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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. EO-2018-0211

DIRECT TESTIMONY

OF

WILLIAM ("BILL") R. DAVIS

ON

BEHALF OF

UNION ELECTRIC COMPANY

d/b/a Ameren Missouri

St. Louis, Missouri

May, 2020

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is William ("Bill") R. Davis and my business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. What is your position with Ameren Missouri?

A. I am the Director of Energy Solutions for Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri" or "the Company").

Q. Please describe your educational background and employment experience.

A. I received a Bachelor of Science in Economics from Illinois State University in 2002. I subsequently received a Master of Science in Economics with an emphasis in regulatory economics from Illinois State University in 2003. I completed several internships during my college career, including an internship with Illinois Power Company. Upon completion of my master's degree, I began working full time for Caterpillar, Inc. at its corporate headquarters in Peoria, Illinois as an Advanced Quantitative Analyst in the Business Intelligence Group, with the primary duties of performing economic and sales analyses.

In May 2005, I joined Ameren Services Company as a Load Research and Forecasting Specialist in the Corporate Planning Department. My duties included electricity and natural gas sales forecasting, load research, weather normalization, and various other sales analyses. In September 2007, I became a Senior Load Research Specialist and then moved to the Resource Planning Group in March 2009. In October 2011, I became a Senior Corporate Planning Analyst. In that position, I was responsible for Ameren Missouri's 2011 Integrated Resource Plan and the 2012 Missouri Energy Efficiency Investment Act ("MEEIA") filing. In March 2013, I was promoted to Manager of Economic Analysis and Pricing, where I was responsible for the Company's rate design, class cost of service, and various other regulatory matters. I was promoted to my current position in September 2016, where I am responsible for planning and operating the Company's demand-side programs as well as customer-facing renewable energy programs.

Q. Have you provided testimony before the Missouri Public Service Commission regarding Ameren Missouri's energy efficiency programs under the Missouri Energy Efficiency Investment Act?

A. Yes. In addition to being directly involved in both MEEIA rulemakings, I have filed testimony in all of Ameren Missouri's MEEIA proposals as well as all of its energy efficiency rate filings.

II. SUMMARY OF TESTIMONY

Q. Please summarize your testimony.

A. Ameren Missouri seeks this extension of its existing MEEIA 2019-21 program (with minor modifications) to avoid an undue regulatory burden created by the timing of preparation of its 4th cycle of MEEIA programming while the review of interdependent issues with its upcoming Integrated Resource Plan ("IRP") is pending. Additionally, extending the existing MEEIA 2019-21 program by a year sends a strong signal of stability and certainty to the market. Continuing a wide mix of energy saving measures and through the procurement of substantial demand savings, this portfolio of demand-side investments will continue to defer supply side resources while protecting against the risk if supply-side resources would be needed sooner should market conditions change. We are proposing these programming and budgetary extensions to seamlessly continue the provision of beneficial programming to our customers while maintaining consistency with prior Commission approvals.

The proposed modification largely represents a continuation of current program offerings through 2022 and includes a Pay As You Save® Pilot ("PAYS® Pilot"). This modification request includes a budget of $76.5 million, total energy savings targets of more than 260,000 net MWh, and a target earnings opportunity of $12.9 million; resulting in an additional $67.3 in net lifetime benefits as measured under the Total Resource Cost ("TRC") test. The proposed budget is slightly below the already approved budget for 2021. By keeping program budgets within the range of those already approved by the Commission, Ameren Missouri seeks to seamlessly extend its existing offerings and add a PAYS® Pilot for the benefit of its customers. The proposed modification has no effect on previously approved goals of the 2019-21 plan or demand-side investment mechanism. Ameren Missouri witness Craig Aubuchon's testimony includes additional details about the proposed programs, budget, and earnings opportunity performance metrics.

III. BACKGROUND

Q. Please provide the background associated with the Ameren Missouri MEEIA 2019-21 Plan.

A. On December 5, 2018, Ameren Missouri received approval for its third MEEIA cycle programs in the current docket (File No. EO-2018-0211). That plan authorized a three-year[1] savings budget of $195.5 million with savings target of 755,829 MWh and 347 MW, and approved a target earning opportunity ("EO") based on seven performance metrics, for a total of $30 million.

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[1] The three years is actually 34 months beginning March 1, 2019 through December 31, 2021.

In addition, that plan included approval for an additional three-year budget of $31.87 million for low income programs that extends over the period 2022-2024. The Commission approval of that $227 million plan represents the largest customer funded commitment to energy efficiency made to date in the State of Missouri. This commitment is made with good reason: that plan is expected to provide more than $592 million in lifetime benefits. Including the 2022 plans described here, the total lifetime benefits will be $765 million.

That approved plan also included a diverse set of options with 17 different programs across three distinct portfolios, including six entirely new programs and new demand response programs for residential and business customers. These programs are expected to provide significant lifetime net benefits, as measured under the TRC test, and early indicators suggest high levels of customer satisfaction for both residential and business customers and for trade ally contractors.

Q. Has the Commission given recent policy guidance with regard to MEEIA?

A. Yes. On December 11, 2019, the Commission re-affirmed its commitment to customer-funded and utility-administered energy efficiency programs through its Report and Order approving the MEEIA plans filed by the Evergy Missouri companies in File No. EO-2019-0132. In that Report and Order, the Commission stated that, "[u]tilities should be endeavoring to increase customer participation in energy efficiency programs."[2] Further, the Commission recognized that, "[b]enefits from a reduction in a customer's bill is not the only benefit to

[2] EO-2019-0132 Report and Order, ¶ 36.

customers. There are also societal benefits, such as improved health and safety, investment in local economies, and local job creation."[3]

Q. Please explain why Ameren Missouri is seeking a modification to its MEEIA 2019-21 Plan.

A. First, I would note that the Report and Order in the Evergy case came after more than a year of stakeholder negotiations, testimony, and failed attempts to reach a settlement agreement. It appeared that this extended time period and was due, at least in part, to the challenge of reviewing its MEEIA filing and Integrated Resource Plan ("IRP") at the same time. Ameren Missouri hopes that it can mitigate at least a portion of any potential delays in the review of its fourth cycle MEEIA by creating additional distance between its MEEIA and IRP proceedings while maintaining appropriate stability and certainty in the energy efficiency market. In October 2020, Ameren Missouri will file its triennial IRP. The review and adjudication of the 2020 IRP is likely to take approximately one year; meaning that without a MEEIA extension, it would conclude just a few months before the Company's current MEEIA plan expires. This would create the same issue faced by the Evergy companies: overlapping reviews of both an IRP and a MEEIA program, both of which are resource and time intensive.

Developing a full multiyear MEEIA plan and testimony can take 6 to 12 months, followed by an additional 6 to 12 months of stakeholder review before the Commission issues its order. Thus, if Ameren Missouri were to wait until the conclusion of the 2020 IRP in October 2021, the

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[3] EO-2019-0132 Report and Order, ¶¶ 39-40. The Commission also noted that "If all utilities in SPP were to work toward energy efficiency there would be benefits for all customers in the SPP area, including Missouri. There would be a reduction in the number of hours that fossil fuel plants would run, a decrease in the amount of time that higher margin units would run, and fewer emissions." In contrast to the Evergy Companies, Ameren Missouri operates in the Midwest Intercontinental Operating System (MISO). However, the same statement is true for the MISO region.

earliest a plan would likely be approved and begin operation would be October 2022, with potential risk that the plan would be delayed further. Similarly, trying to develop and adjudicate a new multiyear MEEIA plan concurrently with the IRP creates additional risk that both plans would be delayed given the interdependent nature of long-term resource planning and near-term demand-side program implementation approval. Therefore, filing a one-year extension of the current plan is an elegant solution to manage regulatory workload for all parties, as well as allow for key long-term policy issues to be explored in the full context of Ameren Missouri's upcoming IRP.

Q. Would approval of a 2022 MEEIA plan and budget now positively impact customers and important market participants?

A. Any delay in program offerings between the end of 2021 and the beginning of the following MEEIA program would by definition reduce – if not eliminate for a period of time – customer participation since the expiration of a plan means the expiration of available programming. Customers cannot participate in a plan that no longer exists. The events of the past few months related to COVD-19 have clearly demonstrated the extreme challenges of starting and stopping economic activity for reasons not related to supply and demand. Ultimately, both customers and contractor trade allies alike benefit significantly from market certainty. This certainty is necessary to plan for and invest in projects. During these challenging times, it is also important to recognize the important role that utility-administered energy efficiency programs play in local economics. Now more than ever, customers and businesses stand to benefit from a strong local commitment to market stability and business as usual. Investments in cost-effective energy efficiency provides benefits: participants benefit through lower bills, all customers benefit through long-term lower system costs, and local economies and jobs benefit from the availability of the energy efficiency market.

Right now, stability and certainty are valuable commodities. Commission approval of a MEEIA-program extension by the third quarter of 2020 will give contractors and trade allies the stability and certainty they need to make business decisions related to staffing and marketing plans to maximize customer benefits in 2022. It will also give customers the stability and certainty needed to plan for and make potentially large capital investments, particularly on the business side where plans for energy efficiency investments may span multiple years and projects.

IV. SUMMARY OF PROPOSED CHANGES FOR 2022

Q. Please summarize the proposed changes for 2022.

A. A primary purpose of the modification request is to create time for resolution of the 2020 IRP, given its importance to near-term energy efficiency funding decisions. Keeping the scope of the modification request to one year is a way to limit the magnitude of the approval request. To further simplify the modification request, the Company has judiciously limited the changes for 2022. The primary changes for 2022 are:

1. Increasing the budget for the Multifamily Low Income program as compared to the previously approved 2022 budget;
2. Adding a PAYS® Pilot;
3. Discontinuing the residential Appliance Recycling program, and
4. Updating the earnings opportunity performance matrix.

Other than the changes above, the approved 2021 portfolio will continue into 2022; albeit at different budget levels and with accompanying savings targets. Mr. Aubuchon explains in more detail about how individual program budgets and savings targets were developed.

Q. Please describe the proposed changes to the Earnings Opportunity performance matrix.

A. As with the limited program changes, the Company has proposed judicious changes for the 2022 Earnings Opportunity performance matrix. To maintain the currently approved target earning percentage, and responsive to the portfolio changes described above, Ameren Missouri has included the following targeted modifications with this filing:

1. *Update the Multifamily Low Income payout rate.* Previously, this performance metric was based on the average percent savings per property, subject to an 85% spend threshold of the approved budget. The total payout, however, does not reflect the fact that spending in the Multifamily Low Income program in 2022 is nearly double the 2021 budget. Therefore, the proposed payout rate grows to match the increased budget. To further simplify the performance metric, instead of having an 85% spend threshold, the proposed approach is to use the actual spend percentage compared to the approved budget (up to 100%) be applied as a multiplier to the average savings per property performance metric.
2. *Add a performance metric for the PAYS® Pilot.* This metric will be based on 5% of the loan amount subscribed, equal to $250,000 if all $5 million is subscribed by the end of 2022.
3. *Combine demand savings performance metrics into a first-year savings metric.* Demand savings will be credited based on first year savings, eliminating the need for tracking effective useful life buckets. This change simplifies program tracking and continues to appropriately reflect the value

of demand side savings in deferring future supply side resource needs. A transition to first year savings also eliminates the inherent forecasting uncertainty and subjectivity related to measure life, baseline conditions, and future market transformations.

4. *Update the parameters for the energy performance metric.* To better reflect an earnings opportunity that promotes a variety of energy savings measures, the energy payout rate has been increased such that the percent contribution to the total earnings is 15%. To further match the energy performance metric with the demand performance metrics, the performance cap will be increased to 125%. After making the changes outline above, the payout rates for energy and demand savings are calibrated to result in a total earnings opportunity if $12.9 million.

Q. Is the proposed Earnings Opportunity reasonable?

A. Yes. In its recent Order regarding the Evergy Missouri MEEIA program, the Commission reaffirmed the value of utility administered demand-side programs, and made it clear that the purpose of MEEIA is to create incentives that make a utility indifferent to supply-side or demand-side investments in order to promote investments that benefit customers.[4] The importance of, and need for, sufficient shareholder incentives for demand side management programs is commonly accepted and understood in the regulated utility industry.

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[4] As previously noted, File No, EO-2019-0132 Report and Order, ¶¶ 39-40. The Commission also noted that "If all utilities in SPP were to work toward energy efficiency there would be benefits for all customers in the SPP area, including Missouri. There would be a reduction in the number of hours that fossil fuel plants would run, a decrease in the amount of time that higher margin units would run, and fewer emissions." In contrast to the Evergy Companies, Ameren Missouri operates in the Midwest Intercontinental Operating System ("MISO"). However, the same statement is true for the MISO region.

For the MEEIA 2019-21 portfolio, stakeholders agreed to, and the Commission approved, an earnings opportunity matrix with seven distinct performance metrics, each with an associated payout rate. As designed, that matrix resulted in a total earnings opportunity of $30 million over the three-year period. In 2021, the target earnings payout is $13 million, or 17% of the total approved budget.[5] The final payout target was developed, in part, based on a robust benchmarking exercise of shareholder incentive mechanisms across the country and at peer utilities. That analysis was not contested by stakeholders during the review of the initial plan.[6]

As market conditions change, it is important that regulatory incentives change as well. As described above, Ameren Missouri has taken steps to ensure that the 2022 portfolio proposed here represents a realistic reflection of expected costs, balance of energy and demand savings, and is responsive to changing consumer preferences. Notably, these targeted modifications are all consistent with the EO matrix recently approved by the Commission in File No. EO-2019-0132.

V. IMPORTANT CONSIDERATIONS FOR THE PAYS® PILOT

Q. What is Pay As You Save®?

A. Mr. Aubuchon's testimony covers the implementation details for the PAYS® Pilot. Below is a summary according to the Energy Efficiency Institute, who owns the trademark:

> The Pay As You Save® system enables building owners or tenants to purchase and install money-saving resource-efficient measures with no up-

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[5] Supply side investments are capitalized into rate base, and the return of and return on capital is collected over the life of the asset at allowed rate of return. In contrast, performance payments for MEEIA investments are recovered as a one-time payment from customers through the Energy Efficiency Investment Charge ("EEIC"). As such, it is impossible to compare the payout rate as a percent of program cost to the allowed return or weighted average cost of capital.

[6] Surrebuttal Testimony of Bill Davis, lines 11-18, File No. EO-2018-0211

> front payment and no debt obligation. Those who benefit from the savings pay for these measures through a tariffed charge on their utility bill, but only for as long as they occupy the location where the measures are installed. The monthly charge is always lower than the measure's estimated savings and it remains on the bill for that location until all costs are recovered. Like a loan, Pay As You Save® allows for payment over time, but unlike a loan, the payment obligation ends when occupancy ends or the measure fails.[7]

Q. What is the scope of the proposed PAYS® Pilot?

A. The proposed budget for 2022 includes approximately $2.0 million for rebates and administrative costs for the PAYS® Pilot, with up to $5 million to finance energy efficiency upgrades. The PAYS® Pilot will be open to all residential customers.

Q. What are the important considerations for the PAYS® Pilot that the Commission would be approving?

A. There are a few notable elements of the PAYS® Pilot that I believe are important to point out:

1) How PAYS® charges are treated when a customer moves;

2) The ability to disconnect service for non-payment of PAYS® charges;

3) The source of capital for funding the energy efficiency upgrades; and

4) Excluding the PAYS® Pilot capital from the Company's capital structure when setting base rates.

Below I describe Ameren Missouri's proposal for the PAYS® Pilot for each of these items.

Q. What happens if a customer who is participating in the PAYS® Pilot decides to move?

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[7] http://eeivt.com/wordpress/

A. A unique aspect of the PAYS® Pilot is that the tariff charges are attached to the premise rather than the individual customer. Therefore, if a PAYS® Pilot participant decides to move, then the next owner or tenant at the property would become responsible for the remaining PAYS® Pilot charges.

Q. Can the utility disconnect PAYS® Pilot participants for non-payment of the PAYS® charges?

A. Yes. As defined in the proposed tariff, the PAYS® Pilot charges are to be considered essential utility services; this means that the utility retains the ability to disconnect participants for non-payment. An important program design criteria requires that installations provide a 20% bill savings immediately, which helps to reduce the risk of non-payment.

Q. The proposed PAYS® Pilot is designed to follow the trademarked implementation system. Is it important for the PAYS® Pilot to be approved so that it can follow the typical operations of that predefined system?

A. Yes. While it is tempting to tweak program design here and there, I recommend we launch a PAYS® Pilot following its typical operational design in order to provide the best chance for success and ample opportunity for learning. The PAYS® system is trademarked and indications are that it has been successful in the jurisdictions in which it has operated. A key opportunity for learning will be testing the out-of-the-box performance. Otherwise we risk making subjective changes that could fundamentally alter performance.

Q. What source of financing will Ameren Missouri use for the PAYS® Pilot?

A. For the purpose of financing $5 million for the proposed PAYS® Pilot, the Company is proposing to use debt only. While I do not know the exact cost of debt at this point, I expect it to be near 4%.

Q. Is using a debt-only approach for financing a viable long-term strategy for the expansion of a PAYS® Pilot?

A. No. The proposal to use debt-only financing for the PAYS® Pilot is simply a practical approach to get experience with how the program operates, get an idea of customer uptake, and to understand cost effectiveness from multiple perspectives. Using the Company's weighted average cost of capital for the PAYS® Pilot will introduce complexities about program budgets buying down the interest rate and other cost recovery questions. Therefore, while using debt only for the PAYS® Pilot is expedient, expanding the use of debt-only for PAYS® financing would be out of step with standard utility investment protocol of using both debt and equity for financing.

Q. How will the debt used for the PAYS® Pilot be treated during a rate case?

A. Ameren Missouri proposes that the debt used to finance the PAYS® Pilot energy efficiency upgrades be excluded from the Company's capital structure when setting base rates. Because the energy efficiency rider is designed to recover all of the costs of MEEIA,[8] it would be inappropriate to include the principal or interest of the PAYS® Pilot debt in base rates or when determining the weighted cost of capital for base rates. In fact, because this would be a new practice in the treatment of capital costs, the Company is asking the Commission to explicitly state in its order approving the pilot that the PAYS® Pilot debt is to be excluded from the capital structure in a rate case. Such an explicit statement in the Commission Order will also support the

8 To the extent the PAYS® Pilot charge results in additional Gross Receipts Taxes, those additional taxes would follow the same process as typical retail revenues.

necessary Federal Energy Regulatory Commission filing to exclude the PAYS® Pilot debt from the determination of the Company's Allowance For Funds Used During Construction calculation.

Q. Are any changes needed to the Company's Energy Efficiency Investment Charge tariff?

A. No. For the PAYS® Pilot there are two important issues that need to be contemplated by the Energy Efficiency Investment Charge tariff:

1. The Energy Efficiency Investment Charge tariff needs to be in place until the last PAYS® charges are recovered; and
2. Unpaid PAYS® charges should be treated as an energy efficiency program cost.

For the first item above, the current tariff already specifies that recovery is allowed until all MEEIA program costs are fully recovered. As for the second item, the treatment of unpaid PAYS® charges as a program cost, the definition of program costs from the current tariff is copied below. Since unpaid PAYS® charges are a cost to "deliver" the program, the existing definition already allows for treatment of unpaid PAYS® charges as program costs:

> "Program Costs" means any prudently incurred Program expenditures, including such items as Program planning, education Programs, Program design, administration, *delivery*, end-use Measures and Incentive payments, advertising expense, EM&V, market potential studies, work on a Company and/or statewide Technical Resource Manual, and IIL. [Emphasis added.]

VI. CONCLUSION

Q. What are the key takeaways about the Company's proposed modification request?

A. By filing now, Ameren Missouri seeks to avoid the undue regulatory burden that would be likely because of the current schedules for the fourth cycle of MEEIA programming and the next triennial IRP update. Addressing this extension now also sends a strong signal of stability and certainty to the market. Ameren Missouri is requesting Commission approval for a modification of its currently approved MEEIA 2019-21 plan, specifically to extend the program, with minimal appropriate modification and the addition of a PAYS® Pilot, through calendar year 2022. This modification request includes a budget of $76.5 million, total energy savings targets of more than 260,000 net MWh, and a target earnings opportunity of $12.9 million; resulting in an additional $67.3 million in net lifetime benefits as measured under the TRC.

Q. Does that conclude your testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a Ameren Missouri's 3rd Filing to Implement Regulatory Changes in Furtherance of Energy Efficiency as Allowed by MEEIA.	))))	File No. EO-2018-0211

AFFIDAVIT OF WILLIAM ("BILL") R. DAVIS

STATE OF MISSOURI)
)
CITY OF ST. LOUIS)

William ("Bill") R. Davis, being first duly sworn on his oath, states:

1. My name is William ("Bill") R. Davis. I work in the City of St. Louis, Missouri, and I am employed by Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri") as Director of Energy Solutions.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Union Electric Company d/b/a Ameren Missouri consisting of 15 pages and no Schedules, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

3. Further, under the penalty of perjury, I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

/s/ *William R Davis*
William ("Bill") R. Davis

This 12th day of May, 2020.