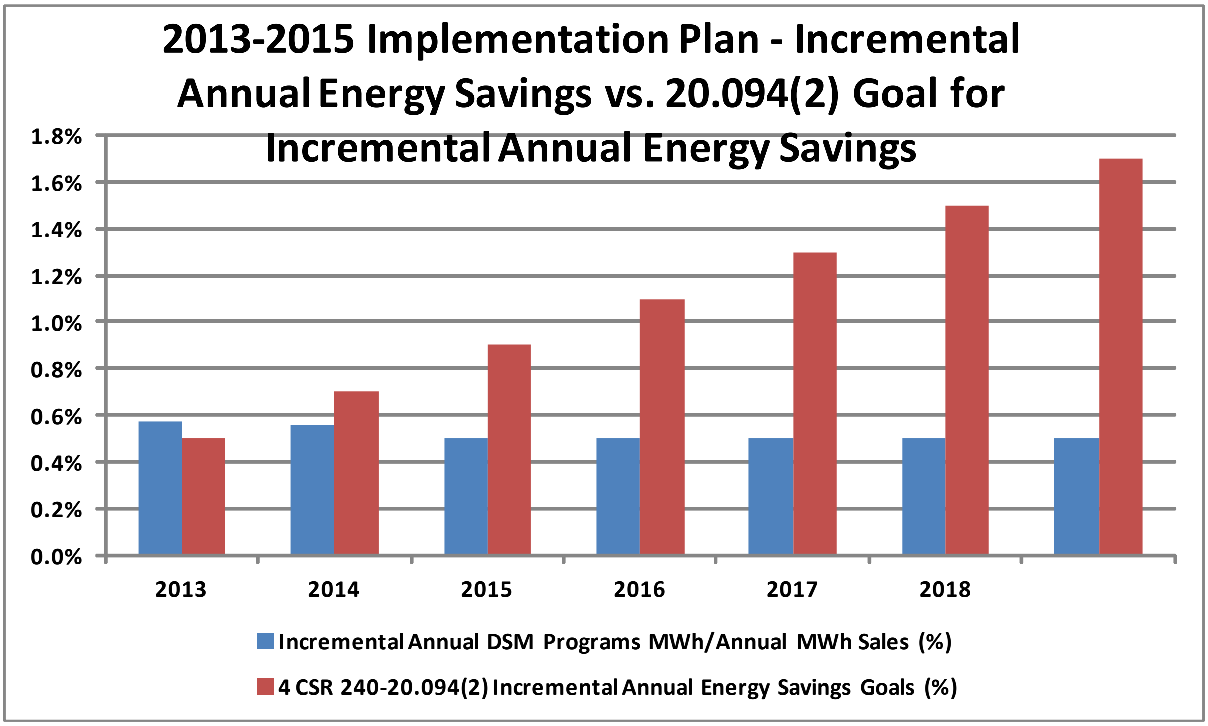
Weekends or holidays

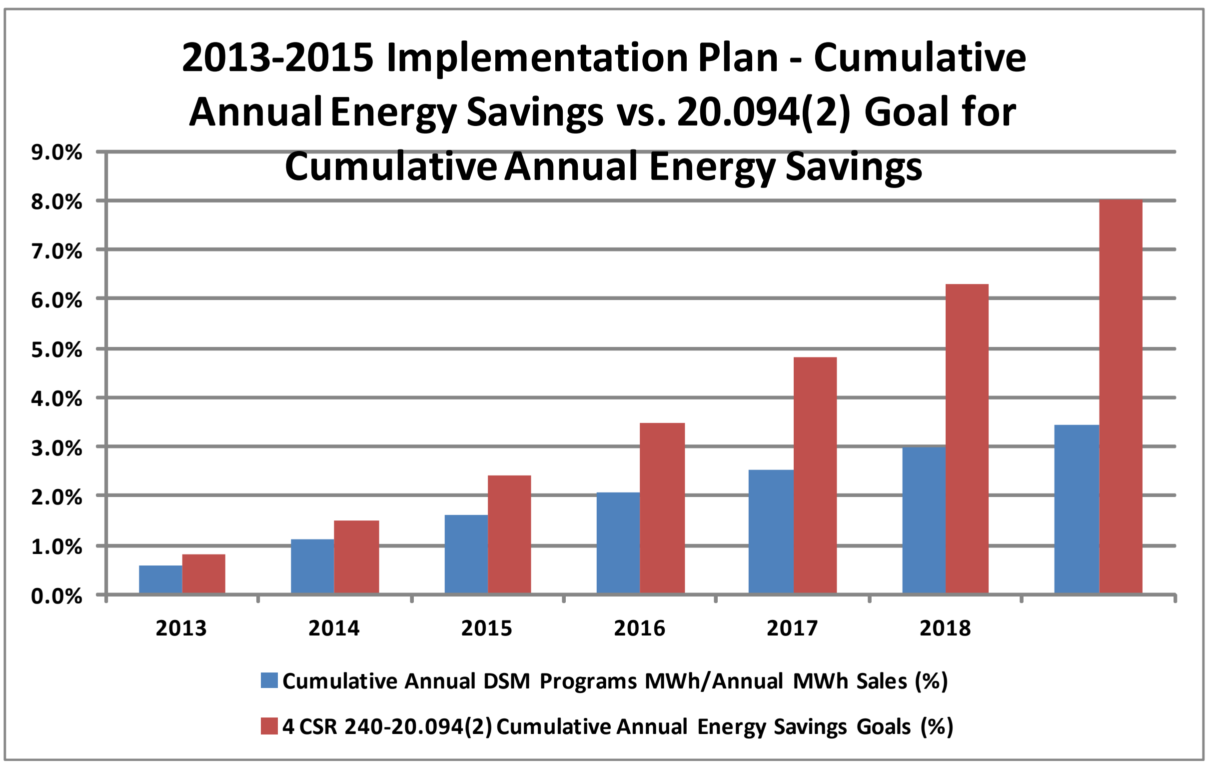
	Procedural Schedule	Day	Technical Conference Process
23-Dec		1	
24-Dec		2	
25-Dec		3	
26-Dec		4	
27-Dec		5	
28-Dec		6	
29-Dec		7	
30-Dec		8	
31-Dec		9	
1-Jan		10	
2-Jan		11	
3-Jan		12	
4-Jan		13	
5-Jan		14	
6-Jan		15	
7-Jan		16	
8-Jan		17	
9-Jan		18	
10-Jan		19	
11-Jan		20	
12-Jan		21	
13-Jan	**Last day to intervene**	22	
14-Jan		23	
15-Jan		24	
16-Jan		25	
17-Jan	**Prehearing conference**	26	
18-Jan		27	
19-Jan		28	
20-Jan		29	
21-Jan		30	
22-Jan		31	
23-Jan		32	
24-Jan		33	
25-Jan		34	
26-Jan		35	**Technical Conference (1)**
27-Jan		36	
28-Jan		37	
29-Jan		38	
30-Jan		39	
31-Jan	**Ordered prodedural schedule**	40	
1-Feb	**Order granting intervention**	41	
2-Feb		42	**Technical Conference (2)**
3-Feb		43	
4-Feb		44	
5-Feb		45	
6-Feb		46	
7-Feb		47	
8-Feb		48	
9-Feb		49	**Technical Conference (2)**
10-Feb		50	
11-Feb		51	
12-Feb		52	
13-Feb		53	
14-Feb		54	
15-Feb		55	
16-Feb		56	**Technical Conference (2)**
17-Feb		57	
18-Feb		58	
19-Feb		59	
20-Feb		60	

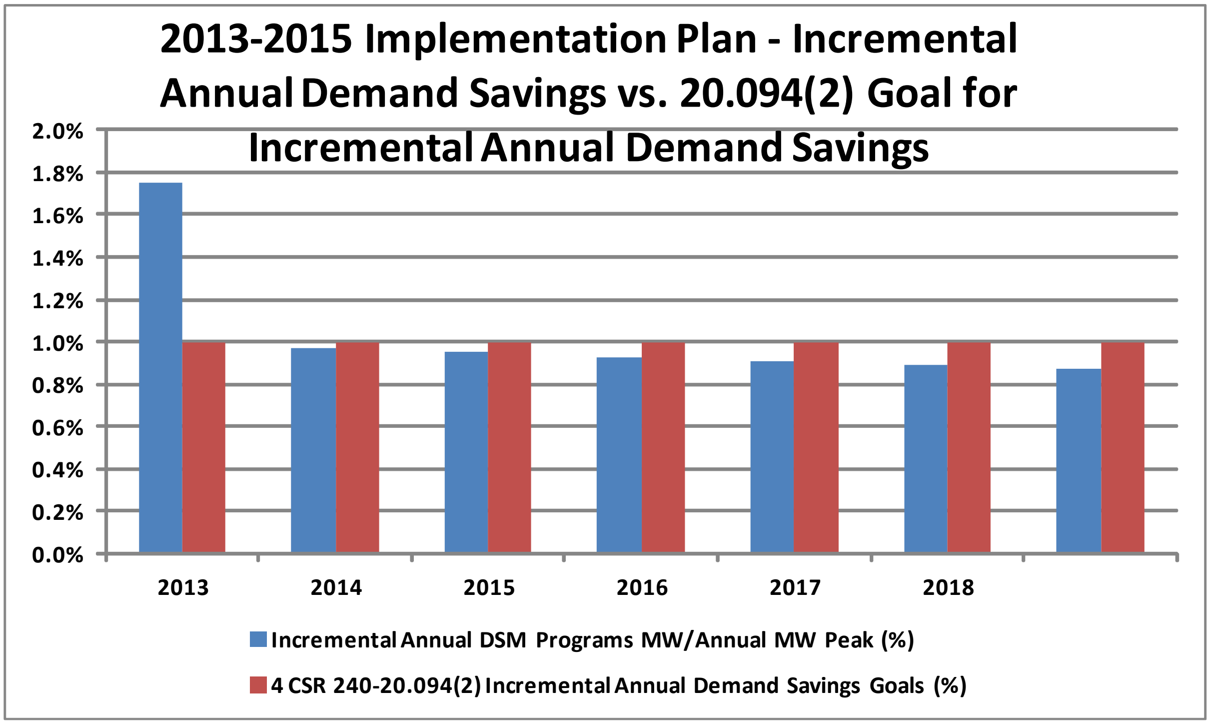
	Procedural Schedule	Day	Technical Conference Process
21-Feb		61	
22-Feb		62	
23-Feb		63	**Technical Conference (2)**
24-Feb		64	
25-Feb		65	
26-Feb		66	
27-Feb		67	
28-Feb		68	
29-Feb		69	**Technical Conference (2)**
1-Mar		70	
2-Mar		71	
3-Mar		72	
4-Mar		73	
5-Mar		74	
6-Mar		75	
7-Mar		76	
8-Mar		77	**Technical Conference (2)**
9-Mar		78	
10-Mar		79	
11-Mar		80	
12-Mar		81	
13-Mar	**Rebuttal Testimony**	82	
14-Mar		83	
15-Mar		84	**Technical Conference (2)**
16-Mar		85	
17-Mar		86	
18-Mar		87	
19-Mar		88	
20-Mar		89	
21-Mar		90	
22-Mar		91	**Technical Conference (2)**
23-Mar		92	
24-Mar		93	
25-Mar		94	
26-Mar		95	
27-Mar		96	
28-Mar		97	
29-Mar		98	
30-Mar		99	
31-Mar		100	
1-Apr		101	
2-Apr		102	
3-Apr	**Surrebuttal Testimony**	103	
4-Apr		104	
5-Apr		105	
6-Apr		106	
7-Apr		107	
8-Apr		108	
9-Apr		109	
10-Apr		110	
11-Apr	**List of Issues, Cross Exam Order**	111	
12-Apr		112	
13-Apr		113	
14-Apr		114	
15-Apr		115	
16-Apr	**Position Statements**	116	
17-Apr		117	
18-Apr		118	
19-Apr		119	
20-Apr		120	

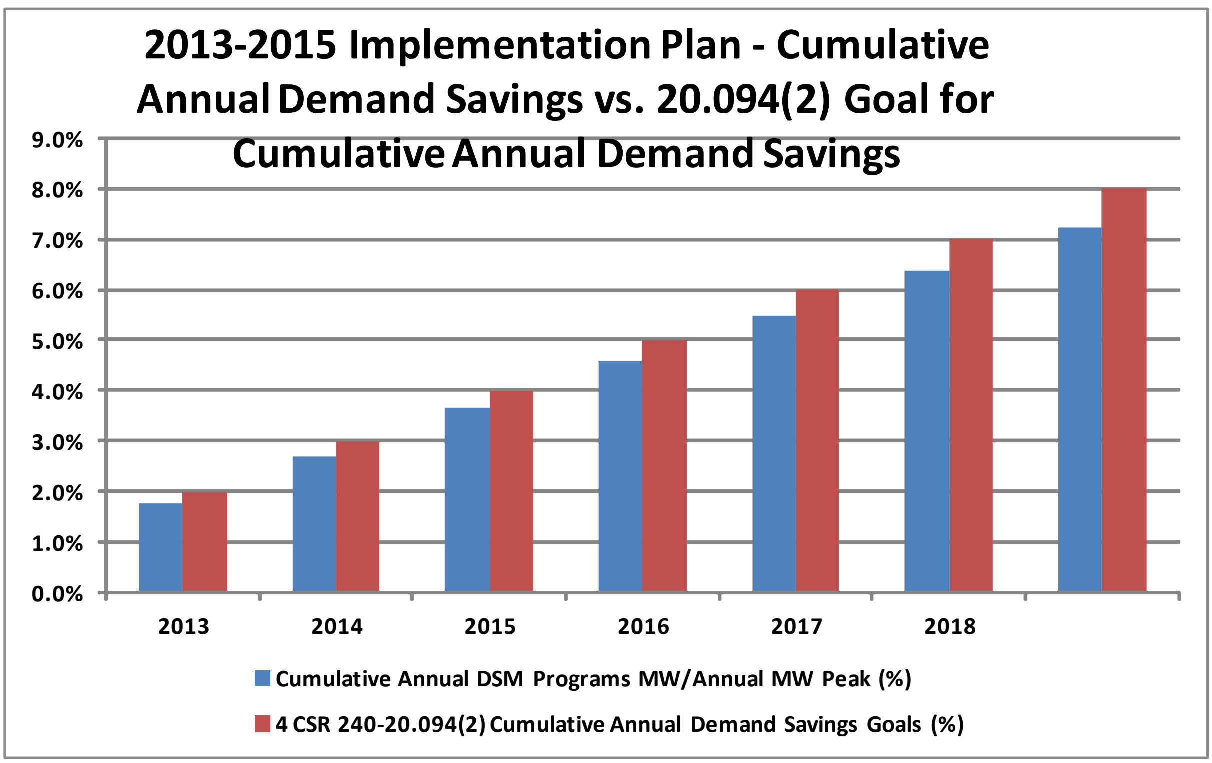
	Procedural Schedule	Day	Technical Conference Process
21-Apr		121	
22-Apr		122	
23-Apr	**Hearing**	123	
24-Apr	**Hearing**	124	
25-Apr	**Hearing**	125	
26-Apr	**Hearing**	126	
27-Apr		127	
28-Apr		128	
29-Apr		129	
30-Apr		130	
1-May		131	
2-May		132	
3-May		133	
4-May		134	
5-May		135	
6-May		136	
7-May		137	
8-May	**Initial Briefs**	138	
9-May		139	
10-May		140	
11-May		141	
12-May		142	
13-May		143	
14-May		144	
15-May		145	
16-May		146	
17-May		147	
18-May		148	
19-May		149	
20-May		150	
21-May		151	
22-May	**Reply Briefs**	152	
23-May		153	
24-May		154	
25-May		155	
26-May		156	
27-May		157	
28-May		158	
29-May		159	
30-May		160	
31-May		161	
1-Jun		162	
2-Jun		163	
3-Jun		164	
4-Jun		165	
5-Jun		166	
6-Jun		167	
7-Jun		168	
8-Jun		169	
9-Jun		170	
10-Jun		171	
11-Jun		172	
12-Jun		173	
13-Jun		174	
14-Jun		175	
15-Jun		176	
16-Jun		177	
17-Jun		178	
18-Jun		179	
19-Jun	**GMO and KCPL Final Orders (3)**	180	

(1) First technical conference is scheduled for 10:30 AM on January 26, 2012.
(2) Dates and times for all technical conferences other than the January 26, 2012 technical conference will be scheduled by the part
(3) Compliance tariff sheets will be filed following the Commission's final orders.

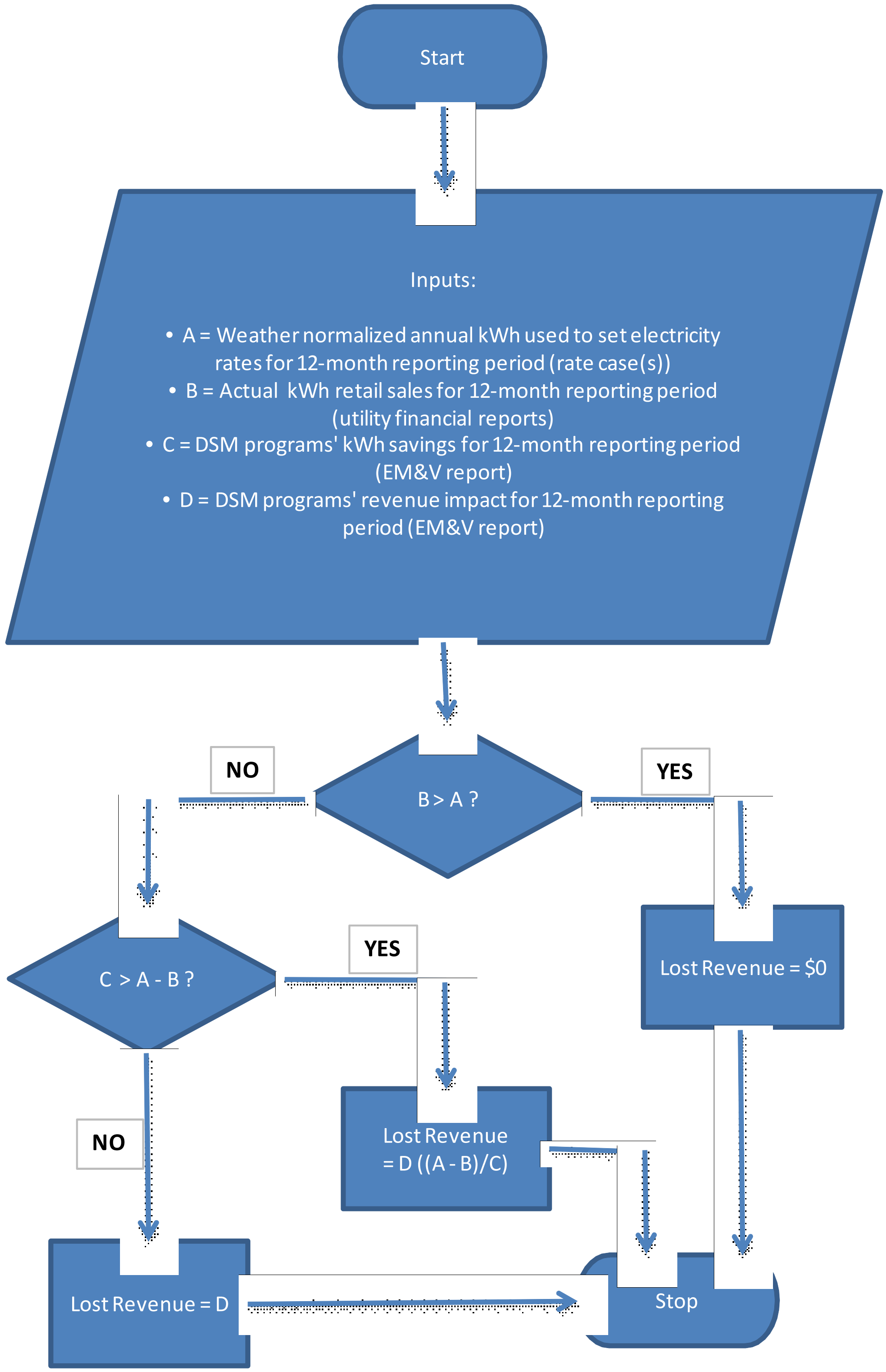

2013-2015 Implementation Plan - Incremental Annual Energy Savings vs. 20.094(2) Goal for Incremental Annual Energy Savings
1.8%
1.6%
1.4%
1.2%
1.0%
0.8%
0.6%
0.4%
0.2%
0.0%
2013
2014
2015
2016
2017
2018
Incremental Annual DSM Programs MWh/Annual MWh Sales (%)
4 CSR 240-20.094(2) Incremental Annual Energy Savings Goals (%)


2013-2015 Implementation Plan - Cumulative Annual Energy Savings vs. 20.094(2) Goal for Cumulative Annual Energy Savings
9.0%
8.0%
7.0%
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
2013
2014
2015
2016
2017
2018
Cumulative Annual DSM Programs MWh/Annual MWh Sales (%)
4 CSR 240-20.094(2) Cumulative Annual Energy Savings Goals (%)


2013-2015 Implementation Plan - Incremental Annual Demand Savings vs. 20.094(2) Goal for Incremental Annual Demand Savings
2.0%
1.8%
1.6%
1.4%
1.2%
1.0%
0.8%
0.6%
0.4%
0.2%
0.0%
2013
2014
2015
2016
2017
2018
Incremental Annual DSM Programs MW/Annual MW Peak (%)
4 CSR 240-20.094(2) Incremental Annual Demand Savings Goals (%)


2013-2015 Implementation Plan - Cumulative Annual Demand Savings vs. 20.094(2) Goal for Cumulative Annual Demand Savings
9.0%
8.0%
7.0%
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
2013
2014
2015
2016
2017
2018
Cumulative Annual DSM Programs MW/Annual MW Peak (%)
4 CSR 240-20.094(2) Cumulative Annual Demand Savings Goals (%)

Lost Revenue Definition in 4 CSR 240-20.093(1)(Y)



Definition of Lost Revenue and Examples of Lost Revenue

4 CSR 240-20.093(1)(X): Lost revenue means the net reduction in utility retail revenue, taking into account all changes in costs and all changes in any revenues relevant to the Missouri jurisdictional revenue requirement, that occur when utility demand-side programs approved by the commission in accordance with 4 CSR 240-20.094 cause a drop in net retail kWh delivered to jurisdictional customers below the level used to set the electricity rates. Lost renenues are only those net revenues lost due to energy and demand savings from utility demand-side progrms approved by the commission in accordance with 4 CSR 240-20.094 Demand-Side Programs and measured and verified through EM&V.

Case 1 No Lost Revenue

Inputs	Description	Value	Comments
A	Weather normalized annual kWh used to set electricity rates	20,000,000,000	For 12-month reporting period
B	Actual kWh retail sales for 12-month reporting period	20,300,000,000	Reported in utility financial reports
C	DSM programs kWh savings for 12-month reporting period	500,000,000	Reported in EM&V
D	DSM revenue impact for 12-month reporting period	$ 40,000,000	Reported in EM&V
	Is B > A?	YES	
	Lost revenue = $0	$ -	

Case 2 Partial Lost Revenue

Inputs	Description	Value	Comments
A	Weather normalized annual kWh used to set electricity rates	20,000,000,000	For 12-month reporting period
B	Actual kWh retail sales for 12-month reporting period	19,700,000,000	Reported in utility financial reports
C	DSM programs kWh savings for 12-month reporting period	500,000,000	Reported in EM&V
D	DSM revenue impact for 12-month reporting period	$ 40,000,000	Reported in EM&V
	Is B > A?	NO	
	Is C > A - B?	YES	
	Lost revenue = D ((A - B))/C)	$ 24,000,000	

Case 3 Full Lost Revenue

Inputs	Description	Value	Comments
A	Weather normalized annual kWh used to set electricity rates	20,000,000,000	For 12-month reporting period
B	Actual kWh retail sales for 12-month reporting period	19,300,000,000	Reported in utility financial reports
C	DSM programs kWh savings for 12-month reporting period	500,000,000	Reported in EM&V
D	DSM revenue impact for 12-month reporting period	$ 40,000,000	Reported in EM&V
	Is B > A?	NO	
	Is C > A - B?	NO	
	Lost revenue = D	$ 40,000,000	

Schedule JAR-7

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