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Witness: William R. Davis
Sponsoring Party: Union Electric Company
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MISSOURI PUBLIC SERVICE COMMISSION

Case No. ER-2011-0028

SURREBUTTAL TESTIMONY

OF

WILLIAM R. DAVIS

ON

BEHALF OF

**UNION ELECTRIC COMPANY
d/b/a Ameren Missouri**

**St. Louis, Missouri
April, 2011**

1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **WILLIAM R. DAVIS**

4 **CASE NO. ER-2011-0028**

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

6 A. My name is William R. Davis. My business address is One Ameren Plaza,
7 1901 Chouteau Avenue, St. Louis, Missouri 63103.

8 **Q. By whom and in what capacity are you employed?**

9 A. I am employed by Union Electric Company d/b/a Ameren Missouri (“Ameren
10 Missouri” or “Company”) as Senior Load Research Specialist.

11 **Q. Are you the same William R. Davis who filed direct and rebuttal**
12 **testimony in this case?**

13 A. Yes, I am.

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

15 A. The purpose of my surrebuttal testimony is to rebut Missouri Public Service
16 Commission Staff (“Staff”) witness John Rogers’ recommendation to defer energy efficiency
17 cost recovery decisions, rebut the testimony of Missouri Energy Group (“MEG”) witness
18 Billie Sue LaConte, and to discuss Ameren Missouri’s proposal to mitigate the throughput
19 disincentive by reducing the billing units, which addresses concerns raised about the Fixed
20 Cost Recovery Mechanism.

21 **Q. Is Ameren Missouri concerned about an interruption to its energy**
22 **efficiency programs?**

1 A. Yes, as Company witness Daniel Laurent explains, Ameren Missouri's current
2 programs are set to expire September 30, 2011.

3 **Q. Do you agree with Staff witness Rogers' recommendation that the**
4 **Company should seek energy efficiency program approval and associated cost recovery**
5 **under the MEEIA rules or, if necessary, the MEEIA statute -- Section 393.1075 -- by**
6 **September 1, 2011?**

7 A. No. This rate case is an alternative to filing under the MEEIA rules. There is
8 nothing in the MEEIA statute which requires a filing to be made outside of a rate case. As I
9 explained in my rebuttal testimony, it is not realistic for the Company to prepare a MEEIA
10 filing, adjudicate that case, and complete any necessary contract negotiations before the
11 current programs expire in September. Instead of putting those programs at risk, the
12 Commission can approve their continuation in conjunction with Ameren Missouri's billing
13 unit adjustment proposal in this rate case. Furthermore, the MEEIA rules only allow changes
14 of rates outside a rate case for program costs. The inability to adjust rates outside a rate case
15 for lost revenues or incentives, the explicit retrospective treatment of lost revenues and
16 incentives, and uncertainty about what can be achieved through an incentive are all reasons
17 why the Company does not expect the outcome of a MEEIA filing to provide the kind of
18 regulatory treatment necessary to allow the Company to maintain its existing level of
19 investment in energy efficiency.

20 It would be more constructive for the Commission, in this rate case, to approve
21 Ameren Missouri's billing unit adjustment and the continuation of Ameren Missouri's
22 energy efficiency programs as described by Mr. Laurent. As indicated in Mr. Laurent's

1 surrebuttal testimony, in order to conform to the MEEIA statute, the Company is requesting
2 the Commission approve the extension of its current programs through the end of 2013.

3 **Q. Have you reviewed the rebuttal testimony of MEG witness Ms. LaConte?**

4 A. Yes. While there are several areas where I disagree with her testimony, I have
5 two major areas of disagreement with Ms. LaConte that I would like to address.

6 **Q. Please describe your first major area of disagreement with Ms. LaConte's**
7 **testimony.**

8 A. I completely disagree with Ms. LaConte's assertion that including energy
9 efficiency expenditures in rate base and allowing a return mitigates the throughput
10 disincentive. Including a return on energy efficiency expenditures simply compensates the
11 utility for the cost of capital it incurs between the time it spends the money and the time it
12 collects the corresponding revenue from customers. The reduction to sales, and thus
13 revenues, between rate cases is still a severe and unique economic disadvantage to energy
14 efficiency.

15 **Q. Please describe your second major area of disagreement with**
16 **Ms. LaConte's testimony.**

17 A. I also disagree with Ms. LaConte's testimony that "Specifically, the MEEIA
18 provides for the utilities to collect energy efficiency costs the same way it would collect
19 supply side costs; i.e., energy efficiency costs are amortized over a period of time and the
20 utility is allowed to collect a return on the unamortized portion."¹ The Missouri Energy
21 Efficiency Investment Act adopts a state policy that demand-side and supply-side
22 investments are to be valued equally. That does not mean the accounting treatment must be

¹ Rebuttal Testimony of Billie Sue LaConte, p. 17, l. 8-12.

1 equal but rather that they must be evaluated in a comparable manner in terms of economics.
2 In this proper context, the utility should be indifferent to choosing between demand-side and
3 supply-side resources that result in the same long-run costs to customers, all other things
4 being equal. Currently, the throughput disincentive is a clear economic disadvantage
5 associated with demand-side resources, meaning that the utility is obviously not indifferent,
6 which is a problem that directly undermines what MEEIA is trying to accomplish.

7 **Q. Are you still supporting the adoption of the Fixed Cost Recovery**
8 **Mechanism (“FCRM”) proposed in your direct testimony?**

9 A. No. As Company witness Richard Mark explained in his rebuttal testimony,
10 the Commission’s definition of lost revenues makes the FCRM insufficient to offset the
11 throughput disincentive. This point was also made in Mr. Rogers’ rebuttal testimony. In
12 response to this fact, in my rebuttal testimony I proposed an innovative approach to mitigate
13 the throughput disincentive as an alternative to the FCRM. The billing unit adjustment does
14 not require a lost revenue mechanism and therefore is not impacted by the MEEIA rules’
15 definition of “lost revenues.”

16 **Q. Could you please reiterate your proposal in rebuttal testimony to mitigate**
17 **the throughput disincentive?**

18 A. Yes, in my rebuttal testimony I proposed: “Based on continued expenditures
19 of \$25 million annually, I propose the residential sales be reduced by 250,951 MWh. For the
20 Small General Service, Large General Service, Small Primary Service, and Large Primary
21 Service classes, I propose a total reduction of 227,678 MWh to be allocated based on the
22 2010 energy savings estimates. For classes with demand-related charges I propose those
23 demand units be reduced by the same percentage as the energy.”

1 **Q. Have you prepared an example of how the proposed billing unit**
2 **adjustment is to be applied?**

3 A. Yes. I have included Schedule WRD-ES7 to illustrate how to apply the
4 proposed adjustment to the residential class. The adjustments to other classes would be
5 performed in a similar manner.

6 **Q. Does your proposed billing unit adjustment affect the recovery of Net**
7 **Base Fuel Costs?**

8 A. No. This proposal is only intended to affect the variable rate components that
9 collect fixed costs; which means the Net Base Fuel Costs are to be excluded from any
10 adjustment.

11 **Q. Does your proposed billing unit adjustment exclude energy efficiency**
12 **impacts that are included in the test year?**

13 A. Yes.

14 **Q. Are the results of Ameren Missouri’s recently completed Evaluation,**
15 **Measurement, and Validation (“EM&V”) reports factored into your proposal?**

16 A. The EM&V results were not available at the time my rebuttal testimony was
17 filed and therefore were not included. However, I do agree that the billing adjustment I
18 proposed in my rebuttal testimony should be updated to reflect the EM&V results. I have
19 completed that update and it is attached as Schedule WRD-ES8.

20 **Q. How will future EM&V results be used to make sure the Company does**
21 **not over-collect based on estimated savings?**

22 A. EM&V analyses are conducted annually with a several month period between
23 the end of the program year and the issuance of the final EM&V report. In the next rate case,

1 Ameren Missouri will have additional EM&V results to compare to the estimated savings
2 used in this case to reduce the billing units. If there are significant differences, over 5%, then
3 those differences can be considered when setting the billing units in the next case. To avoid
4 the problem of accurately forecasting the filing date of the rate case after the next rate case,
5 any billing unit correction the Commission implements in the next case should be designed to
6 return or collect the difference over the first twelve months that the new rates are in effect,
7 using phased rates.

8 **Q. Please summarize your testimony and conclusions.**

9 A. This rate case provides the best opportunity for the Commission to adopt
10 constructive regulatory treatment that supports the continuation of Ameren Missouri's energy
11 efficiency programs. Ameren Missouri's proposal to mitigate the throughput disincentive by
12 reducing billing units is a major step towards equalizing the valuation of demand-side and
13 supply-side resources.

14 **Q. Does this conclude your surrebuttal testimony?**

15 A. Yes, it does.

ILLUSTRATIVE RATE CALCULATIONS

SAMPLE RATE RECONCILIATION FOR RESIDENTIAL

	a	b	c = (a * b)
	Units	Rate	Revenue Requirement
<u>Summer</u>			
Customer Charge	4,159,561	\$10.03	\$41,720,397
Customer Charge TOD	143	\$20.03	\$2,864
Mwh	4,711,199	\$0.1047	\$493,262,535
TOD On Peak Mwh	75	\$0.1523	\$11,423
TOD Off Peak Mwh	133	\$0.0624	\$8,299
Energy Efficiency		\$0.0011	\$5,182,548
Summer Total	4,711,407		\$540,188,066
<u>Winter</u>			
Customer Charge	8,332,577	\$10.03	\$83,575,747
Customer Charge TOD	292	\$20.03	\$5,849
0-750 Mwh	5,015,439	\$0.0747	\$374,653,293
Over 750 Mwh	4,200,388	\$0.0495	\$207,919,206
TOD On Peak Mwh	126	\$0.0899	\$11,327
TOD Off Peak Mwh	290	\$0.0444	\$12,876
Energy Efficiency		\$0.0006	\$5,529,746
Winter Total	9,216,243		\$671,708,045
Total Res	13,927,650		\$1,211,896,110

PROPOSED RATE ADJUSTMENT CALCULATION

	c	f = (a * z)	g	d = (a * g)	e = (c - d)	h = (e / f)	i = (g + h)	j = (h * f) + d
	Revenue Requirement	Adjusted Units	NBFC Rate	NBFC Rev. Req.	Fixed Cost Rev. Req.	Fixed Cost Rate	Rate	Revenue Requirement
Summer								
Customer Charge	\$41,720,397	-N/A-						\$41,720,397
Customer Charge TOD	\$2,864	-N/A-						\$2,864
Mwh	\$493,262,535	4,626,312	\$ 0.01415	\$ 66,663,466	\$ 426,599,069	\$ 0.0922	\$ 0.1064	\$493,209,408
TOD On Peak Mwh	\$11,423	74	\$ 0.01415	\$ 1,061	\$ 10,361	\$ 0.1407	\$ 0.1549	\$11,424
TOD Off Peak Mwh	\$8,299	131	\$ 0.01415	\$ 1,882	\$ 6,417	\$ 0.0491	\$ 0.0633	\$8,295
Energy Efficiency	\$5,182,548						\$ 0.0011	\$5,089,168
Summer Total	\$540,188,066	4,626,516						\$540,041,555
Winter								
Customer Charge	\$83,575,747	-N/A-						\$83,575,747
Customer Charge TOD	\$5,849	-N/A-						\$5,849
0-750 Mwh	\$374,653,293	4,925,070	\$ 0.01376	\$ 69,012,441	\$ 305,640,853	\$ 0.0621	\$ 0.0759	\$374,859,280
Over 750 Mwh	\$207,919,206	4,124,705	\$ 0.01376	\$ 57,797,339	\$ 150,121,867	\$ 0.0364	\$ 0.0502	\$207,936,587
TOD On Peak Mwh	\$11,327	124	\$ 0.01376	\$ 1,734	\$ 9,594	\$ 0.0775	\$ 0.0913	\$11,323
TOD Off Peak Mwh	\$12,876	285	\$ 0.01376	\$ 3,990	\$ 8,886	\$ 0.0312	\$ 0.0450	\$12,875
Energy Efficiency	\$5,529,746						\$ 0.0006	\$5,430,110
Winter Total	\$671,708,045	9,050,183						\$671,831,772
Total Res	\$1,211,896,110	13,676,699						\$1,211,873,326

*Note: The difference in Rev. Req. is caused by rounding the rate to four digits

Total Units	13,927,650	x
EE Effect	250,951	
Reduced Units	13,676,699	y
Reduction Ratio	0.982	z = (y / x)

PROPOSED BILLING UNIT REDUCTION

Pre-EM&V	
RES	250,951
BUS	227,678

Post-EM&V		Change
RES	255,285	1.7%
BUS†	226,489	-0.5%

2010 Savings By Rate Class		
Rate Class	MWh	% of Total
SGS	6,786	8%
LGS	40,174	47%
SPS	24,472	29%
LPS	13,316	16%
LTS	0	0%

EM&V - Evaluation, Measurement, and Verification

† Includes correction to loss rate (53 MWh impact)