

**VOLUME 8:**

**FILING SCHEDULE AND  
REQUIREMENTS**

**KCP&L GREATER MISSOURI  
OPERATIONS COMPANY (GMO)**

**REVISED INTEGRATED ANALYSIS**

**STAKEHOLDER PROCESS**

**EE-2009-0237**

**NONTRADITIONAL ACCOUNTING**

**DATE: 18-JAN-2011**

## **VOLUME 8: FILING SCHEDULE AND REQUIREMENTS**

### **SECTION 2: NONTRADITIONAL ACCOUNTING FOR DEMAND-SIDE RESOURCE COSTS**

*(2) The electric utility's compliance filing may also include a request for nontraditional accounting procedures and information regarding any associated ratemaking treatment to be sought by the utility for demand-side resource costs. If the utility desires to make any such request, it must be made in the utility's compliance filing pursuant to this rule and not at some subsequent time. If the utility desires to continue any previously authorized nontraditional accounting procedures beyond the three (3)-year implementation period, it must request reauthorization in each subsequent filing pursuant to this rule. Any request for initial authorization or reauthorization of these nontraditional accounting procedures must—*

#### **1.1 DEMAND-SIDE PROGRAMS**

*(A) Be limited to specific demand-side programs that are included in the utility's implementation plan; and*

This request for nontraditional accounting procedures example is based on the proposed demand-side programs included in this IRP filing, described as Plan 10 and Plan 11.

#### **1.2 SPECIFIC PROPOSAL INFORMATION**

*(B) Include specific proposals that contain at least the following information:*

*1. An explanation of the specific form and mechanics of implementing the proposed accounting procedure and any associated ratemaking treatment to be sought;*

The following explanation meets this rule:

In this IRP filing the DSIM example is based on the proposed demand-side programs included in Plan 10 and Plan 11. GMO proposes to establish a Demand-Side Programs Investment Mechanism (“DSIM”) Rider as the DSM program cost recovery mechanism. The DSIM Rider will include the following components for cost recovery:

- 1) Contemporaneous program cost recovery;
- 2) Recovery of lost margins; and
- 3) Performance mechanism for meeting or exceeding DSM program energy savings goals.

The DSIM Rider is designed to address consecutive *program years*. GMO will make two filings in each *program year*.

The first filing will include an estimate of the *program year* demand-side program costs and any estimates to adjust demand-side program costs for the prior year in an effort to recover prior *program year* demand-side program costs. Additionally, the filing will include recovery of lost revenues, based on energy and demand impacts as found in the evaluation, measurement and verification (“EM&V”) analysis from the demand-side programs, and a utility incentive component to reflect the success of the implementation of the demand-side programs. The Lost Revenues and Utility Incentive component will be recovered beginning in the 3<sup>rd</sup> year following the *program year*.

The second filing during the *program year* will include a true-up of the actual costs and true-up for the amount recovered during the prior *program year* and any adjustments to the remaining current *program year*, including any adjustment to the expected remaining recovery needs.

Demand-side program means any program conducted by the utility to modify the net consumption of electricity on the retail customer’s side of the meter, including

energy efficiency measures, load management, demand response and interruptible or curtailable load. Demand-side program costs include administrative, direct program, EM&V costs and other costs, both indirect and direct costs.

EM&V means the performance of studies and activities intended to evaluate the process of the program delivery and oversight and to estimate and/or verify the estimated actual energy and demand savings, cost effectiveness and other effects from demand-side programs.

Lost revenues (or lost margin) mean the net reduction in utility revenue, taking into account all changes in costs and all changes in revenues that occur when utility demand-side programs cause a drop in retail kWh or kW to customers. Lost revenues will be measured utilizing an EM&V as the basis to determine the reduction in energy and demand. Lost Revenues will be deferred in the *program year* and set up as a regulatory asset to be recovered beginning in the 3<sup>rd</sup> year. Allowance for funds used during construction (“AFUDC”) will be calculated on the regulatory asset.

Utility Incentive component is a portion of the annual net shared benefits achieved and documented through EM&V reports that the Company receives by meeting specified targets. The Utility Incentive component will be determined by taking the kWh savings accomplished through the Demand-side programs times a range dependent on the measured targets to the actual results of \$.04/KWh to \$.06/KWh plus the kW savings accomplished through the Demand-side programs times a range dependent on the measured targets to the actual results of \$2/kW to \$6/kW. The Utility Incentive Component for the *program year* will be recovered beginning in the 3<sup>rd</sup> year.

***2. A discussion of the rationale and justification of the need for a nontraditional treatment of these costs;***

In 2008, GMO filed tariffs that mirrored the customer program tariffs KCP&L offered in its Comprehensive Energy Plan which included a portfolio of energy efficiency, demand response, and affordability programs classified as demand-side management (“DSM”) programs. The DSM programs were filed as pilot programs to run for a period of time, subject to continuing Commission review. The current ratemaking treatment approved in Case No. ER-2007-0004 allows for program costs to be deferred and AFUDC to be calculated on the deferred costs. When new rates go into effect reflecting amortization recovery as a result of a general rate proceeding, the prudently-incurred costs included in the deferred account are added to rate base and the AFUDC accrual stops. These costs are then amortized over a ten (10) year period. Each rate case creates a new vintage DSM accrual and amortization.

The current method of recovery is inadequate, because the goal of DSM programs is to reduce customer usage and demand. By lowering customer usage and demand, the billing determinants are lowered on which the utility’s charges are assessed. Each kWh and kW reduction leads to less revenue for the utility. While the utility can avoid the variable costs of providing the additional service, the net impact is almost always a reduction in net revenue and earnings -- often referred to as “lost revenues” or “lost margins.” While a portion of the impact from the reduction of sales attributable to DSM can usually be re-established in the next rate case, there is still a loss in kWh sales, resulting in a loss of revenue for the Company. GMO will experience this revenue, earnings and cash flow loss if it continues the current regulatory model, which includes a historical test year as the basis for establishing rates and recovery of and on the investment in energy efficiency, because the historical test year sets the sales levels of customers at a level that DSM programs are reducing. The current model for GMO’s investment in DSM programs results in a disincentive to the development and implementation of energy efficiency programs as a more sustainable resource due to the detrimental shareholder impact that such investments currently have on GMO.

GMO seeks to continue its DSM programs. In order to pursue this commitment, the financial disincentives highlighted above need to be eliminated and DSM investments treated on at least an equal playing field to investments in traditional supply resources. The legislature and ultimately the Governor of Missouri recognized in 2009 that a law should be established to address energy efficiency DSM programs. This resulted in the passage of SB 376, the Missouri Energy Efficiency Investment Act of 2009 (Section 393.1075, RSMo Supp 2009). (MEEI or Senate Bill 376) Although the Commission rules for MEEI are not final, the following request would follow the currently proposed rulemaking requirements.

***3. An explanation of how the specific proposal meets this need for nontraditional treatment; and***

The proposed Demand-Side Programs Investment Mechanism (“DSIM”) Rider would allow GMO to continue its DSM programs without suffering significant financial harm. In other words, DSM initiatives would have earnings impacts similar to or better than those of supply-side investments, depending on performance, and would meet the objective to develop DSM programs as a more sustainable resource.

***4. A quantitative comparison of the utility’s estimated earnings over the three (3)year implementation period with and without the proposed nontraditional accounting procedures and any associated ratemaking treatment to be sought***

The analysis to arrive at this IRP filing is an outcome of MIDAS, an hourly load dispatching software package that provides the Net Present Value of Revenue of Requirements (“NPVRR”) over a period of time under specific conditions and circumstances. The annual revenue requirement used in the NPVRR calculation is converted into annual average rates. In other words the MIDAS model assumes perfect ratemaking, as required by rule, both in terms of time and amount.

The comparison of GMO estimated earnings over the next three years is shown in the attached DSIM Example-EXHIBIT 1. The DSM Regulatory Asset is also shown, reflecting contemporaneous recovery of DSM program costs, recovery of lost margins and the utility incentive in the third year, recovery of the DSM Regulatory Asset balance existing from the current programs, and AFUDC accrual and recovery.