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Witness:	Warren Wood
Sponsoring Party:	Union Electric Company
Type of Exhibit:	Surrebuttal Testimony
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MISSOURI PUBLIC SERVICE COMMISSION

Case No. EO-2012-0142

SURREBUTTAL TESTIMONY

OF

WARREN WOOD

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a Ameren Missouri

St. Louis, Missouri
May, 2012

Table of Contents

COMMISSION OBLIGATIONS UNDER MEEIA 2
THE STATE'S POLICY – VALUING DEMAND-SIDE EQUIVALENT TO SUPPLY-SIDE 8
IMPORTANCE OF HAVING AN APPROVED TECHNICAL RESOURCE MANUAL... 12
OPC'S PROPOSED COST RECOVERY MECHANISM 19

1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **WARREN WOOD**

4 **CASE NO. EO-2012-0142**

5 **Q. Please state your name and business address.**

6 A. My name is Warren Wood. My business address is One Ameren Plaza,

7 1901 Chouteau Avenue, St. Louis, Missouri 63103.

8 **Q. By whom and in what capacity are you employed?**

9 A. I am employed by Ameren Missouri as Vice President of Regulatory and

10 Legislative Affairs.

11 **Q. Are you the same Warren Wood who authored a portion of the report**

12 **filed on January 20, 2012 in this case?**

13 A. Yes, I am.

14 **Q. Briefly summarize Ameren Missouri's *2013 – 2015 Energy Efficiency***

15 ***Plan* ("MEEIA Report") filed on January 20, 2012.**

16 A. In its MEEIA[1] Report, Ameren Missouri has proposed an aggressive program

17 to advance energy efficiency in Missouri by more than doubling its investments in these

18 programs over the next three years – to $145 million. In fact, the proposed expenditures

19 would far exceed any previous utility investments in energy efficiency in the state of

20 Missouri. Customer benefits as a result of these energy efficiency programs are expected to

21 significantly exceed these costs with over $800 million of calculated total benefits over the

22 next 20 years (almost $500 million net present value). In support of this proposal, and per

23

[1] Missouri Energy Efficiency Investment Act.

1 the requirements of MEEIA, the Company has proposed a regulatory structure that will not
2 penalize the Company for making these expenditures. The Company's decision makers
3 believe this path is the best way to achieve the goals and requirements of MEEIA and urge
4 the Commission to adopt its proposal. After reviewing the Company's proposal, Adam
5 Bickford, on behalf of the Missouri Department of Natural Resources ("MDNR"), concluded
6 that "Ameren's proposed DSM portfolio represents a substantial investment in energy
7 efficiency, and produces substantial benefit levels for customers via cost-effective
8 programs."[2]

9 **Q. What is the purpose of your surrebuttal testimony?**

10 A. The purpose of my surrebuttal testimony is to discuss the goals and
11 requirements of MEEIA and how this Commission can accomplish those goals and meet
12 those requirements, what constitutes timely recovery of program cost, achieving utility and
13 customer financial alignment, and the importance of an approved Technical Resource
14 Manual ("TRM"). In particular, I respond to portions of the rebuttal testimony filed by John
15 Rogers and Mark Oligschlaeger on behalf of the Missouri Public Service Commission's
16 ("Commission") Staff, the rebuttal testimony of Adam Bickford of the MDNR and the
17 rebuttal testimony of Ryan Kind on behalf of the Office of the Public Counsel ("OPC").

18 **COMMISSION OBLIGATIONS UNDER MEEIA**

19 **Q. Staff witness John Rogers includes in his rebuttal testimony several**
20 **quotations contained in a press release from Governor Nixon which quote the Governor**
21 **and certain other state officials regarding the passage of MEEIA. Do you believe his**
22 **quotations are accurate?**

[2] Bickford Rebuttal, p. 11, l. 8-10.

1 A. While Mr. Rogers' quotations are accurate, he selectively chose quotes that
2 primarily discuss the opportunities for greater energy efficiency that the MEEIA statute is
3 designed to create and the benefits to customers from becoming more energy efficient. The
4 Company does not disagree with the accuracy of any of these quotes, but they tell only a
5 small part of the story about MEEIA and only scratch the surface in terms of the legislative
6 intent reflected in MEEIA. For example, Governor Nixon's press release also stated, "It
7 [MEEIA] provides the Public Service Commission with the ability to encourage cost-
8 effective energy efficiency by making utility investments in energy efficiency programs for
9 their customers at least as profitable as building new power plants or making capital
10 investments." The press release continued, "Prior to Senate Bill 376, the costs associated
11 with building new power plants could be recovered while costs related to efficiency could
12 not, making increases in efficiency a difficult business option. But with Senate Bill 376 in
13 effect, utilities will now be able to include the costs of qualifying efficiency programs in the
14 package of costs which they may recover, treating energy efficiency as a generation
15 resource."

16 MEEIA requires a regulatory structure under which customers can benefit from cost-
17 effective energy efficiency programs, while utilities have an opportunity to fully recover their
18 costs for these programs, including throughput disincentive losses (so that utility financial
19 interests are aligned with helping their customers use energy more efficiently), and receive an
20 earnings opportunity. This regulatory structure is central to MEEIA. Further evidence of the
21 intention underlying MEEIA was produced during the MEEIA rulemaking process when
22 Senator Brad Lager, sponsor of the MEEIA legislation, in a letter to the Commission on
23 August 17, 2010, specifically noted, "I am, however, concerned that the goals and purposes

1 of the legislation are not being fully represented in the current draft of the rules." Senator
2 Lager goes on to say "I firmly believe that the rules must address the issues of lost revenues
3 and reasonable earnings opportunities to ensure that utilities are made whole for advancing
4 these historically under-utilized resources. As currently proposed, the rules set aggressive
5 goals without assurance of the alignment of such financial incentives to utilities." (Senator
6 Lager's letter is attached as Schedule WW-1).

7 The goals of MEEIA are achievable and its requirements can be met. The way to
8 achieve those goals and meet those requirements is for this Commission to approve the
9 Company's energy efficiency program proposals and its demand-side investment mechanism,
10 as outlined in the MEEIA Report. The Company's proposal is the only proposal in the case
11 that achieves the goals of MEEIA while implementing each of the three key requirements
12 imposed on the Commission by MEEIA.

13 **Q. Please explain what you mean when you refer to "goals" and**
14 **"requirements" in MEEIA.**

15 A. I am referring to the specific provisions of MEEIA. The statute sets the
16 following goal for the state of Missouri regarding demand-side resources: "The commission
17 shall permit electric corporations to implement commission-approved demand-side programs
18 proposed pursuant to this section with *a goal of achieving all cost-effective demand-side*
19 *savings*."[3]

20 In order to support efforts to meet this goal, the statute sets state policy and requires
21 that the Commission do three specific things to support that policy. The policy is as follows:

22 It shall be the policy of the state to value demand-side
23 investments equal to traditional investments in supply and
24 delivery infrastructure and allow recovery of all reasonable and

[3] § 393.1075.4 RSMo. (Emphasis added).

1 prudent costs of delivering cost-effective demand-side
2 programs.
3
4 The requirements imposed on the Commission are:
5
6 In support of this policy, the commission **shall:**
7 (1) Provide timely cost recovery for utilities;

8 (2) Ensure that utility financial incentives are aligned with
9 helping customers use energy more efficiently and in a manner
10 that sustains or enhances utility customers' incentives to use
11 energy more efficiently; and

12 (3) Provide timely earnings opportunities associated with cost-
13 effective measurable and verifiable efficiency savings. [4]

14 **Q. How would Commission approval of Ameren Missouri's Proposal fulfill**
15 **the Commission's three specific obligations?**

16 A. Very simply, Ameren Missouri's Proposal is designed so that all three
17 Commission obligations are met. The first of the three obligations is to provide for timely
18 cost recovery. Ameren Missouri has proposed including the three year average of its 2013,
19 2014 and 2015 energy efficiency program expenditures in rates set in its current rate case,
20 Case No. ER-2012-0166. This means the Company will be recovering the costs of its
21 programs as it spends money on its energy efficiency programs. This is appropriate
22 treatment and ensures the level of energy efficiency program expense included in the
23 Company's revenue requirement is reflective of the amount of program expense the
24 Company will incur. That meets the requirement that the Commission provide "timely cost
25 recovery." The Commission Staff, MDNR, OPC and the Environmental Interveners
26 (consisting of National Resource Defense Council, Renew Missouri and the Sierra Club)

[4] § 393.1075.3 RSMo. (Emphasis added).

1 generally support this request.[5] Adam Bickford, on behalf of MDNR, stated "MDNR has
2 endorsed expensing of program costs as a way to reduce disincentives to DSM programs, and
3 supports Ameren's proposed methodology for establishing rates to recover program costs and
4 its use of a regulatory asset account to address deviations from its expected expenses."[6]
5 Taking the obligations out of order, the third listed obligation is that the Commission
6 shall provide timely earnings opportunities associated with cost-effective measureable and
7 verifiable efficiency savings. In the regulatory arena, one normally thinks of earnings
8 opportunities being associated with capital investments rather than with expenses – a "return
9 on rate base" paradigm. However, in MEEIA, the legislature recognized that in order for
10 demand-side programs to compete with supply-side alternatives, there would have to be an
11 additional incentive granted as part of the steps that needed to be taken so that utilities can
12 value demand-side expenditures on an equal basis with supply-side investments. The
13 Company's filing includes an assessment of the earnings opportunity which a utility could
14 earn if it chose to invest in a supply-side option instead of a demand-side option,
15 approximately $10 million. The Company then translated that level of an earnings
16 opportunity into a percentage of net benefits, with 100% achievement of goals earning the
17 Company $10 million annually. If the Company's MEEIA energy efficiency programs
18 achieve below 70% of the targeted energy savings, there will be no earnings opportunity; if
19 we achieve 100% of the targeted energy savings, the Company will earn $10 million per
20 year; and if we achieve 130% of the targeted energy savings, the Company will earn
21 $16 million per year. These earnings opportunities come in the form of a greater percentage

[5] Staff recommends a different interest rate for under- or over-recoveries, and NRDC recommends a relatively minor change in the amount reflected in the account, which the Company has accepted.
[6] Bickford Rebuttal, p. 20, l. 15-19.

1 of the net benefits than are necessary to address the throughput disincentive created by
2 energy efficiency programs, which I discuss below.[7] Mr. Bickford of MDNR noted,
3 "MDNR endorses the use of a performance-based threshold, a performance-based cap and
4 continuous award levels."[8] Staff also agrees that Ameren Missouri's proposal for the
5 incentive qualifies as the timely earnings opportunity requirement of MEEIA. John Rogers,
6 on behalf of the Staff, recommended that "The Commission approve Ameren Missouri's
7 4.8% of shared net benefits incentive component of its DSIM…"[9]

8 **Q. You have addressed the first and third requirements that MEEIA**
9 **imposed on the Commission. Please address the second requirement.**

10 A. The second Commission obligation is to ensure that utility financial incentives
11 are aligned with helping customers use energy more efficiently and in a manner that sustains
12 or enhances utility customers' incentives to use energy more efficiently. This portion of the
13 statute recognizes that under the pre-MEEIA regulatory framework in Missouri, incentives
14 are not aligned in a way that promotes energy efficiency and that allows demand-side
15 expenditures to be valued equally to supply-side investments. Indeed, adherence to the pre-
16 MEEIA framework would mean that successful energy efficiency is detrimental to the
17 revenue stream collected by the utility, a consequence that doesn't occur with supply-side or
18 delivery infrastructure investments. The more successful the demand-side program, the more
19 detrimental it is to the utility's revenue stream. As explained in the MEEIA Report filed on
20 January 20, 2012, the Company's proposed $145 million expenditure between 2013 and 2015
21 on energy efficiency programs will result in significant savings for our customers but will

[7] The throughput disincentive is covered by a 15.4% share of the net benefits. At 100% of the targeted energy savings the Company would receive an additional 4.8% (total of 20.2%) and at 130% of the targeted energy savings (or beyond) the Company would receive an additional 5.5% (total of 20.9%).
[8] Bickford Rebuttal, p. 24, l. 1-2.
[9] Rogers Rebuttal, p. 9, l. 11-12. As noted, the 4.8% assumes achieving exactly 100% of the targeted energy savings.

1 also reduce the Company's revenues by $105 million. The statutory requirement to align 2 utility and customer interests recognizes this very real and unique challenge posed by 3 demand-side programs by requiring the Commission remove the negative impacts of 4 successful energy efficiency upon the utility. Ameren Missouri's proposal accomplishes this 5 directive and puts the Company in a position where it can support energy efficiency 6 programs which assist our customers in using energy more efficiently.

7 **THE STATE'S POLICY –**
8 **VALUING DEMAND-SIDE EQUIVALENT TO SUPPLY-SIDE**
9

10 **Q. The statute refers to valuing demand-side investments equal to 11 traditional investments in supply and delivery infrastructure. What does that mean?**

12 A. It means that when a utility is faced with decisions as to where to spend its 13 available (and limited) funds it will value an expenditure on demand-side resources equal to 14 investments in supply-side resources. In other words, the utility decision maker should be 15 indifferent regarding the choice between supply-side and demand-side investments. That is 16 why the statute imposes the three requirements discussed above. Those three requirements 17 are designed so that the Commission takes steps to change the pre-MEEIA regulatory 18 framework in a way that leaves a utility decision maker indifferent between these two 19 choices. If the Commission doesn't take those steps in support of the state's policy, the utility 20 will not place equal value on demand-side versus supply-side investments. Indeed, it cannot 21 possibly value them equally if it (a) does not receive timely cost recovery; (b) will lose 22 money; and (c) will have no opportunity to earn. If the utility doesn't value them equally 23 (indeed where the value of the demand-side resource is lower), the utility is either going to 24 significantly limit, or simply not make, investments in demand-side resources.

1 **Q. But don't other parties claim that a proposal such as the Staff's proposal,**
2 **where contemporaneous recovery of the throughput disincentive is not provided and**
3 **where a TRM is not used, does value supply-side and demand-side investments equally?**
4 A. Yes, they make that claim. Let's take the Staff's proposal as an example. We
5 have no material disagreement with the Staff regarding program cost recovery. The Staff
6 supports contemporaneous recovery of our program costs, and thus our positions agree with
7 regard to the Commission's satisfaction of the first requirement in MEEIA. We also agree on
8 the earnings opportunity (incentive) requirement (the third requirement). Where we differ is
9 on the second requirement: the requirement that the Commission ensure that our financial
10 incentives are aligned with our customers' interest in using energy more efficiently. The
11 Staff opposes contemporaneous recovery of the throughput disincentive and apparently
12 opposes using deemed energy savings from a TRM. The Staff essentially argues that since
13 we "front" money for supply-side investments and later have them reflected in rate base,
14 there is equal "value" between a supply-side investment and a demand-side investment if we
15 "front" the throughput disincentive and later get it back.
16 **Q. Why is this not true?**
17 A. Because there are several differences between the two kinds of investments
18 and because the Staff's fundamental premise that its approach protects the Company's
19 earnings is incorrect. Ameren Missouri witnesses Lynn M. Barnes and Stephen M. Ditman
20 (from PricewaterhouseCoopers) explain why the Company's earnings are not protected. I
21 will address the differences between the two.
22

1 **Q. When you speak of differences, to what do you refer?**

2 A. First, investments in supply-side (or delivery infrastructure) are capital
3 investments, with a construction schedule that causes the money to be spent over what in
4 some cases is a long period of time with the project going into service at a certain point in
5 time. During that entire time, the investment has no impact on the Company's earnings. In
6 contrast, "investments" in demand-side measures are not really investments at all, but rather
7 they are expenses that immediately reduce the Company's bottom line. That reduction in the
8 bottom line with respect to program expenditures is properly addressed under the Staff's and
9 the Company's approaches, but unlike capital investments, demand-side expenditures
10 immediately impact the bottom line in another way: the throughput disincentive.

11 Demand-side expenditures are also different in other ways, including from the
12 customer's perspective. They are smaller (per measure) and the results are more
13 instantaneous. When a customer purchases the energy efficient appliance and installs the
14 measure, the customer immediately gains the benefits from using energy more efficiently.

15 Third, investments in supply-side or delivery infrastructure don't reduce the
16 consumption of end users; i.e., there is no throughput disincentive associated with them.
17 However, as soon as a demand-side measure is installed, it reduces that customer's electric
18 consumption and results in the utility selling less of its product. This is precisely why
19 MEEIA requires the Commission to ensure that the utility's financial interests are aligned
20 with the interest of customers in using energy more efficiently. But where the impact of that
21 throughput disincentive is to immediately reduce the Company's earnings, that alignment
22 cannot be achieved absent the Commission meeting its second obligation under the statute;
23 that is, taking steps to ensure that the alignment I spoke of earlier has occurred.

1 **Q. Are you saying that the Staff's assumption that its approach would not**
2 **reduce the Company's earnings is mistaken?**
3 A. While it's not within my expertise to make that determination, the Company's
4 independent auditor and our Vice President of Business Planning and Controller both testify
5 that the Staff is mistaken. See the surrebuttal testimonies of Ameren Missouri witnesses
6 Stephen M. Ditman and Lynn M. Barnes.
7 **Q. Are there other problems with the Staff's proposal that prevent it from**
8 **allowing the Commission to discharge its obligation to ensure that the required**
9 **alignment of interests exist?**
10 A. Yes. The Staff also opposes the use of deemed energy savings in a TRM. As
11 I discuss further below, this too prevents an alignment of the Company's financial interests
12 with helping customers use energy more efficiently.
13 **Q. Are there other differences between demand-side expenditures and**
14 **supply-side investments as those differences relate to the need to align the utility's**
15 **financial resources with customer's interests?**
16 A. Yes. For example, the Commission has tried treating demand-side
17 investments “like” a capital investment in the past. For program costs, they have created
18 regulatory assets amortized over multiple years with rate base treatment for amounts not
19 currently being amortized. This construct attempts to mimic how capital investments are
20 recovered. But it isn’t timely cost recovery (recovery of an *expense* over six or more years)
21 and it doesn’t align incentives between the utility and its customers because it doesn’t
22 address the throughput disincentive at all. After spending $70 million on energy efficiency
23 between 2009 and 2011, the Company determined that it suffered approximately

1 $26.4 million in throughput disincentive losses through 2011 and will incur approximately
2 $60 million in throughput disincentive losses by the end of 2014 because of the energy
3 savings those programs produced. This reality is the reason Ameren Missouri was forced to
4 drastically reduce its expenditures on energy efficiency and why it cannot spend significant
5 dollars on energy efficiency in the future without the Commission fulfilling the requirement
6 to align the interests of it and its customers. Understanding this portion of the statute is the
7 key to increasing demand-side programs in the state of Missouri.

8 **Q. In his rebuttal testimony, Mark Oligschlaeger, on behalf of Commission**
9 **Staff, refers to Section 393.135, RSMo as prohibiting recovery of a supply-side asset**
10 **before being fully operational and used for service. Is that true and does his**
11 **prohibition apply in the timing of recovery of shared net benefits?**

12 A. This prohibition is sometimes referred to as the 'anti-CWIP' statute or
13 'prohibition against recovery of construction work in progress' statute. This statute has no
14 bearing on the recovery of net shared benefits since these investments are not in supply-side
15 assets and no such recovery prohibition applies to these types of expenditures.

16 **IMPORTANCE OF HAVING AN**
17 **APPROVED TECHNICAL RESOURCE MANUAL**
18
19 **Q. As you noted, Staff (and OPC) oppose Ameren Missouri's proposed**
20 **TRM. Is approval of a TRM critical to successful implementation of MEEIA?**

21 A. Yes. In order to achieve alignment of financial incentives, an approved TRM
22 is necessary to ensure the cost of the throughput disincentive caused by the Company's
23 energy efficiency programs will not prevent a misalignment of the utility's financial interests
24 with helping its customer's use energy more efficiently. Unfortunately, Mr. Rogers states
25 that "Staff recommends that the Commission not approve Ameren Missouri's TRM before

1 Staff has the opportunity to review the revisions it anticipates the Missouri Department of
2 Natural Resources will present in rebuttal testimony of its witnesses and present its
3 recommendations on them to the Commission."[10] Mr. Rogers is referencing the report
4 prepared by GDS Associates ("GDS") on behalf of MDNR, which Robert Fratto of GDS is
5 sponsoring in his rebuttal testimony. While the Company has no objection to Staff
6 thoroughly reviewing the GDS report, the Commission should be aware that MDNR
7 circulated the full GDS report to all parties on March 23, 2012 and then made GDS available
8 by telephone for the March 30, 2012 technical conference, so the parties had the report and
9 the benefit of GDS's commentary two to three weeks before rebuttal testimony was due.
10 During that call, GDS explained how it conducted its review, walked through the results of
11 its review and fielded questions from the stakeholders about its review and the report.
12 Accordingly, the Company is hopeful that the review referred to can be completed quickly
13 and will not delay these proceedings.

14 Absent an approved TRM, the Staff's proposed recovery path for the throughput
15 disincentive is little more than "we will reimburse you at some point in the future but we
16 can't say how much." The Company has proposed to invest approximately $145 million
17 over the next 3 years in support of energy efficiency and, absent a clear path for recovery,
18 would be at risk for over $100 million of throughput disincentive losses. As a result of the
19 Company's energy efficiency programs over the last three years, we have already lost tens of
20 millions of dollars due to the throughput disincentive losses. These losses are ongoing even
21 today. A great deal of work and careful analysis has gone into development of the
22 Company's proposed TRM as a means to provide greater program certainty to the Company

[10] Rogers Rebuttal, p. 22, l. 6-9.

1 and other parties. Adam Bickford, on behalf of MDNR, provided a good summary of how an
2 approved TRM will benefit these energy efficiency programs:

> 3 MDNR has endorsed the use of a TRM and deemed savings values in
> 4 program planning and has been an advocate for the development of a
> 5 statewide TRM throughout the MEEIA rule making process. Having
> 6 accurate and consistent estimates of measure level savings as utilities work
> 7 to meet the MEEIA policy goal of achieving all cost-effective demand-
> 8 side savings will be of great value. Deeming measure level savings at the
> 9 start of a program cycle provides certainty to all parties of the per measure
> 10 energy savings that will be claimed by the utility. The procedures for
> 11 setting deemed savings values in the program planning stage encourages
> 12 utilities to research current program models and select measures that are
> 13 both cost-effective and have high savings potential. Finally, the use of
> 14 deemed savings simplifies the evaluation process in the manner Ameren
> 15 suggests. Use of deemed savings values and a TRM will simplify the
> 16 program planning and evaluation process and help to make the verification
> 17 of savings simpler and more transparent, without sacrificing the reliability
> 18 of savings estimates. The use of a TRM does not eliminate the need to
> 19 conduct evaluation studies, but it does have the potential of making these
> 20 studies less contentious. [11]

21
22 As Mr. Bickford points out, approving a TRM at this stage offers certainty for all
23 parties as well as for the Commission. Additionally, the Company believes its proposed
24 TRM contains reasonable values. Mr. Bickford agreed, "Our review of the TRM has shown
25 that Ameren's deemed savings values are consistent with savings values found in a range of
26 state TRMs suggested by Ameren and GDS [and] …our analysis suggests that Ameren's
27 deemed savings estimates are reasonable."[12] Mr. Bickford goes on to state, "I recommend
28 that the Commission approve Ameren's plans for using a TRM and deemed savings to
29 estimate DSM program savings."[13]

30 The use of a TRM is something new for Missouri energy efficiency programs, but it
31 is an important step necessary to align utility interests with those of its customers. As

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[11] Bickford Rebuttal, p. 13, l. 6-21.
[12] *Id.*, p. 18, l. 3-8.
[13] *Id.*, pg. 19, l. 8-9.

1 Mr. Bickford stated, "Ameren's proposal to use a technical resource manual ("TRM") and a
2 deemed savings approach to estimate DSM savings is a major step forward in Missouri DSM
3 planning and evaluation. MDNR fully supports the use of this innovative document and
4 looks forward to evaluation results testing the validity of deemed savings estimation."[14]

5 **Q. If a TRM is not approved by the Commission, what additional problems**
6 **will the lack of certainty regarding energy efficiency savings cause?**

7 A. The Company will not be in a position to value demand-side investments
8 equal to traditional investments in supply and delivery infrastructure and the Company will
9 be held back from achieving the goal of MEEIA – that is, achieving all cost-effective energy
10 efficiency.

11 Consider that scenario from the viewpoint of a utility decision maker. When Ameren
12 Missouri invests in a major supply-side resource like a power plant, it must carefully
13 consider the prudence of this resource versus other possible generation resources. If the
14 circumstances at the time of the investment are such that the supply-side resource is a
15 prudent resource to construct and if the project is managed prudently, the Company can have
16 a relatively high confidence that it will be provided a reasonable recovery of the investments
17 it has made to provide customers with safe and reliable service. In fact, the Company's
18 expenditure is presumed to have been prudently incurred and the Commission will not use an
19 after-the-fact analysis to retroactively second-guess the decision or the costs.

20 When a utility company makes significant investments in a demand-side program like
21 energy efficiency, it is knowingly entering into a program that, if successful, will materially
22 reduce sales. These losses will start soon after the energy efficiency program is initiated and
23 may continue for years after the program is terminated. If a clear path to recovery of the

[14] *Id.*, p. 26, l. 8-12.

1 throughput disincentive is not provided by the regulatory structure, the utility company
2 making investments in energy efficiency will not value demand-side investments equal to
3 traditional investments in supply and delivery infrastructure.

4 **Q. Can you provide an example?**

5 A. Sure. Imagine that the Company's engineers prudently decided, based upon
6 the available information and due diligence, that if they replaced a $40 million turbine at a
7 power plant they could increase output by X megawatt-hours per year and also lower the heat
8 rate by Y percent. Consequently, they proceed to replace the turbine, but the project ends up
9 costing $45 million. Assume also that after a few years of operation it turns out that the
10 replacement increased output by less than what was expected. Assume further, however, that
11 based on information available at the time the decision was made, it was prudent and
12 reasonable for them to decide what they decided and that the higher installation cost was not
13 due to the Company's imprudence. In that scenario the Company is able to rate base the
14 $45 million investment and earn on it throughout its service life.

15 Compare this to the Staff's position on the TRM. Even if the Company prudently and
16 reasonably designs and implements energy efficiency programs and even if the TRM values
17 were prudently developed, if later it turns out that the Staff or others argue that the energy
18 savings are lower per measure than the TRM estimated, the Company risks recovering less
19 throughput disincentive than it believed it could recover when it committed to spending the
20 money on energy efficiency programs. It's one thing to invest money up front and have the
21 risk that you will later have been found to have acted imprudently, and then you could lose
22 part of your investment. But here, under the Staff's proposal, the Company still has to front
23 the money while bearing the risk that it will later lose money *even if it was not imprudent.*

1 **Q. But is that really true? If EMV shows the savings were less, isn't it true**
2 **that the throughput disincentive would also be less and the Company would not lose**
3 **money?**

4 A. Only in theory. If we don't have agreement on (or if the Commission does not
5 approve) a TRM *in advance* of the Company making the expenditures then a situation has
6 been created where everyone has an incentive to push the EMV results in a direction that
7 helps their constituents. The Staff, OPC, etc., have an interest in proving that the EMV
8 results show lower energy savings because that will lower customer rates and the Company
9 arguably has an incentive to show more savings, because that would increase the throughput
10 disincentive recovery. As Mr. Voytas discusses, EMV is not a formulaic "automatic"
11 exercise. Rather, it is a process with substantial subjectivity that would create opportunities
12 for parties to push the results in the direction they favor. Put another way, if the Company
13 invests in a supply-side resource, it knows what it spent on that resource. The only question
14 is whether the expenditure was prudent. In the case of a demand-side expenditure, the
15 Company will never know with certainty what the throughput disincentive actually was. We
16 cannot perfectly perform EMV and the results of EMV are not entirely objective. The
17 Company can't point to the total of invoices. Because of this, Ameren Missouri inherently
18 faces more uncertainty on the demand-side.

19 That is why the concept of a TRM makes so much sense, as the Commission's rules
20 recognize and as parties like MDNR recognize. Moreover, as I earlier noted when faced with
21 this incremental risk, the utility's incentives are not aligned as required by MEEIA. As a
22 utility decision maker, I can't value the demand-side expenditure equal to the supply-side
23 investment because I have a risk on the demand-side I don't have on the supply-side. I can't

1 rely upon the "theory" that EMV will yield a "right" answer when I make decisions about
2 where to spend my limited resources.

3 **Q. But isn't it fair to say that the deemed values in the TRM are not**
4 **"right"?**

5 A. Yes, in the sense that they are not perfect. But they are reasonable, and
6 perfection cannot be achieved. Those who oppose the deemed values (not because they are
7 not reasonable estimates but because they want to preserve the ability to second-guess them
8 retrospectively later) are making the perfect the enemy of the good. The Company is not
9 proposing never to review, refine and improve upon the deemed values in the TRM. Future
10 EMV studies will aid in that effort and prospectively the TRM will be refined. What the
11 Company is proposing is to remove the perverse incentives I spoke of earlier, to agree that
12 the estimates are reasonable, and to agree that all parties will live with them during this first
13 three-year cycle of the MEEIA programs. If we can make them better for the next cycle, we
14 will do so.

15 **Q. Beyond achieving MEEIA's Commission obligations, are there other**
16 **reasons that the Commission should reject Staff's proposal?**

17 A. Yes, customers will simply pay more for the energy efficiency programs if
18 Staff's proposal was adopted by the Commission and accepted by the Company. Ameren
19 Missouri witness William R. Davis, in his supplemental direct testimony, noted that Staff's
20 proposal would add another $36 million of cost for these programs to customer bills. The
21 simple impact of Staff's proposal is that the net benefits retained by customers are reduced
22 from approximately 91% to approximately 88%.

23

1 **OPC'S PROPOSED COST RECOVERY MECHANISM**

2 **Q. Did the OPC offer a proposal on how to recover the costs of energy**
3 **efficiency investments?**

4 A. In his rebuttal testimony, Ryan Kind, on behalf of the OPC, offers opinions on
5 all the major elements of the Company's MEEIA Report. Mr. Kind generally supports the
6 Company's proposal for timely recovery of energy efficiency program costs. Mr. Kind
7 opposes the Company's net shared benefits proposal to address the full throughput
8 disincentive the Company will experience, opposes the earnings opportunity proposed by the
9 Company to provide a timely earnings opportunity and opposes the use of a TRM to establish
10 energy efficiency savings. Starting on page 23 of his rebuttal testimony, Mr. Kind does
11 propose an alternative recovery mechanism.

12 **Q. What is OPC's alternative proposal?**

13 A. OPC supports the Company's approach on program cost recovery. With
14 respect to the throughput disincentive, OPC advocates for an after-the-fact ability to second-
15 guess the savings while asking the Company to invest $145 million over three years "up-
16 front" without assurance that the throughput disincentive will be addressed. Not only is there
17 no assurance that it will be addressed, but under OPC's proposal, the Company's earnings
18 suffer over the next several years, for the reasons discussed earlier. OPC also significantly
19 reduces the earnings opportunity that the Company has shown is reasonable and that both the
20 Staff and MDNR support.

21 **Q. Does OPC's proposal satisfy the requirements of MEEIA?**

22 A. No. Mr. Kind's proposal fails to provide recovery of the throughput
23 disincentive that the Company will experience in supporting these programs through shared

1 net benefits. For the reasons discussed earlier, if the Commission approves a DSIM that does
2 not remove the throughput disincentive, then the utility's financial incentives will not be
3 aligned as MEEIA requires. Moreover, without a reasonable earnings opportunity, the
4 Commission cannot satisfy the third MEEIA requirement discussed above. Add to that the
5 inherent risks discussed earlier if deemed savings through a TRM are not used, and from a
6 utility decision maker's perspective, the demand-side expenditure will not be valued equally
7 to a supply-side investment if Mr. Kind's proposal were adopted.

8 **Q. Mr. Kind testified that the incentive component of Ameren Missouri's**
9 **proposal is the most outrageous proposal he has ever seen; could you please respond?**

10 A. Instead of supporting Mr. Kind's position, Mr. Kind's comment provides
11 additional evidence that OPC's proposal should be ignored. As Mr. Davis explains, the basis
12 for Mr. Kind's claim does not withstand scrutiny because, among other reasons, he has made
13 an apples-to-oranges comparison between demand-side expenditures treatment for
14 distribution-only utilities in other states who also have mechanisms to address the throughput
15 disincentive that Mr. Kind refuses to agree upon for the Company. It suffices to say that
16 based on its rebuttal testimony, OPC's position on many topics is simply unreasonable,
17 particularly when compared to the substantial agreement on many issues among most parties
18 in the case.

19 **Q. Please summarize what, from the Company's perspective, it will take in**
20 **order to properly align the Company's interests with helping the Company's customers**
21 **use energy more efficiently.**

22 A. The Company simply needs the Commission to approve a MEEIA plan
23 consistent with MEEIA itself. The Company cannot be put in the position of being worse off

1 if it makes demand-side expenditures. As noted earlier, when Governor Nixon signed Senate
2 Bill 376 (the MEEIA statute) into law (July 13, 2009), the Governor's office issued a press
3 release which included the following statement, "It [MEEIA] provides the Public Service
4 Commission with the ability to encourage cost-effective energy efficiency by making utility
5 investments in energy efficiency programs for their customers at least as profitable as
6 building new power plants or making capital investments."

7 In its MEEIA Report, Ameren Missouri has proposed a regulatory structure that will
8 result in unprecedented expenditures in support of energy efficiency and achieve benefits to
9 customers that far exceed the cost of these programs, while properly aligning the Company's
10 interests with helping our customers use energy more efficiently. All of this is consistent
11 with and even required by MEEIA.

12 Absent approval of a MEEIA plan that fulfills MEEIA's requirements, the Company
13 will be left with no reasonable choice but to set aside its current plan to spend $145 million
14 on energy efficiency over the next three years.

15 **Q. Are you saying that if the plan is not approved as filed, the Company will**
16 **cease energy efficiency expenditures entirely?**

17 A. I cannot predict what course of action the Company will take should the
18 Commission not approve our plan as filed. Consistent with what we have said in the past, it
19 is not reasonable or appropriate to expect the Company to knowingly make expenditures on
20 energy efficiency and incur significant losses due to the throughput disincentive. Clearly, for
21 Missouri to move forward in a progressive manner with its energy efficiency programs, the
22 Commission must implement the regulatory framework reflected in MEEIA, including
23 aligning the Company's financial interests with helping our customers use energy more

1 efficiently. As a result, what I can say is that in developing its plan, the Company carefully
2 considered the MEEIA requirements, the financial implications of the plan on our Company,
3 the relevant accounting standards for such a plan and its long-term benefit to customers.
4 With these matters in mind, we developed a plan that met the MEEIA requirements,
5 addressed the issues resulting from the relevant accounting standards, and that allows us to
6 pursue all cost-effective energy efficiency for the benefit of our customers. No other
7 proposal before the Commission accomplishes all of these important objectives.

8 **Q. Does this conclude your surrebuttal testimony?**

9 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a Ameren Missouri's Filing to Implement Regulatory Changes Furtherance of Energy Efficiency as allowed by MEEIA.	)))	File No. EO-2012-0142

AFFIDAVIT OF WARREN WOOD

STATE OF MISSOURI)
) **ss**
CITY OF ST. LOUIS)

Warren Wood, being first duly sworn on his oath, states:

1. My name is Warren Wood. I am employed by Ameren Services Company as Vice President of Regulatory and Legislative Affairs.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Union Electric Company, d/b/a AmerenUE, consisting of 22 pages (and Schedules 1 through 1 if any), all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

Warren Wood (signature)
Warren Wood

Subscribed and sworn to before me this 4th day of May, 2012.

Julie Donohue (signature)
Notary Public

My commission expires: 2/17/2013

Julie Donohue - Notary Public
Notary Seal, State of
Missouri - St. Louis City
Commission #09753418
My Commission Expires 2/17/2013

MISSOURI SENATE

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BRAD LAGER
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August 17, 2010

Robert M Clayton III
Chairman
Missouri Public Service Commission
200 Madison Street
Jefferson City, MO 65101

RE: Senate Bill 376 Rulemaking, EX-2010-0368

Dear Chairman Clayton:

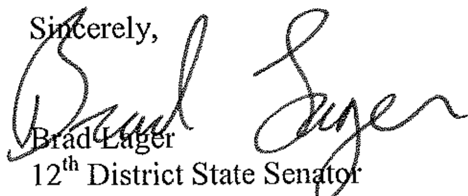
I know that the Commission has been working diligently on the rulemaking that goes along with the passage of SB 376. I appreciate the effort and hard work of all of the Commissioners and staff involved.

I am, however, concerned that the goals and purposes of the legislation are not being fully represented in the current draft of the rules. The objective of the Missouri Energy Efficiency Investment Act was to encourage further investment by utilities and customers in future energy efficiency projects. The statute specifically states that the Commission shall: (1) Provide timely cost recovery for utilities; (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 verifiable efficiency savings.

I firmly believe that the rules must address the issues of lost revenues and reasonable earnings opportunities to ensure that utilities are made whole for advancing these historically under-utilized resources. As currently proposed, the rules set aggressive goals without assurance of the alignment of such financial incentives to utilities. If the rules include energy savings goals, it is even more imperative that any such goals be in combination with appropriate, comprehensive recovery mechanisms. Additionally, I believe the current goals should be further reviewed as they appear to be significantly aggressive. Ultimately, goals will be most effective if they are reasonable and achievable.

We all know that energy efficiency is one of the easiest and most cost effective options to reduce carbon and also control customer bills. Across our state, we have a great opportunity to improve and expand our investment in energy efficiency. I hope that we can continue working on the rules of this ground-breaking legislation.

Sincerely,



Brad Lager
12th District State Senator