

**Exhibit No.:**  
**Issue(s):**  
**Witness/Type of Exhibit:**  
**Sponsoring Party:**  
**Case No.:**

\_\_\_\_\_  
MEEIA Proposal  
Meisenheimer/Rebuttal  
Public Counsel  
EO-2014-0095

**REBUTTAL TESTIMONY**  
**OF**  
**BARBARA A. MEISENHEIMER**

Submitted on Behalf of the Office of the Public Counsel

**KANSAS CITY POWER & LIGHT COMPANY**

CASE NO. EO-2014-0095

March 28, 2014

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**Denotes Highly Confidential Information that has been Redacted**

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**REBUTTAL TESTIMONY**  
**OF**  
**BARBARA MEISENHEIMER**  
**KANSAS CITY POWER & LIGHT**

**CASE NO. EO-2014-0095**

**I. INTRODUCTION AND QUALIFICATIONS**

**Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

A. Barbara A. Meisenheimer, Chief Utility Economist, Office of the Public Counsel, P. O. 2230, Jefferson City, Missouri 65102. I am also an adjunct instructor for William Woods University.

**Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.**

A. I hold a Bachelor of Science degree in Mathematics from the University of Missouri-Columbia (UMC) and have completed the comprehensive exams for a Ph.D. in Economics from the same institution. My two fields of study are Quantitative Economics and Industrial Organization. My outside field of study is Statistics.

I have been with the Office of the Public Counsel since January 1996. I have testified before the Missouri Public Service Commission (Commission) on economic issues and policy issues in the areas of telecommunications, gas, electric, water and sewer. In rate cases my testimony has addressed class cost of service, rate design, miscellaneous tariff issues, low-income and conservation programs and revenue requirement issues related to the development of class

1 revenues, billing units, low-income program costs, incentive programs and fuel  
2 cost recovery.

3 Over the past 15 years I have also taught courses for the following  
4 institutions: University of Missouri-Columbia, William Woods University, and  
5 Lincoln University. I currently teach undergraduate and graduate level economics  
6 courses for William Woods University.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

8 A. This testimony responds to the Demand-Side Management (DSM) Programs and  
9 Demand-Side Programs Investment Mechanism (DSIM) cost recovery proposals  
10 presented in the direct testimony of Kansas City Power and Light (KCP&L)  
11 witnesses Tim Rush, Kimberly Winslow, and Kevin Bryant.

12 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

13 A. My testimony is organized as follows:

- 14 I. Introduction and Qualifications.
- 15 II. Summary of Conclusions and Recommendations.
- 16 III. KCP&L's Request for Variances
- 17 IV. General Principles in Designing Shareholder Incentives
- 18 V. Experience in Other States in Designing Shareholder Incentives
- 19 VI. KCP&L's DSIM Proposal
- 20 VII. OPC Recommendation for Alternative Mechanisms

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1       **II.       SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS**

2       **Q.       IS THE COMPANY’S APPLICATION IN THIS CASE INCONSISTENT WITH ITS**  
3       **COMMITMENT IN CASE EO-2005-0329 TO NOT SEEK TO USE SINGLE ISSUE RIDERS**  
4       **PRIOR TO JUNE 2015)?**

5       A.       Yes. In Case No. EO-2005-0329, KCP&L entered into a stipulation and  
6       agreement with public counsel, the staff, and other parties. In exchange for  
7       significant concessions KCP&L committed to the following condition:

8               KCP&L agrees that, prior to June 1, 2015, it will not seek to  
9               utilize any mechanism authorized in current legislation known as  
10              “SB 179” or other change in state law that would allow riders or  
11              surcharges or changes in rates outside of a general rate case based  
12              upon a consideration of less than all relevant factors.

13  
14             Public Counsel believes that KCP&L request for a DSIM in this case violates that  
15             agreement.

16       **Q.       PLEASE SUMMARIZE YOUR PRIMARY POSITIONS AND CONCLUSIONS.**

17       A.       Public Counsel supports the implementation of well-designed Demand-Side  
18       Management (DSM) programs and an appropriate Demand-Side Programs  
19       Investment Mechanism (DSIM) which conform to the DSM rules (4 CSR 240-  
20       20.094) and DSIM rules (4 CSR 240-20.093). Consistent with the MEEIA  
21       objectives, DSM programs should include programs for which Company  
22       participation works to modify the net consumption of electricity on the retail  
23       customer's side of the electric meter. An appropriately designed DSIM should  
24       balance the incentive awarded to the Company for implementing successful DSM

1 programs with protecting the interests of the ratepayers who fund the DSM  
2 programs.

3 KCP&L's proposal should be rejected because it does not comply with the  
4 DSM and DSIM rules and does not strike a reasonable balance between the  
5 incentive awarded to the Company and the interest of ratepayers. As a result, the  
6 Company proposed DSM Programs and DSIM mechanism are not consistent with  
7 achieving all cost effective demand side savings. Public Counsel's specific  
8 concerns with KCP&L's proposals are summarized below:

- 9 • Instead of recovering program costs, **lost revenue** (as defined by the rule) and a  
10 performance incentive, the Company seeks to recover program costs, **a portion of**  
11 **net shared benefits** that the Company claims is necessary to offset the throughput  
12 disincentive and a performance incentive also based on a portion of net benefits  
13 that varies based on performance. A key distinction between the recovery of lost  
14 revenues, as allowed by the rule, and the portion of net shared benefit proposed by  
15 the Company, is that recovery of the throughput disincentive as a portion of net  
16 shared benefit is not capped while lost revenues are capped at the level needed to  
17 maintain the amount of fixed cost recovery determined in KCP&L's last rate case.  
18 Lost revenue, as defined by the DSIM rule is also based on actual (not estimated)  
19 load reductions verified by Evaluation, Measurement and Verification (EM&V).  
20 The Company's proposal for a net shared benefit approach opens the door for  
21 overstatement of both kWh saved and the value assigned to each kWh saved  
22 resulting in excess recovery above the amount of lost revenue allowed by the  
23 DSIM rules.

- 1           • Inflated estimates of savings also result from the use of modeling assumptions  
2           which fail to adjust estimates of savings downward in fair recognition that  
3           demand-side measures may be subject to free-ridership or other influences that  
4           impact program benefits or costs. For all but one proposed program, KCP&L  
5           used a “net to gross” factor of one, meaning that net savings were assumed to  
6           equal gross savings which do not reflect any reduction to account for free-  
7           ridership.<sup>1</sup> This is especially troubling considering evidence that lighting  
8           programs such as The Home Lighting Rebate Program, which represents the  
9           second largest contribution to total residential program savings, will likely have  
10          an actual net to gross well below 1.<sup>2</sup>
- 11          • More than half of the residential kWh savings and roughly a fifth of the residential  
12          kW savings anticipated by the proposal are associated with a single program, the  
13          Home Energy Reports Pilot Program, which is a behavior modification program.  
14          The Company acknowledges that kWh and kW savings will not be verified  
15          through EM&V for purposes of calculating the net shared benefits.<sup>3</sup> This Program  
16          represents the largest contribution to total residential program savings and reflects  
17          significant risk of over recovery of lost revenues.
- 18          • Among the most troubling elements of the Company’s proposal is that it seeks  
19          variance of rules related to the use of EM&V to fully vet the claimed savings

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<sup>1</sup> Direct Testimony of Tim Rush, page 20.

<sup>2</sup> REPORT. Focus on Energy. Calendar Year 2012 Evaluation Report. Volume II.  
April 30, 2013.

<sup>3</sup> Direct Testimony of Kimberly Winslow, Schedule KHW-2, page 34 of 86.

1 underlying its shared benefit calculation.<sup>4</sup> The Company should not be granted a  
2 variance from EM&V requirements because EM&V is integral to ensuring that  
3 the amount consumers pay for these programs does not exceed the benefits that  
4 customers actually receive from the programs.

- 5 • The Company proposes to spread recovery of the DSIM revenue requirement over  
6 a number of years and to receive rate base treatment for a portion of costs. Public  
7 Counsel is concerned that this treatment will provide an additional unnecessary  
8 windfall to the Company and its shareholders since lost margins are being  
9 financed at the weighted cost of capital rate which includes a return on equity and  
10 unnecessarily inflating future rates. Generally, Public Counsel supports a shorter  
11 period of cost recovery.
- 12 • The combined impact of the Company's incentive requests and proposed method  
13 of recovery over a six year period results in customers paying \*\*

14 <sup>5</sup> \*\*  
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15 **Q. PLEASE SUMMARIZE PUBLIC COUNSEL'S RECOMMENDATIONS.**

16 A. Public Counsel's primary recommendation is to reject the Company's  
17 Application. If instead, the Commission decides to approve DSM Programs and a  
18 DSIM, Public Counsel recommends the following changes to the Company's  
19 proposal:

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<sup>4</sup> For some measures, the Company proposes that EM&V be used in determining the performance incentive for the purpose of verifying the number of participants and the number of installed measures but not the value savings achieved per measure.

<sup>5</sup> Company workpaper file *DSM Cost Recovery KCPL-MO Filing w NPV 3 14 14 (6-yr)*.



- 1           ♦ The Commission should reject the Company’s request for a variance from 4  
2           CSR 240-20.093(2)(H); 4 CSR 240-20.093(2)(H)(3); 4 CSR 240-  
3           20.093(1)(EE); 4 CSR 240-20.093(1)(C); 4 CSR 240-20.094(1)(Z); 4 CSR  
4           240-20.094(1)(C); 4 CSR 240-3.163(1)(A); 4 CSR 240-20.093(7)(E); and 4  
5           CSR 240-20.093(8). KCP&L should not be allowed a variance from these  
6           rules because these rules work to ensure that consumers receive real and  
7           meaningful net benefits from DSM programs in exchange for the program cost  
8           recovery, lost revenue recovery and a performance incentive afforded the  
9           Company under the Commission’s DSM rules and DSIM rules.
- 10          ♦ The Commission should reject the Company’s shared benefits proposal and  
11          instead require the Company to calculate a lost revenue component consistent  
12          with the DSIM rules.
- 13          ♦ The Commission should require the Company to modify its performance  
14          incentive in the following ways:
- 15           • The amount of funds that are made available to the Company for the  
16           performance incentive should be determined on the basis of (i.e. as a  
17           percentage of) planning/budget projections of DSIM cost recovery revenue  
18           requirements, not on total level of benefits achieved.
  - 19           • The amount of funds that are awarded to the Company (i.e. the utility’s  
20           share) for the performance incentive should be based on the level of  
21           annual benefits achieved and verified through EM&V. These benefits  
22           should be defined as **net** benefits consistent the DSIM rule.

- 1           • The performance incentive mechanism should be based upon: (a) a  
2           threshold amount of actual achieved annual net benefits below which no  
3           incentive is earned, (b) a planned amount equal to the estimated amount of  
4           annual net benefits from the DSM plan, and (c) a cap (based on a high  
5           level of performance in achieving net benefits relative to the expected  
6           level of annual net benefits in the DSM plan) that places a limit on the  
7           total amount of shareholder incentive that could be awarded to the  
8           Company. If the Company's net benefits turn out to be anywhere between  
9           these points, the performance incentive award would be interpolated  
10          between them, allowing for a continuous performance incentive based  
11          upon the actual amount of net benefits achieved.

12       **III. KCP&L'S REQUEST FOR VARIANCES**

13       **Q. PLEASE DISCUSS KCP&L'S VARIANCE REQUESTS.**

14       A. First, the Company's seeks variances of 4 CSR 240-20.093(2)(H); 4 CSR 240-  
15       20.093(2)(H)(3); 4 CSR 240-20.093(1)(EE); 4 CSR 240-20.093(1)(C); 4 CSR  
16       240-20.094(1)(Z); 4 CSR 240-20.094(1)(C); and 4 CSR 240-3.163(1)(A).  
17       KCP&L describes its request as relating to non-utilization of EM&V for Net  
18       Shared Benefit calculations and utilization of EM&V for Performance Incentive.

19               Public Counsel strongly opposes KCP&L's request for variance from rules  
20       related to EM&V. Under DSM rules and DSIM rules, KCP&L is allowed  
21       recovery of program costs, recovery of lost revenues and an earnings incentive as  
22       a reward for high achievement in meeting DSM goals. Customers are paying a lot  
23       for these programs. EM&V of program performance is critical to ensuring that

1 consumers are receiving real and meaningful benefits from the programs they pay  
2 for.

3 Second, the Commission should reject the Company's request for a  
4 variance from 4 CSR 240-20.093(7)(E) as unnecessary. The Company supports  
5 its request for variance by stating that it has no statewide technical resource  
6 manual. However, the use of a commission-approved statewide technical  
7 resource manual is conditioned on availability of the manual.

8 Third, the Commission should reject the Company's request for a variance  
9 from 4 CSR 240-20.093(8). KCP&L has given only a limited description of its  
10 inability to comply with this rule. The Company has not made a compelling case  
11 for granting a broad variance from the annual reporting requirements.

12 **IV. GENERAL PRINCIPLES IN DESIGNING SHAREHOLDER**  
13 **INCENTIVES**

14 **Q. WHAT GUIDANCE DO THE MEEIA STATUTE (MEEIA) AND THE DSM RULES PROVIDE**  
15 **FOR DESIGNING DEMAND-SIDE SHAREHOLDER INCENTIVES?**

16 A. MEEIA and the Commissions' Rules explicitly allow the Company to earn an  
17 incentive for implementing demand-side programs. MEEIA makes three references  
18 to shareholder incentives, stating that the Commission: (1) shall ensure that utility  
19 financial incentives are aligned with helping customer use energy more efficiently  
20 and in a manner that sustains or enhances utility customers' incentives to use  
21 energy more efficiently; (2) shall provide timely earnings opportunities associated  
22 with cost-effective measureable and verifiable DSM savings; and (3) may allow the

1 utility to retain a portion of the net benefits of a demand-side program for its  
2 shareholders. MEEIA, § 3(2)-(3), 5.

3 The Commission's Rules provide guidance as to how the incentive mechanisms  
4 should be structured. Specifically, the Commission's Rules stipulate that any  
5 incentive component shall be based on the actual performance of approved  
6 demand-side programs and include a methodology for determining the utility's  
7 portion of annual net shared benefits achieved and documented through EM&V  
8 reports.

9 **Q. DO MEEIA AND THE DSIM RULES PROVIDE A LOT OF GUIDANCE ON THE DETAILS OF**  
10 **HOW THE SHAREHOLDER INCENTIVES SHOULD BE DESIGNED?**

11 A. Neither MEEIA nor the Commission's Rules provide specific guidance on some  
12 important issues, such as how much money should be made available for  
13 shareholder incentives. While the Commission's Rules provide a structure for  
14 shareholder incentives, they do not indicate a methodology for determining the  
15 portion of achieved annual net shared benefits that will be retained by the utility.

16 The Commission can play an important role in providing further guidance on how  
17 demand-side shareholder performance incentives should be structured. Public  
18 Counsel recommends that demand-side shareholder incentive mechanisms be  
19 designed in such a way as to strike the appropriate balance between promoting  
20 effective, successful DSM programs, and protecting the interests of ratepayers.

21 The Commission can provide such guidance by adopting, in this case, certain  
22 principles to apply when reviewing shareholder incentives proposals.

1       **Q.     WHAT ARE THE GUIDING PRINCIPLES FOR DESIGNING SHAREHOLDER**  
2       **INCENTIVES THAT PUBLIC COUNSEL RECOMMENDS?**

3       A.     Public Counsel recommends the following principals be applied when designing  
4       demand-side program shareholder performance incentives:

5           I.    Shareholder incentive mechanisms should be designed in such a way as to  
6           encourage DSM programs that will best achieve the state’s energy goals,  
7           including the goal of achieving all cost-effective demand-side savings. See  
8           MEEIA, § 4.

9           II. The amount of funds available for shareholder incentive mechanisms should  
10          be both (1) sufficient to encourage achievement of the desired DSM program  
11          outcomes and (2) kept as low as possible in order to minimize the costs to  
12          electric customers.

13          III. Shareholder incentives should be explicitly capped and should not exceed a  
14          predetermined portion of program budgets.

15          IV. Shareholder incentive mechanisms should be based on desired outcomes (e.g.,  
16          energy savings, net benefits), not program considerations necessary to  
17          implement the demand-side program (e.g., expenditure levels).

18          V. Shareholder incentives should be based on clearly-defined outcomes that can  
19          be sufficiently monitored, quantified, and verified after the fact.

20          VI. Shareholder incentives should be available only for activities where the utility  
21          company plays a distinct and clear role in bringing about the desired outcome.

1 VII. Shareholder incentives should avoid creating perverse incentives, such as  
2 the incentive to increase costs without comparable increases in savings, or the  
3 incentive to cream-skim.

4 VIII. A shareholder incentive mechanism and the rate structure used to recover  
5 DSIM incentive revenue requirements should sustain or enhance the utility  
6 customer's incentive to use energy more efficiently. See MEEIA, § 3(2) and 4  
7 CSR 240-20.093(2)(C)2.

8 **V. EXPERIENCE IN OTHER STATES**

9 **Q. HOW ARE DEMAND-SIDE PROGRAM SHAREHOLDER INCENTIVES DESIGNED IN**  
10 **OTHER STATES?**

11 A. A recent report by the American Council for an Energy Efficient Economy  
12 (ACEEE) examines state efforts and experiences with financial incentives for  
13 encouraging investor-owned utilities to provide effective energy efficiency  
14 programs for their customers.<sup>6</sup> The study found that states have shown a strong  
15 preference for mechanisms that award an incentive based on cost-effective  
16 achievement of energy savings targets, rather than other metrics such as program  
17 spending levels. Further, the study found that when these targets have been  
18 established, utilities have tended, thus far, to consistently meet or exceed them.  
19 The study categorized incentive mechanisms into three broad categories: shared  
20 benefits, performance targets, and rate of return (Hayes, 2011, iii).

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<sup>6</sup> Hayes, Nadel, Kushler, York, *Carrots for Utilities: Providing Financial Returns for Utility Investments in Energy Efficiency*, ACEEE, Report U111, January 2011.

1           The study highlights that most states establish a cap on the total DSM incentive  
2           amount available to the utility. This cap (i.e., the maximum dollar amount  
3           available for DSM incentives) is often determined by a percentage of the expected  
4           program costs, while a few states use savings or a fixed dollar amount to  
5           determine the cap. The actual amount awarded to the utility is usually based on  
6           the amount of net benefits achieved during program implementation, while a few  
7           states rely on program costs to determine the amount awarded. States usually have  
8           in place a threshold or trigger amount, below which the utility does not earn an  
9           incentive (Hayes, 2011, 11-12).

10       **Q.   HOW DOES KCP&L’S SHAREHOLDER INCENTIVE PROPOSAL COMPARE TO OTHER**  
11       **STATES?**

12       A.   The Table 1 below summarizes the incentive mechanisms in the 18 states  
13       surveyed through the study (Hayes, 2011, 12).

14       Table 2 below includes a summary of KCP&L’s proposed incentive mechanisms  
15       for comparison with the ACEEE study results. Note that many of the states in  
16       Table 1 have incentive caps that are either fixed or are tied to a portion of the  
17       energy efficiency program costs. KCP&L’s proposed shared benefit mechanism  
18       is not subject to an explicit cap, unlike the mechanisms in all the other states.  
19       For this reason and the potential for inflated costs in calculating net shared  
20       benefits, KCP&L’s incentive mechanism is significantly more generous than the  
21       other states in the ACEEE survey.

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**Table 1: ACEEE: Overview of Shareholder Performance Incentive in Profiled States**

State	Type	Award	Threshold/Trigger	Cap
Arizona	Shared Benefit	10% of net benefits	No. Minimum spending requirement	10% of program costs
California	Shared Benefit	9-12% of net benefits	85% of savings goals	\$150 million per year (reward)/\$150 per year (penalty)
Colorado	Shared Benefit	0.2-12% of net benefits	81% of savings goals	20% of program costs
Georgia	Shared Benefit	15% of net benefits	50% of projected participation	none
Hawaii	Shared Benefit	1-5% of net benefits	100% of savings goals	5% of net benefits; \$4 million
Idaho	Shared Benefit	1-10% of net benefits	7-11.7% of new homes in programs	10% of program benefits
Kentucky	Shared Benefit	10% of net benefits	100% of savings goals	10% of program costs
Minnesota	Shared Benefit	based on spending	90% of savings goals	150% of savings goals/30% of budget
Ohio	Shared Benefit	50-75% of net avoided costs	65% of savings goals	15% of program costs
Oklahoma	Shared Benefit	15% of program costs or 25% of net savings	no	fixed: \$2.7 million in 2010
Texas	Shared Benefit	1% of net benefits – up to cap	102% of savings goals	20% of program costs
Massachusetts	Performance Target	3.75-5.5% of program costs	75% of savings goals	5.5% of program costs
New Hampshire	Performance Target	8-12% of program costs	65% of planned savings and 1:1 cost effectiveness	12% of program costs
Rhode Island	Performance Target	4.4% of program costs	60% of savings goals	125% of savings metric; \$150,000 for performance metrics
Connecticut	Performance Target	1-8% of program costs	70% of energy efficiency goals	8% of program costs
Washington	Performance Target / Shared Benefit	5-100% of net benefits	100% of savings goals	150% of savings goals
Nevada	Rate of Return	5% of DSM equity	No	5% of program costs
Wisconsin	Rate of Return	Same as other investments	No	No

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**Table 2: KCP&L's Proposed Shareholder Incentive**

State	Type	Award	Threshold/Trigger	Cap
Missouri - KCP&L	Performance Target	13.33% of net benefits	<b>70% of savings goals</b>	No, Company receives 13.33% of all net benefits
Missouri - KCP&L	Shared Benefit	38.54% of net shared benefit	No	No

\*The Company characterizes this percentage as recovering lost margin.

## **VI. KCP&L'S DSIM PROPOSAL**

**Q. PLEASE PROVIDE A SUMMARY OF KCP&L'S PROPOSED RECOVERY MECHANISM.**

A. KCP&L's proposed DSIM includes three components: a program cost recovery component, a shared benefits component and a performance incentive component.

The Company is proposing to initially implement a deferral of program costs and a portion of net shared benefits until June 1, 2015, when it proposes to implement a DSIM Charge. The DSIM Charge will recover actual and projected program costs, a portion of net shared benefits and, once determined, a performance incentive. The DSIM Charge will be applied to each customer on a kilowatt-hour basis (\$/kWh). The Company proposes to collect program costs over six years, a portion of net shared benefits over two years and the performance incentive over two years. The Company also asks that uncollected balances be included in rate base in the next rate case.

**Q. WHAT IS THE PROGRAM COST RECOVERY COMPONENT?**

A. Program costs will include all incremental costs associated with planning, developing, implementing, monitoring and evaluating the DSM programs (Tim

1 Rush Direct, page 19). The Company expects program costs of about \$29M over  
2 20 months (Tim Rush Direct, page 19).

3 **Q. WHAT IS KCP&L'S SHARED BENEFIT PROPOSAL?**

4 A. KCP&L requests recovery of 38.54% of the net present value of total projected  
5 lifetime energy and demand savings, (Tim Rush Direct, page 20). This equates to  
6 \$17 million of lost margin for the combined two year period (Kevin Bryant Direct,  
7 page 6).

8 **Q. WHAT IS KCP&L'S PERFORMANCE INCENTIVE PROPOSAL?**

9 A. KCP&L proposes to collect between 5.33% and 13.33% of net shared benefits  
10 depending on its achievement of savings goals. The Company's workpapers  
11 indicate a combined performance incentive of \*\* \*\* for program years  
12 2014-2015.<sup>7</sup>

13 **Q. WHAT ARE THE PROBLEMS WITH ALLOWING THE COMPANY TO USE A SHARED  
14 BENEFITS MECHANISM?**

15 A. Net shared benefits are not capped and allow for recovery in excess of the amount  
16 of lost revenue allowed by the DSIM rules. The potential for over recovery from  
17 allowing net shared benefits instead of lost revenue recovery is magnified by other  
18 problems reflected in the Company's proposal. For example, the shared benefit  
19 proposal will likely over recover due to its failure to be based upon the level of  
20 energy and demand reductions that have actually been achieved by the proposed  
21 demand-side program plan and confirmed by EM&V. Instead, for some  
22 programs, KCP&L's proposal uses pre-determined demand and energy reduction

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<sup>7</sup> Workpaper file *DSM Cost Recovery KCPL-MO Filing w NPV 3 14 14 (6-yr)*

1 estimates as a proxy for load reductions verified by EM&V. Under the KCP&L  
2 proposal, these prior estimates of load reductions are then given a monetary value  
3 based on pre-determined values for avoided demand and energy costs that do not  
4 reflect the market value of the load reductions at the time they are caused by the  
5 DSM programs.

6 For many programs, “utilization of the programs” is the only factor that  
7 goes into KCP&L’s proposed method of calculating the level of the total value of  
8 benefits from the programs. Since this is the only factor within the control of  
9 KCP&L which affects its shared saving performance reward, there is an incentive  
10 to increase utilization (i.e. the number of customers, homes, buildings, units or  
11 measures), with little attention to the cost effectiveness of program delivery, the  
12 level of free rider participation, or the extent to which changes in the value of  
13 avoided energy and demand impact the net benefits for all customers.

14 **Q. DOES PUBLIC COUNSEL TAKE ISSUE WITH KCP&L’S PERFORMANCE INCENTIVE**  
15 **PROPOSAL?**

16 A. Yes. This incentive is redundant with the shared benefits incentive, is not  
17 necessary, and does not provide very clear or well-directed incentives. Additional  
18 OPC concerns were discussed above in this testimony on the problems  
19 associated with the net shared benefits proposal.

20 **Q. ARE THERE OTHER ISSUES WITH KCP&L’S PROPOSED DEMAND-SIDE PLAN AS IT**  
21 **RELATES TO THE SHAREHOLDER INCENTIVE?**

22 A. Yes. The models and inputs used by KCP&L through the DSMore model need to  
23 be fully vetted to understand the benefit calculations, and to ensure credibility and

1 reliability for savings and benefits that the shareholder incentive proposals relies  
2 upon. Public Counsel does not have a license for the DSMore model; we are  
3 unable to dig into the details of the model and observe the interactions between  
4 the data inputs and model outputs so KCP&L's reliance on this model makes it  
5 difficult for OPC to be involving in the vetting that needs to take place.

6 **Q. WHAT DOES PUBLIC COUNSEL CONCLUDE FROM KCP&L'S PROPOSED DEMAND-  
7 SIDE INCENTIVE MECHANISM?**

8 A. The Company's shareholder incentive request is excessive. The combined impact  
9 of the Company's incentive requests and proposed method of recovery over a six  
10 year period results in customers paying \*\*

11 <sup>8</sup> \*\*  
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12 **VII. OPC RECOMMENDATIONS FOR ALTERNATIVE MECHANISMS**

13 **Q. ALTHOUGH PUBLIC COUNSEL OPPOSES APPROVAL OF KCP&L'S APPLICATION IN  
14 THIS CASE, WHAT DO YOU RECOMMEND WITH REGARD TO THE RECOVERY OF  
15 LOST REVENUES IN FUTURE KCP&L FILINGS?**

16 A. Recovery of lost revenues should be achieved through a separate accounting  
17 mechanism, and not be incorporated into a shared benefits incentive or any other  
18 performance incentive. Recovery of lost revenues serves a different purpose than  
19 shareholder incentives, and the recovery mechanism should be separate in order to  
20 avoid over-compensation or perverse incentives. Furthermore, it is important that  
21 lost revenues be recovered through a mechanism that is fully transparent, so that

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<sup>8</sup> Company workpaper file *DSM Cost Recovery KCPL-MO Filing w NPV 3 14 14 (6-yr)*.

1 the Commission and other interested parties will know exactly what is being  
2 recovered.

3 Second, the Company should seek to recover only those lost revenues that result  
4 from DSM savings that cause sales to be lower than the sales used to set rates in  
5 the most recent rate case. This is consistent with the DSIM rules (4 CSR 240-  
6 20.093(2)(G)1.), and is sound public policy because it ensures that a company will  
7 not be overcompensated for lost revenues in times when load is growing steadily.

8 **Q. IS THE COMPANY'S PROPOSAL FOR LOST REVENUE RECOVERY CONSISTENT WITH**  
9 **YOUR RECOMMENDATIONS?**

10 A. No. The Company's proposal is to recover lost revenues outside of this lost  
11 revenue recovery mechanism, through the shared benefit incentive.

12 If lost revenues are recovered through a utility incentive component of an DSIM  
13 such as a shared benefit incentive, then this component should still comply with  
14 the limitation on lost revenue recovery required by 4 CSR 240-20.093(2)(G)1.  
15 Designing an incentive component that incorporates this limitation will create  
16 unnecessary additional complexity since this could be accomplished in a more  
17 certain and transparent manner by utilizing a utility lost revenue component of a  
18 DSIM within the parameters the MEEIA rules.

19 **Q. WHAT DO YOU RECOMMEND WITH REGARD TO A PERFORMANCE INCENTIVE?**

20 A. Public Counsel agrees that a performance incentive should be provided to help  
21 encourage good performance, and even exemplary performance, in designing and  
22 implementing DSM programs. I also agree that the level of shared net benefits  
23 achieved should be used as an indicator of program success and as a means of

1 determining how much incentive the Company is awarded. However, I would  
2 recommend several important changes to the Company's performance incentive  
3 proposal:

- 4 • The amount of funds that are made available to the Company for the  
5 performance incentive should be determined on the basis of (i.e. as a  
6 percentage of) planning/budget projections of DSIM cost recovery revenue  
7 requirements, not on the total level of benefits achieved.
- 8 • The amount of funds that are awarded to the Company (i.e. the utility's share)  
9 for the performance incentive should be based on the level of annual benefits  
10 achieved and verified through EM&V. These benefits should be defined as  
11 **net** benefits consistent with industry best practices and as required by the rule,  
12 not total benefits.
- 13 • The amount of funds awarded to the Company should be based upon: (a) a  
14 threshold amount of actual achieved annual net benefits below which no  
15 incentive is earned, (b) a planned amount equal to the estimated amount of  
16 annual net benefits from the DSM plan, and (c) a cap (based on a high level of  
17 performance in achieving net benefits relative to the expected level of annual  
18 net benefits in the DSM plan) that places a limit on the total amount of  
19 shareholder incentive that could be awarded to the Company. If the  
20 Company's net benefits turn out to be anywhere between these points, the  
21 performance incentive award would be interpolated between them, allowing  
22 for a continuous performance incentive based upon the actual amount of net  
23 benefits achieved.

1       **Q.       PLEASE EXPLAIN WHY THE AMOUNT OF FUNDS MADE AVAILABLE FOR THE**  
2       **PERFORMANCE INCENTIVE SHOULD BE BASED UPON THE ESTIMATED LEVEL OF**  
3       **ANNUAL DSM PROGRAM COSTS.**

4       A.       It is very important that the incentives available be tied to program costs because  
5       it helps to ensure that the magnitude of the performance incentive is in line with  
6       the magnitude of the demand-side programs. It is important to remember that  
7       every dollar that is provided to the Company's shareholders is a dollar that could  
8       otherwise have been spent on delivering demand-side programs. This explicit and  
9       transparent connection between program budgets and shareholder incentives is  
10       important in order to allow the Commission to strike the appropriate balance  
11       between shareholders and customers. In addition, the Company and the  
12       Commission have much more control over the DSM program budgets than they  
13       do over program benefits; resulting in much more control over the amount of  
14       shareholder incentives that are awarded, and allowing for more consistent  
15       shareholder incentives from year to year.

16               Furthermore, the benefits of DSM programs (either total or net) can  
17       change significantly between those that are planned and those that are actually  
18       achieved, potentially leading to large unanticipated swings in the amount of the  
19       performance incentive that is awarded to the Company. The benefits of DSM  
20       programs can also fluctuate significantly due to changes in avoided costs,  
21       completely unrelated to the DSM programs or the actions of the Company,  
22       potentially resulting in unpredictable and volatile shareholder incentives. If the  
23       available shareholder incentives are based on shared savings, then several years

1 from now the amount of available shareholder incentives, and consequently  
2 earned shareholder incentives, could be significantly different than the range of  
3 incentive amounts that were anticipated when the incentive component of a DSIM  
4 is approved by the Commission in this case.

5 **Q. PLEASE EXPLAIN WHY YOU DISTINGUISH BETWEEN THE BASIS FOR THE AMOUNT**  
6 **OF FUNDS MADE AVAILABLE FOR INCENTIVES AND THE INCENTIVE AMOUNT**  
7 **THAT IS AWARDED BASED ON PERFORMANCE IN ACTUALLY ACHIEVING NET**  
8 **SAVINGS.**

9 A. It is important to recognize that the metric that is used to determine the amount of  
10 funds that are made available for the performance incentive (“the cap”) does not  
11 have to be the same metric that is used to determine the amount of funds that is  
12 awarded to the Company. The amount of the award could be based on net savings  
13 (in dollars), on the basis of energy savings (in kWh), on the basis of capacity  
14 savings (in kW), on the basis of some other measure of program success, or on a  
15 combination of these measures. This distinction is important because the DSM  
16 program budget represents the best metric for determining the amount of funds  
17 available for the performance incentive, as described above, but the level of actual  
18 DSM program expenditures is not the best metric for determining the amount of  
19 funds to award for a performance incentive. A utility that spends a lot of money  
20 on DSM programs without achieving an appropriate level of energy or dollar  
21 savings should not be rewarded with a shareholder incentive.



1       **Q.     PLEASE EXPLAIN WHY THE AMOUNT OF MONEY AWARDED FOR THE**  
2       **PERFORMANCE INCENTIVE SHOULD BE BASED ON THE LEVEL OF NET BENEFITS**  
3       **ACTUALLY ACHIEVED.**

4       A.     MEEIA and the rule are clear that the Company is entitled to a performance  
5       incentive based on the shared net savings approach. As described above, the level  
6       of net benefits actually achieved is good metric to use for awarding performance  
7       incentives because it provides a dual incentive to both maintain low costs and  
8       maximize benefits. It also incorporates a valuation of the avoided capacity and  
9       energy costs so that the amount of capacity and energy load reductions achieved  
10      are taken into account and given the value that they contribute to benefitting  
11      consumers by decreasing utility revenue requirements.

12      **Q.     PLEASE EXPLAIN WHY AN INCENTIVE MECHANISM SHOULD INCLUDE A**  
13      **THRESHOLD LEVEL, A PLANNED LEVEL AND A CAP.**

14      A.     The threshold level represents the point below which no incentives will be  
15      awarded. This is based on the notion that the Company is not entitled to any  
16      performance incentives if the results of its DSM program activities are  
17      significantly lower than the planned results. The planned level represents the  
18      performance that the Company has planned for and committed to in its DSM  
19      program plan approved by the Commission. This level represents the most likely  
20      outcome of the performance incentive, assuming that the results are close to those  
21      in the plan. The cap is set to ensure that customers are protected in case some  
22      unanticipated event(s) results in the performance of the DSM programs being  
23      significantly higher than planned. It is important that the Company be able to earn

1           incentives for achieving results above the planned level, i.e., to promote  
2           exemplary performance, but it is also important to place a cap on these exemplary  
3           rewards to protect ratepayers from the impact of unanticipated future events.

4       **Q.    DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

5       **A.    Yes, it does.**

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