

Exhibit No.:
Issues: MEEIA Application
Witness: Adam Bickford
Sponsoring Party: Missouri Department of
Natural Resources –
Division of Energy
Type of Exhibit: Surrebuttal Testimony
File No.: ER-2012-0009

SURREBUTTAL TESTIMONY
OF
ADAM BICKFORD
MISSOURI DEPARTMENT OF NATURAL RESOURCES
DIVISION OF ENERGY

May 10, 2012

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

KANSAS CITY POWER AND LIGHT GREATER MISSOURI OPERATIONS
COMPANY (GMO)
MEEIA Application
FILE NO. ER-2012-0009

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

2 A. My name is Adam Bickford. My business address is Missouri Department of
3 Natural Resources, Division of Energy, 1011 Riverside Drive, P.O. Box 176,
4 Jefferson City, Missouri 65102-0176.

5
6 **Q. Are you the same Adam Bickford who offered testimony earlier in this**
7 **case?**

8 A. Yes.

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

11 A. I wish to comment on two issues:

- 12 1. The alternative performance incentive structures presented in rebuttal
13 testimony. Ryan Kind, testifying on behalf of the Office of Public Counsel
14 (OPC), John Rogers, testifying on behalf of the Public Service Commission
15 Staff (Staff), and Phillip Mosenthal, testifying on behalf of the Natural
16 Resources Defense Council (NRDC) each presented a structure for
17 awarding GMO an incentive based on the performance of its DSM
18 programs, and
- 19 2. The use of verified savings from previous program evaluations in the
20 assessment of verifiable program savings. This last point is based on John
21 Rogers' recommendation to reject GMO's request for prospective recovery
22 of net shared benefits despite the fact that the majority of these benefits are
23 derived from existing, previously evaluated, programs.

1

2 **Comments on alternative performance incentive proposals**

3

4 **Q: Did Mr. Kind, Mr. Rogers and Mr. Mosenthal propose alternatives to**
5 **GMO's proposed performance incentive?**

6 A: Yes, they did, and I proposed an alternative to GMO's proposed performance
7 bonus, as well. Including the Company's testimony, five different incentive
8 structures have been proposed.

9 **Q: Please summarize the five alternative incentive proposals.**

10 A: These proposed incentive structures share several common features. Each
11 has a performance threshold and a performance cap based on the percentage
12 of a savings target achieved. Each increase the award as savings levels
13 increase relative to the target. The five proposed incentive structures are
14 summarized in Table 1 below.

15 Three of the five incentive structures in Table 1 set performance
16 thresholds at 70 percent of a savings target or higher, and four of the five
17 proposed incentive structures place a performance cap at 150 percent of
18 savings target. These structural features are important, as they provide a way
19 to gauge the adequacy of program performance and provide an identifiable
20 award for higher levels of savings.

21 There is more variety in the structure of the proposed incentive awards.
22 Three of the incentives express the award in absolute dollars, while one
23 expresses the award as a percentage of net shared benefits and one
24 expresses the award as a percentage of the program budget. The rules,

especially 4 CSR 240-20.094(1)(M), provide that the incentive performance award be expressed as a “portion of annual net shared benefits based on the approved utility incentive component of a DSIM.”¹

Table 1: Comparison of Alternative Performance Incentive Structures

| Party | GMO | OPC | Staff | NRDC | MDNR |
|-------------------------------|---|---|--|--|--|
| Minimum Performance Threshold | 50% of weighted savings target achieved | 50% of net benefit targets achieved | 70% of weighted savings target achieved | 75% of savings target achieved | 70% of weighted savings target achieved |
| Minimum Award Level | 2 million dollars | 5% of program budget | 1 million dollars | 1 million dollars | 16% of net shared benefits |
| Maximum Performance Cap | >150% of weighted savings target achieved | 150% of net benefit targets achieved | 130% of savings target achieved | 150% of savings target achieved | 150% of weighted savings target achieved |
| Maximum Award Level | 4 million dollars | 15% of program budget | 3.3 million dollars | 4 million dollars | 25% of net shared benefits |
| Award Term | Annual savings | Annual savings | Annual savings | 3-year cumulative savings | Annual savings |
| Structure of increase | Stair-step structure reflecting a constant performance award within each of four performance tiers. | Stair-step structure or percentage award, award increases 5% for each 50% increase in performance relative to savings target. | Stair-step structure reflecting an increase of 2.3 basis points for each 10 percentage point increase in performance relative to savings target. | Continuous increase of \$40,000 for each percentage improvement in performance relative to savings target. | Continuous increase of 1.13% of net shared benefits award for each percentage improvement in performance relative to savings target. |
| Source | Direct Testimony of Tim M. Rush, EO-2012-0009, p. 20, Lines 1-5. | Rebuttal Testimony of Ryan Kind, EO-2012-0009, Table 5, p. 29. | Rebuttal Testimony of John A. Rogers, EO-2012-0009, p 45-46. | Rebuttal Testimony of Phillip Mosenthal, EO-2012-0009, p 31-32. | Rebuttal Testimony of Adam Bickford, EO-2012-0009, Schedule AB-4. |

Four of the five proposed incentive structures are not consistent with the letter of the rule which provides that the incentive performance award should be expressed as a portion of annual net shared benefits. The incentive awards proposed by GMO, Staff and NRDC are expressed in absolute dollar terms,

¹ 4 CSR 240-20.094(1)(M)

1 rather than in terms of net shared benefits. OPC's proposed incentive award is
2 based on a percentage of annual program budgets, rather than as a portion of
3 net shared benefits. Additionally, NRDC's proposal seeks to base the award
4 on cumulative savings, while the rule specifies that savings be assessed on an
5 annual basis.

6 A decision to vary from the use of net shared benefits in the
7 determination of the utility incentive award should not be made without the
8 Commission's serious consideration. If the value of the incentive award is set
9 on a dollar basis, it depends upon establishing a net savings base. Because
10 this net savings base is supposed to be verified by EM&V, the dollar values
11 presented here are necessarily estimates, and MDNR suggests that setting
12 performance award values in dollars, as if savings have already occurred, is
13 inadvisable. If the Commission determines that the incentive performance
14 award should be expressed as a portion of annual net shared benefits, and that no
15 variance should be granted for this portion of the rule, the proposals for absolute
16 dollar incentives should not be adopted.

17 MDNR endorses an incentive structure that expresses the award levels in
18 terms of a percentage of net shared benefits. This percentage of net benefits
19 retained would be translated to dollars once the total dollar amount of net benefits
20 has been verified by EM&V.

21 **Q: Do you have any additional comments about any of the proposed**
22 **incentive structures?**

23 A: Yes. OPC's incentive structure features an award based on program budgets
24 rather than net program benefits. This approach is not consistent with the

1 MEEIA rules. The MEEIA rules contain separate definitions for a “DSIM cost
2 recovery revenue requirement” (4 CSR 240-20.094(1)(L)), a “DSIM utility
3 incentive revenue requirement” (4 CSR 240-20.094(1)(M)), and a “DSIM utility lost
4 revenue requirement” (4 CSR 240-20.094(1)(N)). This provision for different
5 elements of the “revenue requirement” means that program costs (the “DSIM
6 cost recovery revenue requirement”) should be treated separately from the
7 incentive or lost revenue components. Throughout his testimony, Mr. Kind
8 expresses his opinion that incentives should be based on program cost, and
9 cites multiple states where program costs are used in the determination of
10 incentive awards.² The MEEIA rules provide that incentive awards be based
11 on the net benefits a DSM portfolio produces, and not on the costs to
12 implement the programs in a portfolio. The MEEIA rules clearly allow recovery
13 of program costs, independently from performance incentives and lost
14 revenues.

15 **Q: Do you have any other comments regarding the proposed performance**
16 **incentives?**

17 A: MDNR recommends that the Commission adopt a performance incentive
18 proposal that provides an incentive for high levels of program performance, has
19 a clear threshold and cap, is based on annual savings, and expresses the
20 incentive awards in terms of a portion of net shared benefits. We ask the
21 Commission to consider establishing an incentive structure similar to MDNR’s
22 proposal in this case.

² Rebuttal testimony of Ryan Kind, EO-2012-0009, p 10-13.

1 **Using previously verified savings values in assessing**
2 **prospective recovery.**

3
4 **Q. What is Staff's recommendation regarding GMO's request for a variance**
5 **from 4 CSR 240-20.093(2)(H)(3)?**

6 A. In his rebuttal testimony, Staff witness John Rogers recommended that the
7 Commission reject GMO's request for a variance from 4 CSR 240-
8 20.093(2)(H)(3), which requires that the DSIM utility incentive revenue
9 requirement be measured and verified by EM&V prior to being collected.³

10 **Q. What is MDNR's response to Mr. Rogers' recommendation?**

11 A. In my rebuttal testimony, I did not take a position on the larger issue behind
12 GMO's variance request, that is, the prospective recovery of net benefits as
13 part of its incentive. I did note that the controlling event relative to GMO's claim
14 for prospective recovery of net benefits appeared to be when programs were
15 evaluated.⁴ , and that approximately 73 percent of GMO's "shared benefits"
16 and 69 percent of GMO's "net shared benefits" are from existing programs. I
17 made this observation to provide a framework that would allow the recovery of
18 some of the expected program benefits prospectively.

19 GMO has described the MEEIA rule requirement that net benefits be
20 recovered retrospectively as a disincentive for continuing their DSM programs⁵.
21 I proposed a solution allowing prospective recovery of the net benefits derived
22 from existing programs while recovering the net benefits from new programs
23 retrospectively, as a way to partially address this disincentive. Central to my

³ Rebuttal Testimony of John Rogers, EO-2012-0009, p 12.

⁴ Rebuttal Testimony of Adam Bickford, EO-2012-0009, p. 19.

⁵ Direct Testimony of Tim Rush, EO-2012-0009, p 23.

1 position is the idea that GMO's existing programs have been evaluated and
2 have been shown to produce benefits. Unless the administration of these
3 programs changes substantially, these programs are likely to produce similar
4 benefits during GMO's upcoming program cycle. In that sense, it appears that
5 benefits from these programs have already been verified, and that a portion of
6 these benefits could be retained by GMO without exposing ratepayers to undue
7 risk.

8 **Q. Did Mr. Rogers describe the process of verifying GMO's past program**
9 **performance?**

10 A. On Page 18 of his rebuttal testimony, Mr. Rogers described GMO's evaluation
11 activities and the review of evaluation reports by GMO's DSM Advisory Group.
12 This group has accepted the savings estimates compiled by GMO's evaluation
13 contractor as valid.

14 **Q. Are you a member of GMO's DSM Advisory Group?**

15 A. Yes.

16 **Q. Can you summarize your position about the use of previous evaluation**
17 **results to justify savings estimates from current programs?**

18 A. In the majority of cases, one would expect continuing programs to have similar
19 outcomes as they had in the past. The existing GMO programs have savings
20 and benefits verified by past EM&V. These programs have the same designs
21 as before, are being implemented in the same service territory as before, and
22 are being implemented by the same individuals as before. I do not expect that
23 the level of savings attributable to these programs will change significantly

1 before their impacts are evaluated in the proposed MEEIA cycle.
2 Consequently, MDNR does not oppose recovery of a portion of the net benefits
3 from GMO's existing programs prospectively. I ask that the Commission
4 consider this as a possible resolution to GMO's request for a variance to rule 4
5 CSR 240-20.093(2)(H)(3).

6 **Q: Does this conclude your testimony?**

7 A: Yes. Thank you.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of Kansas City)
Power and Light Greater Missouri Operations)
Company's filing under the Missouri Energy)
Efficiency Investment Act (MEEIA))

Case No. EO-2012-0009

AFFIDAVIT OF ADAM BICKFORD

STATE OF MISSOURI

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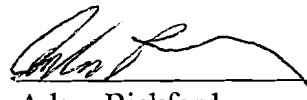
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COUNTY OF COLE


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Adam Bickford, of lawful age, being duly sworn on his oath, deposes and states:

1. My name is Adam Bickford. I work in the City of Jefferson, Missouri, and I am employed by the Missouri Department of Natural Resources' Division of Energy as a Research Analyst.
2. Attached hereto and made a part hereof for all purposes is the Public version of my Surrebuttal Testimony on behalf of the Missouri Department of Natural Resources' Division of Energy, consisting of 8 pages of testimony, all of 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 to the best of my knowledge.


Adam Bickford

Subscribed and sworn to before me this 10th day of May, 2012.


Notary Public

My commission expires:

