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Witness:	Steven M. Wills
Sponsoring Party:	Union Electric Company
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Case No.:	EO-2014-0095
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EO-2014-0095

SURREBUTTAL TESTIMONY

OF

STEVEN M. WILLS

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a Ameren Missouri

St. Louis, Missouri
April, 2014

SURREBUTTAL TESTIMONY

OF

STEVEN M. WILLS

CASE NO. EO-2014-0095

I. INTRODUCTION

Q. Please state your name and business address.

A. Steven M. Wills, Ameren Services Company ("Ameren Services"), One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. What is your position with Ameren Services?

A. I am the Manager of Quantitative Analytics in the Corporate Planning Department.

Q. What is Ameren Services?

A. Ameren Services provides various corporate, administrative and technical support services for Ameren Corporation ("Ameren") and its affiliates, including Union Electric Company d/b/a Ameren Missouri ("Company" or "Ameren Missouri").

Q. Please describe your educational background and employment experience.

A. I received a Bachelor of Music degree from the University of Missouri-Columbia in 1996. I subsequently earned a Master of Music degree from Rice University in 1998, then a Master of Business Administration ("M.B.A.") degree with an emphasis in Economics from St. Louis University in 2002. While pursuing my M.B.A., I interned at Ameren Energy in the Pricing and Analysis Group. Following completion of my M.B.A. in May 2002, I was hired by Laclede Gas Company as a Senior Analyst in its

Financial Services Department. In this role I assisted the Manager of Financial Services in coordinating all financial aspects of rate cases, regulatory filings, rating agency studies, and numerous other projects.

In June 2004, I joined Ameren Services as a Forecasting Specialist. In this role, I developed forecasting models and systems that supported the Ameren operating companies' involvement in the Midwest Independent Transmission System Operator, Inc.'s ("MISO")[1] Day 2 Energy Markets. In November 2005, I moved into the Corporate Analysis Department of Ameren Services, where I was responsible for performing load research activities, electric and gas sales forecasts, and assisting with weather normalization for rate cases. In January 2007, I accepted a role I briefly held with Ameren Energy Marketing Company as an Asset and Trading Optimization Specialist before returning to Ameren Services as a Senior Commercial Transactions Analyst in July 2007. I was subsequently promoted to my present position as the Manager of the Quantitative Analytics group.

Q. What are your responsibilities in your current position?

A. In my current position, I supervise a group of employees with responsibility for short-term electric load forecasting, long-term electric and gas sales and revenue forecasting, load research, weather normalization, and various other analytical tasks. In this role, I also participated on the team that prepared Ameren Missouri's filing to implement its first cycle of energy efficiency programs under the Missouri Energy Efficiency Investment Act ("MEEIA"). As part of that team, part of my responsibility was to assist in designing the first cycle of the MEEIA programs so that the design would

[1] MISO has since changed its name to the Midcontinent Independent System Operator, Inc.

ensure timely cost recovery, alignment of the Company's financial incentives with helping customers use energy more efficiently, and an appropriate earnings opportunity. I am performing a similar role with regard to the Company's preparation for making its second MEEIA filing.

Q. What is the purpose of your surrebuttal testimony in this proceeding?

A. The purpose of my testimony is to respond generally to some of the recommendations made in rebuttal testimony by the Missouri Public Service Commission Staff ("Staff") and the Office of Public Counsel ("OPC"). In particular, my testimony addresses the Commission's responsibilities under MEEIA to align the financial incentives of utilities with helping customers use energy more efficiently.

Q. What are the responsibilities of the Commission under MEEIA?

A. MEEIA, as passed by the General Assembly and signed into law by Governor Nixon requires in part that:

"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 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[2]."

While the law creates a statewide goal of achieving all cost-effective demand-side savings, it clearly obligates the Commission to take affirmative steps to align the financial incentives of the utility with helping customers use energy more efficiently. By taking those steps, and also complying with its other obligations under MEEIA, the Commission will thereby promote that stated goal.

Q. Please explain why it is necessary for the Commission to make sure it satisfies each of the three provisions of the law quoted above to align utilities' financial incentives with helping customers use energy more efficiently and consequently promoting the goal of achieving all cost-effective demand-side savings.

A. Simply put, given the existing regulatory environment in Missouri and its reliance on use of a historical test year, pursuing aggressive energy efficiency programs in the absence of such alignment is counter to the financial interests of Missouri utilities and their shareholders. The provisions of the law (specifically the portion quoted above) provide the means by which the Commission can eliminate the three sources of conflict that would otherwise exist between the implementation of energy efficiency and the financial interests of utilities.

First, the law requires timely recovery of program costs. Energy efficiency programs require the utility to spend significant sums of money administering programs and paying incentives to customers. Those expenses, absent timely recovery of them, would be an immediate drag on utility earnings.

[2] § 393.1075.3 RSMo, emphasis added.

Secondly, the law requires that the utilities' financial incentives are aligned with helping customers use energy more efficiently. This provision is in place to ensure that the Commission addresses what has become commonly referred to as the "throughput disincentive." This disincentive exists because energy efficiency programs by their very design cause customers to use less energy. Under most rate designs in place in Missouri, utilities recover the fixed costs associated with the large amount of capital deployed on customers' behalf through a volumetric rate, which means by selling kilowatt-hours of energy. When rates are set by the Commission, there is an assumption of how many kilowatt-hours of energy will be sold. The Company's revenue requirement is then spread over that level of kilowatt-hours. To the extent that a customer installs an energy efficient measure that causes them to purchase less electricity than they otherwise would, the utility is faced with an immediate decline in revenue. To the extent that the revenue decline does not have a corresponding decrease in cost (generally net fuel costs are the only costs that change directly with customer usage), it causes an immediate reduction in the utility's earnings. This decline in utility earnings is a significant disincentive to the implementation of energy efficiency programs.

The third requirement included in the MEEIA law is to provide the utility with a timely earnings opportunity. Utilities and businesses generally are interested in investing in worthwhile projects to serve customers that will also produce new earnings opportunities. Energy efficiency can displace the need for other infrastructure investments that the utility would need to make in its absence. To the extent that implementing energy efficiency removes or delays the opportunity to invest in infrastructure that will generate future utility earnings, the utility may still have a

preference for the alternate path (i.e. supply-side investments) that provides more potential earnings opportunities over time, even if cost recovery and the throughput disincentive are addressed. Providing an earnings opportunity associated with implementing successful energy efficiency programs can level the playing field between demand side and supply side resources in the eyes of utility executives that are making resource and investment decisions. This earnings opportunity compliments the cost recovery and throughput disincentive alignment to achieve the MEEIA law's stated policy of valuing demand-side resources equally with supply-side and delivery infrastructure.

Q. If Staff's recommendations regarding KCP&L's proposal were adopted by the Commission, would the utility's financial incentives be aligned with helping customers use energy more efficiently?

A. Not in my opinion. There are two particular recommendations that would result in Staff's position failing to align utility incentives appropriately as envisioned by MEEIA.

First, as mentioned in the testimony of Staff witnesses John Rogers and Michael Stahlman, Staff has concerns with KCP&L's request to utilize a portion of the avoided cost benefits of the program to offset the effects of the throughput disincentive. Staff raises a number of concerns about KCP&L's quantification of the throughput disincentive and of the net benefits that would be generated by the proposed programs. Because of these concerns, Staff recommends that KCP&L utilize a lost revenue mechanism pursuant to the Commission's rules rather than a shared net benefits mechanism to deal with the throughput disincentive. I have not performed a review of

KCP&L's calculations of lost margins and net benefits, and therefore take no position on whether Staff's concerns about their quantification are valid. However, I can say that the alternative proposed by Staff to use a lost revenue mechanism under the constraints that exist in the Commission's rules is not sufficient to address the throughput disincentive and consequently does not remove the very significant disincentive a utility has in promoting energy efficiency programs. In order to align the financial incentives, the Commission must focus its and the parties' efforts on resolving the issues around the quantification of those factors and then establish a shared net benefits incentive that actually addresses the throughput disincentive. Simply refusing to actually address the disincentive that exists because of disputes about how shared net benefits is calculated will not align the utility's financial incentives with helping customers use energy more efficiently and thus would not constitute sufficient Commission action to discharge its obligations under MEEIA.

Q. Why is the Commission rule's definition of lost revenues insufficient to remove the throughput disincentive?

A. Simply put, the lost revenue mechanism described in the rule only compensates the utility for a portion of the losses it will incur by successfully implementing energy efficiency programs. By rule, the lost revenue mechanism only operates when program-related energy savings occur at the same time that actual sales are lower than the level of sales utilized to establish rates in the utility's last rate case. In any instance where load has grown or weather has created a short term sales gain, the utility is completely unable to make up for those lost sales directly attributable to the success of its own actions in promoting energy efficiency. Put another way, the utility would have

been better off financially without the energy efficiency programs, creating an obvious disincentive (under the rule's definition) to promote energy efficiency.

Q. But if sales are higher than the level used to set rates in the last rate case, doesn't it follow that the utility has been able to recover its costs regardless of the impact of energy efficiency?

A. No. In Missouri, utility rates are based on a snapshot of both costs and revenues from a historical test period. Once the rates are implemented, actual costs may increase or decrease, as might sales. But for the last several years, most Missouri utilities have been in a pattern of requesting rate increases periodically to reflect generally inclining costs. Since costs are more than likely inclining, the utility may already be facing difficulty in recovering those costs even with modest growth in sales. Regardless of whether sales are higher or lower than the historical test period, a decline in sales relative to what they would otherwise be absent the utility implementing energy efficiency programs, will make it more challenging for that utility to receive sufficient revenues to cover what its actual costs are and earn a fair return on all of its investments. By imposing a limitation on recovery of lost sales to periods when sales have actually declined, the Commission's rule incompletely addresses the throughput disincentive and leaves the utility's incentive out of alignment with the goals of achieving all cost-effective demand-side savings.

Furthermore, in a situation of increasing sales, there are often increasing costs directly attributable to that increase in sales (i.e. new customer connections, etc.). The Commission's lost revenue rule ignores this reality. In the normal regulatory scheme, the additional revenues from rising sales are available to be used for those incremental costs

that are likely to be incurred. The Commission's rule, however, requires that all additional revenues be used to cover some, or all, of the throughput disincentive, potentially leaving no incremental revenues available for the traditional uses of capital.

Q. Is there further reason that utilities' financial incentives remain out of alignment when the throughput disincentive is incompletely addressed?

A. Yes. Regardless of whether or not the utility has earned its authorized return, any decline in sales negatively impacts earnings from what they would otherwise be. When the Commission establishes an authorized return on equity ("ROE") for a utility, there is no guarantee that the utility will earn exactly that amount nor is there a cap that says that a utility can never earn more than that amount. Indeed, if the system is actually working well, utilities will sometimes earn more and sometimes less than that authorized return. For many years now, as evidenced by rate case after rate case by every major utility in the state, the system has been working in a manner where utilities are earning less most of the time. That said, even if an increase in sales were to cause a utility to earn above its authorized return for a short period of time, the utility is typically able to retain the increased earnings for its shareholders. This helps to compensate for those times when earnings were insufficient to achieve the authorized ROE in other periods. So, any time the utility implements energy efficiency without properly addressing the throughput disincentive, it will suffer deterioration in earnings from levels that would otherwise be expected. I cannot think of any situation where a for-profit business in any industry would intentionally engage in a program that is virtually guaranteed to cause that business to make less money than it would absent the program. In that regard, energy efficiency is an unusual business model. Basically, the utility is

asked to voluntarily reduce its own sales and revenues, and absent recovery of the throughput disincentive, its own earnings. That is an understandable impediment to the pursuit of energy efficiency. It is also why the Missouri General Assembly recognized the issue and took action to require the Commission to remedy the inherent misalignment of incentives through the passage of MEEIA.

Q. Previously you mentioned that there were two issues you had with Staff's proposals. If a recommendation to use a lost revenue mechanism was the first issue, what is the second?

A. The other issue is the recommendation of Staff to require the completion of Evaluation, Measurement, and Verification ("EM&V") before allowing recovery of the throughput disincentive portion of any shared net benefits. Staff witness Michael Stahlman claims that KCP&L has not demonstrated good cause to base the program savings used to calculate the shared net benefits on deemed savings.

Q. Can you provide any insights based on Ameren Missouri's experience with this issue that will explain why you disagree with Staff on this point?

A. Yes. Ameren Missouri witness Lynn Barnes explains in her surrebuttal testimony what is required under Generally Accepted Accounting Principles ("GAAP") in order for a utility to recognize revenues associated with a demand-side management initiatives.

Ms. Barnes goes on to explain that recording revenues based on an estimate of kilowatt-hours saved that is contingent upon completion of EM&V does not meet the GAAP standard that requires revenues to be based on an objectively determinable amount. Given that reality, the utility is unable to recognize revenues to offset the

throughput disincentive without having approval of deemed values for the determination of program-related savings, and would therefore suffer earnings deterioration from the lost revenues created by the energy efficiency program as the program is implemented. By definition, a program design that absolutely ensures that the utility's earnings will drop fails to align the financial interests of the utility with helping customers use energy more efficiently.

Q. Staff witness Stahlman claims that KCP&L's concern over the timing of recognizing the throughput disincentive component of shared net benefits "is inconsistent with other aspects of their filing. For example, KCPL requests to amortize the program costs (which are larger in value than the TD-NSB share) over a six year period." (Stahlman rebuttal, page 9, lines 22-24). Is this a valid comparison to draw?

A. No. The accounting rule cited by Ms. Barnes applies to recording *revenues* associated with demand-side programs, but does not impose similar conditions on the ability of the utility to defer program costs. In the example that Mr. Stahlman cites, KCP&L would not suffer any earnings impact from the delay in cost recovery. That is because there is no direct impact on the earnings of KCP&L when they defer collection of program costs. Under a regulatory asset model, KCP&L would record the program costs to the balance sheet in the period they are incurred, leaving earnings unchanged. Cost recovery then takes place over the same time period as the six year amortization of those costs. The amount that will be expensed each year is built into KCP&L's rates so that they are able to recover the costs from customers contemporaneously with the time when those costs hit their income statement as an

amortization expense. This process inherently builds in a matching of expenses and the corresponding revenues that recover those expenses. There is no direct earnings impact from the program costs to the utility at any time under this model[3].

That is not the case at all with the throughput disincentive. As I discussed earlier, the moment a customer installs an energy efficient measure, the utility will immediately begin experiencing a decline in customer revenues. If the utility is not able to recognize shared net benefit revenues in that same period to offset the revenue decrease, earnings in the current period will undoubtedly be negatively impacted. Mr. Stahlman's program cost recovery example simply does not have any applicability in the context of the throughput disincentive.

Q. Do you have any response to the testimony of OPC witness Barbara A. Meisenheimer?

A. The comments I have made above in response to Staff's concerns apply equally to the issues raised by Ms. Meisenheimer. She also recommends the use of a lost revenue mechanism as defined in the Commission rules and argues that results should be subjected to full EM&V prior to the calculation of any offset to the throughput disincentive. For the reasons I described above, those recommendations fail to align the financial interests of the utility with the goal of achieving all cost-effective demand-side savings.

3 There would be no impact on earnings assuming that the regulatory asset is accruing carrying costs equal to the utility's cost of capital or is included in the utility's rate base in a general rate case. There are, however, other disadvantages with the deferral approach (e.g. risk of cost recovery or cash flow concerns) that may make a utility seek expense treatment for program costs. Preference for this deferred cost recovery approach represents the subjective judgment of KCP&L decision makers in relation to how well their financial incentives are aligned given the governing accounting rules for these costs.

Q. As mentioned earlier, Staff has indicated that the percentage of shared net benefits that KCP&L claims is necessary to offset the throughput disincentive of 38.4% is too high. Do you have any further comments or observations about this?

A. Yes. While I again point out that I have not attempted to verify the calculations performed by KCP&L, with regard to the sharing percentage required to offset the throughput disincentive, there is an important fact to keep in mind in order to make sure that the number is viewed in the proper context.

The benefits that are the denominator of the calculation of the 38.54% are based on avoided costs that are realized as a result of the implementation of energy efficiency programs. These costs, as the name implies, are entirely avoided and therefore accrue to the benefit of the entire system. But there is another source of benefits to customers: that is, participant bill savings. Participant bill savings are reductions in the purchase of energy at the retail rate by customers who have participated in programs by implementing energy efficient measures. The customer savings attributable to the avoidance of paying the portion of the retail rate that collects fixed costs is a benefit that is not contemplated at all under the avoided cost calculations described above. The avoidance of paying these fixed costs is in fact the flip side of the throughput disincentive to utilities, but it can certainly be viewed as a benefit to customers. To the extent that KCP&L's estimate of the throughput disincentive is accurate, customers are receiving an equally sized benefit that is not captured in the avoided cost calculation which is the basis for the shared net benefits percentage. So, in reality, as long as the lost margins are correctly estimated, customers retain 100% of the avoided cost benefits. The phenomenon I have described

above does create a difference in the distribution of benefits between program participants and non-participating customers. But, in whole, customers retain all of the avoided cost benefits created by the program. The financial incentive component of the Demand Side Investment Mechanism ("DSIM") is the only part of the shared net benefits model that actually results in the utility retaining a share of the avoided costs created by the program in a manner that reduces the benefits that accrue to customers in total. So, no matter how high the sharing percentage needed to offset the throughput disincentive sounds as a portion of the net benefits, it is not depriving the customer base as a whole of the true benefits of the programs.

Q. Can you please summarize the current DSIM that Ameren Missouri is utilizing under MEEIA?

A. Yes. Ameren Missouri currently has a rider called the Energy Efficiency Investment Charge ("EEIC") rider in place. The framework that the rider implements is a result of a Stipulation and Agreement amongst all Stakeholders in the Company's MEEIA case (File No. EO-2012-0142)[4]. The rider allows the Company to collect expected program expenses contemporaneously with the time that they are incurred. Additionally, the EEIC rider includes a charge designed to recover the revenues Ameren Missouri experiences as a result of the throughput disincentive by allowing the Company to retain a share of the net benefits created by its energy efficiency programs. The amounts collected for both program costs and share of net benefits associated with the throughput disincentive are subject to true-up to what was actually experienced, with the

[4] Initially the Company implemented this framework through base rates and a tracker mechanism. Subsequent to court review of the legality of a rider under MEEIA, the framework was transitioned into the current rider.

throughput disincentive true-up based solely upon number of measures installed. Under normal operation, the true-up allows for any over or under recoveries to be established in an annual filing[5] and included on customer bills over a subsequent twelve month period. The actual Company share of net benefits associated with the throughput disincentive is quantified using deemed savings for the energy efficient measures offered in the Company's portfolio of programs. Because the Company share of net benefits is based on deemed savings, it is considered objectively determinable by the accounting function, and is established and booked each month based on a count of measures incented by the program.

The Company's DSIM also includes a financial incentive based on its ability to meet certain performance targets. The financial incentive is also stated as a share of the net benefits created by the program and is only available to the Company upon completion of final EM&V at the end of the three year program cycle. Any incentive earned will be billed to customers through the EEIC rider following Commission approval of the final EM&V results.

Q. How does this differ from the Company's experience with energy efficiency prior to establishing this framework under MEEIA?

A. During the 2009 to 2011 timeframe, Ameren Missouri took significant steps in ramping up its energy efficiency spending. By 2011, the Company was spending over $30 million on customer energy efficiency. At that time, however, it became apparent to the Company the significant negative impacts that the throughput disincentive was having on its financial results. It was estimated that the Company lost nearly $60 million associated with the throughput disincentive due to its 2009-2011 programs.

[5] Under certain circumstances, the rider allows for two filings per year rather than a single annual filing.

Because of this significant disincentive, the Company drastically reduced spending on energy efficiency in 2012 and sought the framework that was later approved under MEEIA. While it is impossible to know with certainty what would have transpired if things had proceeded differently, it is my opinion that had the Company's DSIM not been approved in something very similar to its current form, Ameren Missouri would have continued to spend at the reduced 2012 levels, or perhaps even less. Now under its DSIM, the Company is investing approximately $150 million over three years in the largest utility-funded energy efficiency campaign in the history of the state.

Q. In closing can you comment on Ameren Missouri's experience since implementing its MEEIA business model?

A. Ameren Missouri is over a year into the implementation of its programs under MEEIA. While the first year EM&V results are still in draft form and are currently being reviewed by Stakeholders, it is safe to say the those draft results indicate that Ameren Missouri's customers are already realizing substantial benefits from the programs implemented in year one. Additionally, I can say that from an employee's perspective, there is an obvious impact of the proper alignment of incentives. I believe that there is a greater commitment to energy efficiency and an even greater focus on maximizing net benefits to customers from delivered programs than prior to implementation of MEEIA due to the well-designed incentives delivered through this business model. I strongly encourage the parties in KCP&L's case to work to achieve a similar win-win approach for KCP&L and its customers.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Application for Approval of Demand-Side Programs and for Authority to Establish A Demand-Side Programs Investment Mechanism	)))	Case No. EO-2014-0095

AFFIDAVIT OF STEVEN M. WILLS

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

Steven M. Wills, being first duly sworn on his oath, states:

1. My name is Steven M. Wills. I work in the City of St. Louis, Missouri, and I am employed by Ameren Services Company as Manager of the Quantitative Analytics group.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Union Electric Company d/b/a Ameren Missouri consisting of 16 pages which have been prepared in written form for introduction into evidence in the above-referenced docket.

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

Steven M. Wills

Subscribed and sworn to before me this 14th day of April, 2014.

Julie Irby
Notary Public

My commission expires:

Julie Irby - Notary Public
Notary Seal, State of
Missouri - St. Louis County
Commission #13753418
My Commission Expires 1/15/2017