CYCLE 1 MEEIA Variances approved by the Commission in S&A EO-2014-0095 and EO-2012-0009 continue for Cycle 1 related DSIM recovery (Program Cost, TD-NSB, and Performance Incentive) and any/all Cycle 1 calculations of Energy/Demand savings.

CYCLE 2 MEEIA Variances[1]

Lost Revenues & Earnings Opportunity (EO) related Variances-

1) Variances related to the Earnings Opportunity:

   20.093(2)(H); 20.093(1)(Q); 20.093(1)(EE); 20.094(1)(Z); 20.094(1)(M) and 240-3.163(1)(J)

   These rules require, among other things, the utility incentive component of a DSIM to define the relationship between (1) the utility's portion of annual net shared benefits, (2) annual energy savings achieved and documented through EM&V reports as a percentage of annual energy savings targets, and (3) annual demand savings achieved and documented through EM&V reports as a percentage of annual demand savings targets. The Earnings Opportunity ("EO") used in this Stipulation and Agreement ("Stipulation") provides the utility with an earnings opportunity that does not have a directly defined relationship to these three components. The Signatories propose using a method that bases the EO on MWh achieved and documented through EM&V reports, MW achieved and documented through EM&V reports, and prudent expenditure of budget as described in Appendix D. Therefore, the Signatories respectfully request a variance from the rules in order to use the EO proposed in the Stipulation and as specifically contained in Appendix D, which more closely aligns the earning opportunity to the impact of demand-side resources on the need for future supply-side resources.

   The Signatories agree that the award and payout as defined in the Stipulation is not limited as defined in 20.093(1)(A); 20.093(1)(B); 20.094(1)(A) and 20.094(1)(B) or anywhere else in the MEEIA rules where the term "utility incentive" is used to the extent those rule provisions differ from the variances described above.

2) Variances related to Lost Revenues:

   20.093(1)(Y); 20.093(2)(G)1; 20.094(1)(U); 3.163(1)(Q); and 3.164(1)(M)

   These rules require that lost revenues occur only when a utility's Commission-approved demand-side programs cause a drop in net system retail kWh delivered to the jurisdictional customers below the level used to set the electricity rates. The lost revenue component in this Stipulation is described as the TD, which is the utility's estimation of lost margin revenues due to the installation of energy efficiency measures. The TD is recovered based on projected values and is trued-up as a result of EM&V and the changes in margin revenue rates in general rate cases, with a NTG floor of 0.80 and a NTG cap of 1.00, as outlined in the Stipulation. The Signatories respectfully request a variance from the requirement that lost revenues must cause a drop in net system retail kWh below the

[1] All rule references are to 4 CSR Division 240.

level that was used to set the utility's rates to use the TD, which more closely aligns with actual lost margin revenues due to the MEEIA Cycle 2 Plan. In addition, this request for variance proposes that whenever the term "lost revenue" is used in Chapter 20.093; 20.094, 3.163, and 3.164 of the Commission's rules, that term is not applied to the KCP&L/GMO DSIM, EM&V, or DSM programs approved in this Stipulation to the extent that term would require a drop in net system retail kWh delivered to the jurisdictional customers below the level used to set the electricity rates..

20.093(2)(G)5

This rule requires the lost revenue component of a DSIM to be implemented on a retrospective basis and requires all energy and demand savings be measured and verified through EM&V prior to recovery. This Stipulation allows contemporaneous recovery of the TD, with an adjustment based on mid-cycle EM&V results (ex-post gross). At the end of the program plan period, the calculation of the Earnings Opportunity will reflect full EM&V results (including net-to-gross adjustments) and true-up for differences between contemporaneous and retrospective TD based upon full EM&V results, as outlined in detail in the Stipulation. The Signatories request a variance from the requirements to implement the lost revenue component on a retrospective basis and measure and verify the lost revenue component through EM&V prior to recovery to more closely match the TD recovery with actual throughput disincentive and to reduce the carrying charges as a result of any over- or under-recovery of the TD.

20.093(1)(V); 20.094(1)(R) 3.163(1)(O); and 3.164(1)(L)

The above rules define EM&V to include an estimation of Lost Revenue. For Cycle 2, EM&V will not be calculating the lost margin revenue for the DSIM agreed to in the Stipulation. Therefore, the Signatories respectfully request a variance from these rules to exclude lost revenue from the definition of EM&V.

3) Variances related to Lost Revenues & the Earnings Opportunity:

20.093(4)

The above rule includes language that allows for semi-annual adjustments of DSIM rates to include only the cost recovery revenue requirement, but not include any portion of lost revenue (TD). In order to implement the DSIM rate as outlined in this Stipulation, the program cost component and TD component will be collected contemporaneously based on estimates. The program costs and TD will be adjusted based on actual program performance. The TD will also reflect mid-cycle EM&V results (ex-post gross). At the end of the program plan period, the calculation of the Earnings Opportunity will reflect full EM&V results and adjust for differences between contemporaneous and retrospective changes to energy savings based upon full EM&V results, as outlined in detail in the Stipulation. The Signatories respectfully requests a variance from this rule to allow inclusion of the TD in the semi-annual DSIM rate adjustments to more closely match the TD recovery with actual throughput disincentive and to reduce the carrying charges as a result of any over- or under-recovery of the TD.

Good cause exists for the variances requested above to ensure alignment of the Utility's financial incentives with helping customers use energy more efficiently and in a manner that sustains or enhances utility customers' incentives to use energy more efficiently as outlined in section 393.1075 RSMo.

Other

1) Variances related to the ability to discontinue MEEIA programs and related DSIM, as outlined in Section 11 of this Stipulation:

   20.094(5); 3.164(5)

   4 CSR 240-20.094(5) requires a utility wishing to discontinue demand-side programs to file an application with the Commission and grants the Commission the authority to approve or reject such applications for discontinuation. 4 CSR 240-3.164(5) provides requirements the Utility must follow when it files to discontinue a demand-side program. The Signatories respectfully request a variance from these provisions in light of future uncertainties and in recognition of the fact that offering MEEIA programs is voluntary at the election of the Utility. The Utility will not commit to implement a MEEIA Cycle 2 portfolio for a three-year period without the ability to discontinue all programs in the MEEIA Cycle 2 portfolio under appropriate conditions as defined by the Utility. Any discontinuance of individual programs within the portfolio would still be required to comply with the Commission's rules. Therefore, the Signatories respectfully request a variance from the requirement that the Utility must file an application with the Commission for approval or rejection in the event it wishes to discontinue its entire MEEIA Cycle 2 portfolio. If such variance is granted, the requirements that apply to the filing would no longer apply.

   20.093(3); 3.163(4)

   4 CSR 240-20.093(3) provides the opportunity for a hearing before a DSIM or any component of a DSIM may be discontinued. 4 CSR 240-3.163(4) requires a Utility that files to discontinue its approved DSIM to file with the Commission and serve parties supporting information as part of its direct testimony. Related to the previous variance request, in light of future uncertainties and in recognition of the fact that offering MEEIA programs is voluntary at the election of the Utility, the Signatories respectfully requests a variance from these requirements in the event the Utility wishes to discontinue its entire MEEIA Cycle 2 portfolio and, therefore, also discontinue its DSIM. The Utility has agreed to forfeit any recovery of the EO in connection with the discontinued portfolio of programs, but it will continue to collect through the DSIM mechanism (1) program costs for commitments made prior to the effective date of the discontinuance and (2) throughput disincentive related to the energy savings delivered through the discontinued MEEIA Cycle 2 programs through the date such savings have been rebased in a general rate case. In the event all programs are discontinued, Staff will continue to perform prudence reviews of the costs subject to the DSIM. In accordance with the provisions described in section 11 of the Stipulation, the Signatories respectfully request a variance from the requirement to provide the opportunity for a hearing before a DSIM or any

component of a DSIM may be discontinued. Because the Utility would not be filing an application for discontinuance and would be foregoing the opportunity for a hearing, the Signatories also respectfully request a variance from the Utility's requirement to file with the Commission and serve parties supporting information as part of its direct testimony.

2) Variances related to combining non-residential customers into one class:

20.093(2)(C); 20.093(2)(K)

To the extent that these rules use the word "class", the Signatories agree that the classes are residential and non-residential. Currently, under MEEIA Cycle 1, a DSIM rate exists for all rate classes divided out specifically between residential and non-residential customers. Given this existing system framework, the Utility plans to continue this methodology. However, out of an abundance of caution, the Signatories respectively request this variance for clarity.

3) Variances related to promotional practices:

14.030

This rule prescribes standards governing promotional practices of a public utility. Good cause exists for requesting a variance from this rule, because implementation of DSM programs requires substantial marketing and promotion to gain "at-will" participation in programs. Chapter 14 rules do not contemplate MEEIA implementation. The DSIM filing establishes the parameters of marketing DSM products and services. Therefore, the Commission's approval of the plan and general MEEIA oversight, including required prudence review, are the most appropriate means for regulating MEEIA-related utility marketing and promotion. Accordingly, the Signatories respectfully request a variance from the Commission's promotional practices standards rule.

4) Variances related to duration of DSIM:

20.093(5)(A)

This rule limits the duration of a DSIM to not more than four years unless the Commission earlier authorizes the modification or discontinuance of the DSIM. Good cause exists for a variance from this rule, since the EM&V schedule will likely extend beyond the 4 year time limit, based primarily on the nature of the process, stakeholder review, comments, and dispute resolution built into the EM&V schedule, which could arise. The Utility respectfully requests a variance from the requirement that a DSIM last no longer than four years unless the Commission earlier authorizes the modification or discontinuance of the DSIM. The Signatories agree that the DSIM authorized in this Stipulation will remain in effect 36 months after the implementation of the EO as defined in the Stipulation.

5) Variances related to the annual report filing:

   20.093(8)

   This rule requires that a utility with one or more approved demand-side program file an annual report no later than 60 days after the end of each calendar year. The Utility would like to extend this 60-day requirement to 90 days, because it believes that at the 60-day point, there will still be a lack of completed available information available to meet the 60 day requirement. Therefore, the Signatories respectfully request a variance to extend the annual report filing requirement to no later than 90 days after the end of each calendar year.

6) Variances related to EM&V budget:

   20.093(7)(A)

   This rule limits a utility's EM&V budget to a maximum of 5% of the utility's total budget for all approved demand-side program costs. The Company is requesting a budget of up to 6% for EM&V due to the high likelihood of increased EM&V work required by the EM&V evaluators resulting from provisions in this Stipulation, including, but not limited to annual EM&V that includes NTG measurement. The Company will make every effort to meet a 5% EM&V budget, but signatories agree that a budget of more than 5% may be necessary to comply with the requirements of this Stipulation. Therefore, the Utility respectfully requests a variance from the maximum EM&V budget to allow the Company to budget 6% of its approved demand-side program costs toward EM&V.

7) Variances related to utilization of avoided costs found in the utility's Preferred Resource Plan:

   20.093(1)(F); 20.094(1)(D); 20.094(1)(V); 3.163(1)(C); 3.164(1)(A)

   These rules require the utility to use the same methodology used in its most recently-adopted preferred resource plan to calculate its avoided costs. For MEEIA Cycle 2, KCP&L/GMO will use the avoided costs from its most recently-adopted preferred resource plan for which relevant avoided cost data is available, only for the purposes of determining cost effectiveness annually. For example, for the EM&V performed in 2017, the avoided cost from the 2015 Preferred Resource Plan will be used in evaluating the cost effectiveness of demand-side measures installed in 2016 for the life of each measure. When the utility's adopted preferred resource plan changes subsequent to determination of final EM&V performed in 2017 for measures installed in 2016, there will be no adjustment made to the cost effectiveness of measures installed in 2016 as a result of the newly adopted preferred resource plan. In other words, when annual EM&V is final for a given program year, the final EM&V will not be revised as a result of updated avoided costs.