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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

CORRECTED RED-LINE SUPPLEMENTAL DIRECT TESTIMONY

OF

SARAH L. KLIETHERMES

UNION ELECTRIC COMPANY d/b/a AMEREN MISSOURI

CASE NO. EO-2015-0055

Jefferson City, Missouri
July 2015

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

In the Matter of Union Electric Company)
d/b/a Ameren Missouri's 2nd Filing to)
Implement Regulatory Changes in) Case No. EO-2015-0055
Furtherance of Energy Efficiency as allowed)
by MEEIA)

AFFIDAVIT OF SARAH KLIETHERMES

State of Missouri)
) ss.
County of Cole)

AFFIDAVIT

COMES NOW Sarah Kliethermes and on her oath declares that she is of sound mind and lawful age; that she contributed to the attached Corrected Supplemental Direct Testimony and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Sarah Kliethermes
Sarah Kliethermes

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 14th day of July, 2015.

Laura Distler
NOTARY PUBLIC



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3 | **OF**

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5 | **SARAH L. KLIETHERMES**

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7 | **UNION ELECTRIC COMPANY d/b/a AMEREN MISSOURI**

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9 | **CASE NO. EO-2015-0055**

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12 | Q. Are you the same Sarah L. Kliethermes who filed rebuttal testimony in this

13 | case?

14 | A. Yes.

15 | **Executive Summary**

16 | Q. What is the subject of your supplemental direct testimony?

17 | A. I will generally describe the Non-Unanimous Stipulation and Agreement

18 | (“Non-Utility Stipulation”) filed on July 7, 2015, and as amended on July 8, 2015, concerning

19 | Union Electric Company’s d/b/a Ameren Missouri (“Ameren Missouri” or “Company”)

20 | application for approval of its second cycle of MEEIA programs., and provide support for the

21 | throughput disincentive mechanism and the demand-related performance incentive

22 | mechanism of the Non-Utility Stipulation. I recommend the Commission authorize the Net

23 | Throughput Disincentive (“NTD”) and the Performance Incentive (“PI”) mechanisms that

24 | form the alternative DSIM. The terms of the Non-Utility Stipulation remove the financial

25 | disincentive to Ameren Missouri’s promotion of DSM programs and incent Ameren

26 | Missouri’s promotion of DSM programs, respectively.

27 | **Overview of Non-Utility Stipulation**

28 | Q. Does the Non-Utility Stipulation result in the MEEIA statutory policy

29 | objective “to value demand-side investments equal to traditional investments in supply and

1 delivery infrastructure and allow recovery of all reasonable and prudent costs of delivering
2 cost-effective demand-side programs?” *See 393.1075.3.*

3 A. Yes, the Non-Utility Stipulation sets up an interrelated framework of
4 programs, disincentive removal, and incentive creation that supports the statutory policy.
5 Specifically, in exchange for Ameren Missouri’s development and promotion of a suite of
6 programs to promote cost-effective measureable and verifiable efficiency savings, the Non-
7 Utility Stipulation would provide Ameren Missouri with:

- 8 1. Contemporaneous program cost recovery on:
 - 9 a. A base level of programs that provide some level of benefit to all customers over
10 the planning horizon,
 - 11 b. Targeted low-income programs that may not be cost effective, and
 - 12 c. Analysis and implementation of additional programs which provide some level of
13 benefit to all customers over the planning horizon.
- 14 2. A mechanism to remove Ameren Missouri’s throughput disincentive in a manner that
15 makes Ameren Missouri financially indifferent to whether or not it promotes DSM
16 programs.
- 17 3. A mechanism to incent Ameren Missouri to promote DSM programs through:
 - 18 a. A base level of benefit associated with annual energy savings targets, if approved
19 by the Commission,
 - 20 b. An incentive targeted to improve participation among multi-family low income
21 customers, and
 - 22 c. An incentive to meaningfully reduce future capacity requirements.

23 **Support for limited waiver of Chapter 20**

24 Q. In your pre-filed rebuttal testimony, you recommend the lost revenues
25 mechanism described in Chapter 20 of the Commission’s rules. Does the Non-Utility
26 Stipulation contemplate the lost revenues mechanism?

27 A. No. The NTD mechanism recommended in the Non-Utility Stipulation is
28 more generous to Ameren Missouri than the mechanism provided in the rules and
29 recommended in my rebuttal testimony. The rules require a utility to show reduction in sales

1 prior to the utility receiving an opportunity to collect revenues associated with the throughput
2 disincentive. In contrast the Non-Utility Stipulation provides Ameren Missouri throughput
3 disincentive recovery regardless of whether its overall utility sales are up or down.

4 Q. Does Staff support the Non-Utility Stipulation NTD mechanism and the
5 associated waiver of the applicable Chapter 20 rules for Ameren Missouri MEEIA Cycle 2?

6 A. Yes, Staff supports a waiver of a portion of 4 CSR 240-20.093(1)(Y). The
7 Non-Utility Stipulation NTD mechanism is part of an interrelated resolution derived in the
8 spirit of compromise and with the support of several parties with diverse interests. To achieve
9 the result of a MEEIA Cycle 2 as is described in the Non-Utility Stipulation, there is good
10 cause to waive 4 CSR 240-20.093(1)(Y) which states “Lost revenue means the net reduction
11 in utility retail revenue, taking into account all changes in costs and all changes in any
12 revenues relevant to the Missouri jurisdictional revenue requirement, that occurs when utility
13 demand-side programs approved by the commission in accordance with 4 CSR 240-20.094
14 cause a drop in net system retail kWh delivered to jurisdictional customers below the level
15 used to set the electricity rates. Lost revenues are only those net revenues lost due to energy
16 and demand savings from utility demand-side programs approved by the commission in
17 accordance with 4 CSR 240-20.094 Demand-Side Programs and measured and verified
18 through EM&V[.]”

19 Q. To what extent does Staff recommend a waiver of 4 CSR 240-20.093(1)(Y) in
20 support of the Non-Utility Stipulation?

21 A. Staff recommends only waiver of the requirement that a utility prove that
22 “utility demand-side programs approved by the commission in accordance with

1 4 CSR 240-20.094 cause a drop in net system retail kWh delivered to jurisdictional customers
2 below the level used to set the electricity rates.”

3 Q. Is Staff’s recommendation to waive certain requirements of
4 4 CSR 240-20.093(1)(Y) similar to Ameren Missouri’s request to waive the requirements of
5 Chapter 20 for its throughput-disincentive net-shared benefit mechanism as contained in the
6 Non-Unanimous Stipulation and Agreement filed June 30, 2015?

7 A. No. Ameren Missouri’s proposed throughput disincentive mechanism is not
8 modeled on the lost revenue concept found in Chapter 20. Rather it is modeled as an
9 additional performance incentive mechanism. As such, Ameren Missouri requested a much
10 broader waiver of the Chapter 20 rules than is reasonable.

11 Q. Why is the limited waiver of 4 CSR 240-20.093(1)(Y) recommended by Staff
12 reasonable when Staff has testified that Ameren Missouri’s requested waivers of Chapter 20
13 are unreasonable?

14 A. Staff recommends the Commission adopt the Non-Utility Stipulation of NTD,
15 which requires measurement and verification of the magnitude and causation of realized kWh
16 savings, but still relies on a quantification of the net reduction in utility retail revenue. In
17 contrast, Ameren Missouri requested that the Commission authorize its throughput
18 disincentive mechanism as an additional performance incentive mechanism, and it relied on
19 accelerating the recovery of pre-deemed projections of program effectiveness.

20 **Net Throughput Disincentive**

21 Q. What is the goal of the NTD mechanism provided in the Non-Utility
22 Stipulation?

23 A. The Non-Utility Stipulation NTD mechanism provides Ameren Missouri with
24 revenue as a result of energy efficiency programs it offers and promotes in lieu of revenue it

1 did not earn because of sales of energy it did not make. This recovery of the net throughput
2 disincentive results in Ameren Missouri being financially indifferent to whether or not it
3 promotes DSM programs, all else being equal. The Non-Utility Stipulation NTD mechanism
4 removes any disincentive associated with Ameren Missouri's promotion of energy efficiency.

5 Q. Is the Non-Utility Stipulation NTD structured as an incentive or as a share of
6 future net benefits that may or may not materialize?

7 A. No, the Non-Utility Stipulation does not rely on an estimate of the future
8 benefits of the programs, and it preserves the distinction between removing disincentives and
9 creating positive incentives that is contained in the MEEIA statute.

10 Q. How does the Non-Utility Stipulation NTD work?

11 A. The Non-Utility Stipulation allows Ameren Missouri to bill and retain the
12 unrealized revenue caused by its promotion of the DSM programs in MEEIA Cycle 2. Each
13 month, Ameren Missouri will book revenues associated with the unbilled kWh for that month.
14 The dollar values booked will later be trued-up after it is determined how many unbilled kWh
15 actually occurred that month.

16 Q. What is an unbilled kWh and what is unrealized revenue?

17 A. DSM programs, by design, reduce the number of kWh a utility sells. An
18 unbilled kWh is a kWh that an Ameren Missouri customer did not buy from Ameren
19 Missouri, because that customer participated in an Ameren Missouri MEEIA Cycle 2 program
20 to reduce his or her energy usage. The unrealized revenue is the revenue that Ameren
21 Missouri did not receive from the sales of energy it did not sell because of MEEIA Cycle 2,
22 minus the costs that Ameren Missouri avoided incurring because it did not have to procure
23 that energy.

1 Q. How much revenue does Ameren Missouri lose on each unbilled kWh?

2 A. It depends. The rate Ameren Missouri would charge for that kWh will vary by
3 customer class, season, the level of energy that customer otherwise consumes that month, and
4 whether or not a rate case has occurred to change applicable rates.

5 Q. Does Ameren Missouri avoid incurring costs when it does not sell a given kWh
6 of energy?

7 A. Yes. Ameren Missouri avoids incurring the cost of obtaining that energy for
8 its customer through the MISO integrated energy market, as well as the cost of transmission
9 and ancillary services associated with that energy. Reductions in customer load also translate
10 to reduction in Ameren Missouri's share of MISO administrative charges, capacity
11 requirements, and transmission build-out expense.

12 Q. Is the FAC Base Factor an accurate measure of the specific costs Ameren
13 Missouri avoids when it avoids selling a specific kWh of energy?

14 A. No. Not only are some of the elements of the transmission costs excluded
15 from the FAC Base Factor, the FAC Base Factor is netted against revenues from Off-System
16 Sales. Additionally, while the market value of energy varies greatly during the hours of the
17 year, the FAC Base Factor is adjusted only twice annually.

18 Q. Will net revenues from Off-System Sales go up or down, all else being equal,
19 if Ameren Missouri avoids selling energy to its customers because of a program under
20 MEEIA Cycle 2?

21 A. All else being equal, net revenues from Off-System Sales will go up if Ameren
22 Missouri avoids selling a given kWh of energy to its customers, because Ameren Missouri
23 will not have to buy that energy through the MISO integrated marketplace.

1 Q. Although it is not an accurate measure of the specific costs and revenues
2 Ameren Missouri avoids when it avoids selling a specific kWh of energy, is it reasonable to
3 use the FAC Base Factor for determining marginal avoided cost under the Non-Utility
4 Stipulation NTD?

5 A. While it is not 100% accurate, it is reasonable to use the FAC Base Factor as a
6 measure of net avoided costs and off-system sales revenues because the Non-Utility
7 Stipulation provides that unbilled revenues are recorded real-time, and are not subject to
8 significant present-valuing. Additionally, by relying on the existing FAC mechanism,
9 shareholders will retain 5% of the net avoided costs and off-system sales revenues.

10 Q. Why has Staff not developed a number that represents this 5% shareholder
11 retention?

12 A. To develop that number Staff needs hourly savings estimates for each measure.
13 Ameren Missouri has stated in its response to Staff Data Request 0013 that it will not provide
14 Staff with those numbers on an hourly basis.

15 Q. Under the Non-Utility Stipulation NTD, is it necessary to make assumptions
16 about rate case timing?

17 A. No. Because unbilled revenues are tracked on a monthly basis, there is no
18 need to create a projection of rate case intervals years into the future to determine the NTD.

19 Q. Under the Non-Utility Stipulation NTD, is it necessary to make assumptions
20 about what level of revenue will be collected through the fixed customer charge in the
21 outcome of a future rate case?

22 A. No. Because unbilled revenues are tracked on a monthly basis, there is no
23 need to project out future rate case outcomes to determine the NTD.

1 Q. Under the Non-Utility Stipulation NTD, is it necessary to make assumptions
2 about what future fuel and transportation expense, purchased power expense, transmission
3 expense, and off-system sales revenue levels will be in the outcome of a future rate case?

4 A. No. By eliminating the present valuing of the throughput disincentive, the
5 Non-Utility Stipulation NTD is able to avoid the need to make many of the critical and
6 controversial assumptions that would be necessary for a present-value throughput
7 disincentive.

8 Q. Is the Non-Utility Stipulation NTD designed to be trued-up for the actual
9 effectiveness of the measures that have been installed?

10 A. Yes. An important characteristic of the Non-Utility Stipulation NTD is that by
11 requiring true-up based on the results of Evaluation, Measurement, and Verification
12 (“EM&V”) and Net to Gross (“NTG”) adjustments, the mechanism is designed to make the
13 utility truly indifferent to not only whether programs are delivered pursuant to MEEIA Cycle
14 2, but more importantly, the utility is made indifferent as to which programs are delivered and
15 whether or not that delivery is effective.

16 Q. Is the utility protected against the chance that the programs have not reduced
17 energy consumption?

18 A. Yes. Unlike lost revenue recovery pursuant to 4 CSR 240-20.093(1), the
19 Non-Utility Stipulation does not require a showing that sales have decreased. Under the
20 Non-Utility Stipulation NTD, overall energy consumption could be up, but Ameren Missouri
21 will still recover NTD associated with the realized kWh savings determined through EM&V
22 and NTG analysis.

23 Q. Is there a floor and a cap associated with the Non-Utility Stipulation NTD?

1 A. Yes. Staff witness Mark Oligschlaeger is providing supplemental direct
2 testimony related to the floor and cap, as well as the alternative 100% booking mechanism
3 described in the Non-Utility Stipulation.

4 **Demand-related Performance Incentive**

5 Q. What is the goal of the Non-Utility Stipulation demand-related PI mechanism?

6 A. The Non-Utility Stipulation demand-related PI mechanism results in Ameren
7 Missouri shareholders receiving a performance incentive equal to the present value of the
8 earnings opportunity on capacity-related investments that they would receive if Ameren
9 Missouri did not promote DSM programs, all else being equal. This creates an incentive for
10 Ameren Missouri to promote energy efficiency.

11 Q. What is the basis for the dollar values and the kW values in the Non-Utility
12 Stipulation's demand-related PI?

13 A. The first tier of the demand-related PI is based on the approximate value to
14 shareholders of the recently experienced change in retirement date of the Meramec plant, as a
15 reasonable surrogate for a future change in supply-side pursuant to the modeling of DSM in
16 Ameren Missouri's Chapter 22 filing. The second tier of the demand-related PI is the
17 approximate value to shareholders of the deferred investment in a combined cycle plant
18 pursuant to the modeling of DSM in Ameren Missouri's Chapter 22 filing.

19 Q. How were the Meramec numbers, which were used to determine the
20 reasonable surrote, derived?

21 A. The rate base value of the Meramec generating units is approximately \$685
22 million, and the current depreciation reserve is approximately \$345 million, leaving a net rate
23 base value of approximately \$340 million. Ameren Missouri's shareholders earn a return on
24 this net investment. Every year, the net investment in the plant decreases, all else being equal,

1 because ratepayers contribute depreciation expense which increases the depreciation reserve.
2 Because Ameren Missouri's generating units receive "life span" depreciation treatment, an
3 acceleration of the projected retirement date of a generating unit increases the level of
4 depreciation expense the ratepayers will contribute, which decreases the net rate base on
5 which shareholders earn a return (assuming rate cases occur to adjust the depreciation expense
6 and to recognize the decrease in net rate base). Assuming a 2030-2027 retirement date,
7 shareholders ~~will receive~~would have an earnings stream of approximately \$145-127 million
8 from now until plant retirement. This earnings stream has a present-value of approximately
9 \$140-125 million. But, assuming a 2026-2022 retirement date, the shareholders' earnings
10 stream is valued at approximately \$110-84.8 million, which has a present value of
11 approximately \$108-84.5 million. Moving the Meramec projected retirement date from 2030
12 2027 to 2026-2022 therefore reduces the estimated present-value earnings stream by
13 approximately \$31-40 million, all else being equal.

14 Q. What is the total capacity of the Meramec generating units?

15 A. The total capacity at Meramec is approximately 834,000 kW. This means, that
16 if the projected date of all of the Meramec generating units is moved from 2030-2027 to
17 2026-2022, shareholders will forego an earnings opportunity of approximately \$3748/kW.

18 ~~Q. — If sufficient kW savings are not generated to move the projected retirement~~
19 ~~date of all of the units at Meramec from 2030 to 2026, will shareholders forego that same~~
20 ~~earnings opportunity?~~

21 ~~A. — No. The \$37/kW value assumes that all units will be retired in 2026 for~~
22 ~~depreciation purposes. Foregone shareholder earnings would be less if all units are not retired~~
23 ~~in 2026, all else being equal.~~

1 Q. How were the combined cycle numbers derived?

2 A. In its 2014 Chapter 22 filing, at Table 9.9 on page 23, Ameren Missouri
3 provided an estimated capital cost of \$1,297/kW for a 600,000 kW combined cycle plant,
4 including associated transmission upgrades, in 2013 dollars. On an annual basis, that
5 investment represents an earnings opportunity of approximately \$65/kW. Three years of that
6 earnings stream therefore yields an earnings opportunity of approximately \$250/kW. To
7 generously incent Ameren Missouri to achieve meaningful demand-related savings, Staff did
8 not compare the difference in earnings streams associated with simply moving the date of
9 constructing a combined cycle unit, which would substantially reduce the value of the
10 earnings stream for which shareholders are compensated under the demand-related PI.

11 Q. What is contemplated under the MEEIA statute for the performance incentive?

12 A. The MEEIA statute relies on certain assumptions:

- 13 1. Utility opportunities for profits come from investment of shareholder dollars,
14 including investment in generation facilities.
- 15 2. Rates can ultimately be cheaper for all ratepayers to reduce the amount of generation
16 facilities needed in the future.
- 17 3. Absent MEEIA, the utility's incentive to invest in generation facilities serves as a
18 disincentive for that utility to facilitate programs to reduce future capacity
19 requirements.

20 In light of these assumptions, the MEEIA statute provides utilities with timely earnings
21 opportunities associated with cost-effective measurable and verifiable efficiency savings.

22 Q. Does the Non-Utility Stipulation demand-related PI provide Ameren Missouri
23 with timely earnings opportunities associated with cost-effective measurable and verifiable
24 efficiency savings?

25 A. Yes. In fact, the mechanism is more generous than would otherwise be
26 reasonable in that it:

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- 1 1. Does not require Ameren Missouri to reach the total demand savings that are
2 associated with moving the retirement date of the ~~surrogate~~Meramee units before
3 being compensated on a per-kWh basis for the change in retirement date of those
4 units; and
- 5 2. Does not require Ameren Missouri to reach the 600 MW demand savings associated
6 with deferral of the construction of a combined cycle unit in order to receive payout of
7 the Non-Utility Stipulation demand-related PI Tier 2.

8 ~~Q. Will shareholders lose earnings opportunities if the retirement date of the~~
9 ~~Meramee generating units is not shifted, all else being equal?~~

10 ~~A. No. Unless the retirement date for depreciation purposes shifts, the earnings~~
11 ~~opportunity remains constant. In this sense, the Non-Utility Stipulation demand-related PI is~~
12 ~~very generous to Ameren Missouri's shareholders.~~

13 Q. Is it fair to ratepayers to design a performance incentive that compensates
14 Ameren Missouri shareholders for a lost earnings opportunity that may not be lost?

15 A. In Staff's opinion, it is a reasonable compromise for ratepayers to accept the
16 risk of compensating Ameren Missouri's shareholders for lost earnings opportunities
17 associated with an early ~~Meramee~~ retirement (and potential deferral of the construction of a
18 combined cycle unit) in that it encourages Ameren Missouri to promote meaningful cost-
19 effective energy efficiency programs, while maintaining the statutory requirement for
20 measured and verified results of those programs.

21 Q. Are there other aspects of the Non-Utility Stipulation demand-related PI that
22 are more advantageous to Ameren Missouri shareholders?

23 A. Yes. Please see the supplemental direct testimony of Staff witness Mark
24 Oligschlaeger.

25 Q. Is another witness filing testimony in support of the participation-related
26 component of the PI mechanism?

1 A. Yes. I understand that Geoffrey Marke will be filing testimony on this
2 component on behalf of the Office of the Public Counsel, in support of the Non-Utility
3 Stipulation.

4 Q. Does the Non-Utility Stipulation provide for the creation of an additional
5 incentive mechanism related to meeting energy savings targets?

6 A. Yes.

7 Q. Does this conclude your supplemental direct testimony?

8 A. Yes.