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Performance Incentive  
Design  
Witness: William R. Davis  
Type of Exhibit: Rebuttal Testimony to  
Non-Utility Stipulation  
Sponsoring Party: Union Electric Company  
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**MISSOURI PUBLIC SERVICE COMMISSION**

**FILE NO. EO-2015-0055**

**REBUTTAL TESTIMONY TO NON-UTILITY STIPULATION**

**OF**

**WILLIAM R. DAVIS**

**ON**

**BEHALF OF**

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

**St. Louis, Missouri  
July 2015**

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**REBUTTAL TESTIMONY**  
**TO NON-UTILITY STIPULATION**  
**OF**  
**WILLIAM R. DAVIS**  
**FILE NO. EO-2015-0055**  
**I. INTRODUCTION**

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

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

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

A. I am an Economic Analysis and Pricing Manager for Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri" or “Company”).

**Q. Are you the same William R. Davis who filed Supplemental Testimony previously in this case?**

A. Yes, I am.

**Q. What is the purpose of this rebuttal testimony?**

A. The purpose of my testimony is to respond to the throughput disincentive recovery and performance incentive mechanisms contained in the Amended Non-Unanimous Stipulation and Agreement regarding the Company’s Missouri Energy Efficiency Investment Act (“MEEIA”) Cycle 2 ("Non-Utility Stipulation")<sup>1</sup>, filed on July 8, 2015, by the Missouri Public Service Commission (“Commission”) Staff (“Staff”), the Office of the Public Counsel, the Midwest Energy Consumers' Group, and Renew Missouri ("Non-Utility Parties"). As I will explain below, the Non-Utility

1 Stipulation purports to offer an alternative for Commission consideration but it suffers  
2 from several design flaws that, as explained by Company witness Lynn M. Barnes in her  
3 rebuttal testimony to Non-Utility Stipulation filed concurrently with mine, fails to align  
4 utility interests with that of helping its customers use energy more efficiently.

5 **II. THROUGHPUT DISINCENTIVE**

6 **Q. Please explain your understanding of the throughput disincentive**  
7 **recovery mechanism outlined in the Non-Utility Stipulation?**

8 A. As a general proposition, the Non-Utility Parties are proposing a lost  
9 revenue recovery mechanism presumably because they recognize that if a utility loses  
10 revenues because of its pursuit of energy efficiency, the utility has a disincentive to  
11 implement and operate energy efficiency programs. The Non-Utility Parties have also  
12 abandoned Staff's initial position which would have taken away any revenues for load  
13 growth or weather, meaning that the Company's pursuit of energy efficiency would have  
14 still reduced its income below what it would have been had it not pursued energy  
15 efficiency at all. Ameren Missouri witnesses Lynn Barnes and Steve Wills<sup>2</sup> address this  
16 problem in their surrebuttal testimonies. However, while the abandonment of the Staff's  
17 original approach is an improvement, the proposed "unrealized revenue" mechanism in  
18 the Non-Utility Stipulation still suffers from key flaws that ultimately fail to make  
19 Ameren Missouri whole from the effects of its energy efficiency efforts.

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<sup>1</sup> Now "Non-Utility Joint Position."

<sup>2</sup> I have adopted Mr. Wills' previously filed written testimony as my own.

1           **Q.     Please summarize the key flaws in the Non-Utility Stipulation's**  
2 **unrealized revenue mechanism.**

3           A.     A primary flaw is the requirement to re-base the mechanism to zero at the  
4 time new rates are implemented from a rate case. This flaw causes significant and  
5 permanent financial losses that would not occur but for the Company's pursuit of energy  
6 efficiency programs. I explain this problem in more detail later in my testimony. A  
7 second flaw is the lack of carrying costs applied to deferred amounts. Not using the  
8 utility's weighted average cost of capital fails to properly recognize the cost of delayed  
9 recovery. The third flaw is delaying recovery for one-third of the throughput  
10 disincentive. This delay guarantees negative up-front earnings impacts to the utility  
11 associated with its investment in energy efficiency and cumulative negative earnings to  
12 the utility until the last true-up, even if proper carrying costs were used.

13           **Q.     You mentioned that a primary flaw was the requirement to re-base**  
14 **the unrealized revenue mechanism to zero coincident with the effective date of new**  
15 **rates from a rate case. Please explain why this causes permanent losses through the**  
16 **pursuit of energy efficiency programs.**

17           A.     In short, this methodology does not reflect the lag between the billing  
18 determinants test period used for calculating rates and the effective date of those new  
19 rates. Not reflecting this lag results in a *permanent* under-collection of the throughput  
20 disincentive. As explained in Ameren Missouri's original MEEIA Report, the throughput  
21 disincentive is the difference between the cumulative energy savings at any given time,  
22 compared to the cumulative energy savings already reflected in base rates. Re-basing the  
23 proposed mechanism at zero coincident with the effective date of rates from a rate case is

1 equivalent to assuming the date through which the billing determinants are updated is  
2 also the 12-months ending coincident with the effective date of rates. However, that is  
3 not the way rates are established.

4 **Q. Please explain.**

5 A. For example, in Ameren Missouri's most recent rate case, the test period  
6 for use-per-customer (which was lower than it would have been without the energy  
7 savings from the Company's MEEIA 1 programs) was 12-months ending July 2014,  
8 while the effective date of new rates was May 30, 2015 (10 months later). Consequently,  
9 none of the new energy savings arising from the energy efficiency programs from August  
10 2014 through May 2015 are reflected in the test period billing units, yet the Non-Utility  
11 Stipulation either ignores this reality or erroneously assumes that the savings between the  
12 rate case test period and the effective date of new rates are included in rates from that  
13 point forward. Following this process will ensure the Company starts to under-collect for  
14 unrealized revenues the minute new rates go into effect and will continue under-  
15 collecting until its next rate case and this cycle continues until all of the effects of energy  
16 efficiency are incorporated into base rates through the traditional ratemaking process. So  
17 while eventually base rates will reflect the proper level of energy savings, the financial  
18 losses caused by re-basing to zero will never be recovered. In short, the Non-Utility  
19 Stipulation understates future utility losses attributable to energy efficiency programs and  
20 would result in a permanent financial loss to the Company of \$9 million<sup>3</sup>. As Ms. Barnes  
21 explains in her testimony, this is clearly a major disincentive for the Company because,

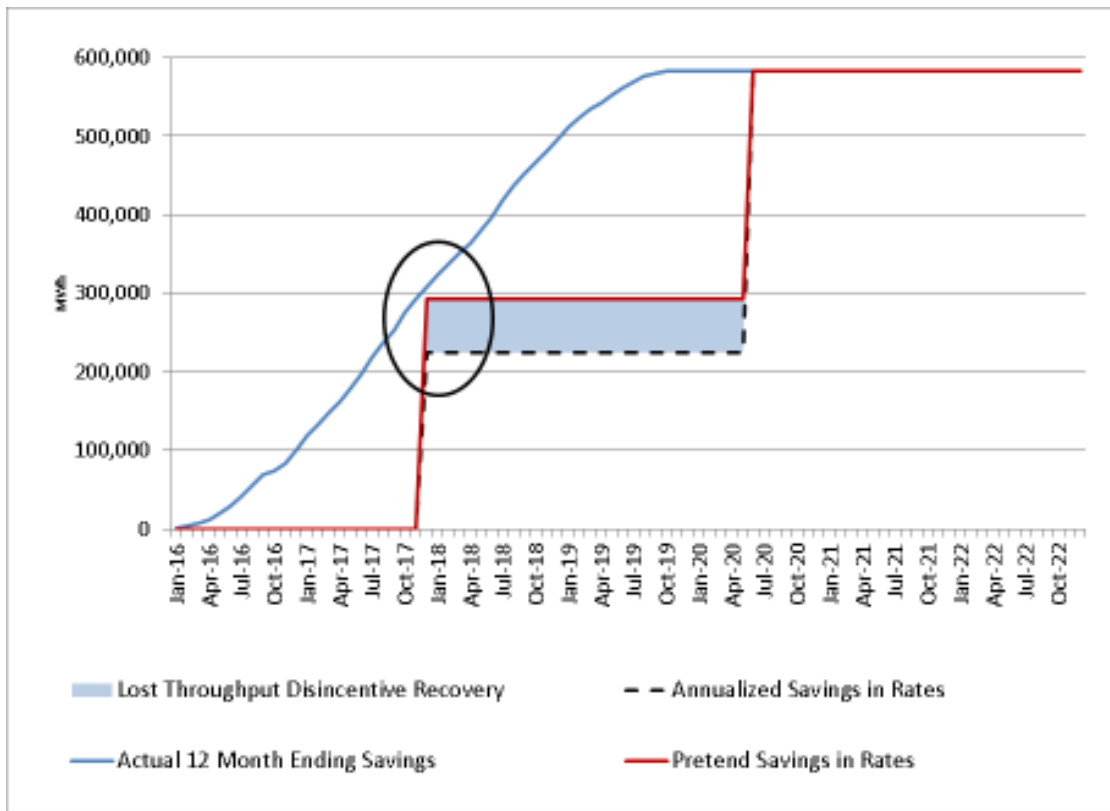
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<sup>3</sup> Based on 30-months between rate cases and the other necessary assumptions consistent with the original MEEIA 2 filing except updated for the fixed cost increase outcome of Case No. ER-2014-0258.

1 but for implementing energy efficiency programs, the Company's net income would be  
2 higher by \$9 million.

3 **Q. Do you have an illustration of the flaw you are describing?**

4 A. Yes. The chart below illustrates the discussion above and is similar to the  
5 chart provided in the original MEEIA Report<sup>4</sup> explaining the origin of the throughput  
6 disincentive.



7  
8 The blue line in the chart above represents the actual cumulative energy savings<sup>5</sup>  
9 in each month (notice how it peaks at 583,000 MWh, which is the size of the Company's  
10 agreed upon energy efficiency portfolio). Note that each of the obvious step-ups in the  
11 red line and dotted black line represent the effective date of an assumed future rate case.

<sup>4</sup> MEEIA 2 Report, pp. 28-30.

<sup>5</sup> These are energy savings associated with the utility's Commission-approved MEEIA 2 programs.

1 To simplify what the chart is showing, I have circled the key area. The red line  
2 represents the “re-basing to zero” requirement of the Non-Utility Stipulation, which is  
3 why the red line jumps up to touch the blue line, indicating the difference between  
4 cumulative energy savings in rates compared to the cumulative energy savings up to that  
5 point in time which is zero. Unfortunately, the red line does not reflect how rates are  
6 actually set. As I mentioned earlier, rates are based on updated billing units through a  
7 period ending many months (typically about 10 months, as in the prior rate case) prior to  
8 the effective date of rates. The dotted black line represents the amount of cumulative  
9 energy savings that would truly be reflected in rates based on how the ratemaking process  
10 works<sup>6</sup>. The light blue shaded area indicates the amount of throughput disincentive that  
11 would permanently be left uncollected because of the requirement to re-base to zero  
12 included in the Non-Utility Stipulation.

13 Furthermore, the negative impact to the Company associated with this flaw is  
14 highly dependent on timing of a rate case filing and is non-linear when factoring in  
15 multiple rate case filings. As I mentioned previously, the uncollected throughput  
16 disincentive starts the minute new rates take effect and will persist until the next rate case  
17 and this cycle will continue until all of the effects of MEEIA 2 are included in base rates  
18 without ever allowing for full recovery of the throughput disincentive. The chart above  
19 only illustrates the impact while assuming 30 months between rate cases, but there could  
20 be many other combinations of rate case filings that result in more or less losses to the  
21 Company.

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<sup>6</sup> This assumes energy efficiency savings are annualized, which has been discussed in multiple rounds of testimony.



1           **Q.     The second flaw you identified is about the carrying costs applied to**  
2 **the deferred throughput disincentive. Please explain how that negatively impacts**  
3 **the Company.**

4           A.     As a reminder, the Non-Utility Stipulation does not provide for any  
5 interest for the time period between when a cost is incurred and when it is recovered (i.e.  
6 for the 33.33% of the unrealized revenues that is to be annually deferred). A primary  
7 measure used by Ameren Missouri to evaluate whether an energy efficiency recovery  
8 mechanism makes the Company whole is to look at the present value of Company  
9 earnings. A net present value of zero for the throughput disincentive, when considering  
10 both the losses and recovery, serves as proof that whatever losses are going out are offset  
11 by recovery coming in. As with most present valuing, the Company uses its net-of-tax  
12 weighted average cost of capital as its time-value-of-money measure. This is a very  
13 common approach and is consistent with the discount rate used for the cost-effectiveness  
14 tests in this case, the present valuing of revenue requirements in resource planning, etc.  
15 However, because no carrying costs are afforded in the Non-Utility Stipulation, then the  
16 Company will not recover its opportunity cost of delayed earnings. Not providing a  
17 carrying-cost equal to the Company's cost of capital would result in a negative \$1.2  
18 million present value of earnings.

19           **Q.     Couldn't this just be fixed by applying the proper carrying costs?**

20           A.     While using the appropriate carrying costs would improve the Non-Utility  
21 Stipulation cost recovery, it still would not cover all of the financial losses associated  
22 with the unrealized revenue mechanism. It still suffers from the flaw that the Company  
23 would suffer up-front earnings losses while implementing energy efficiency (the third

1   flaw, discussed below) and, in addition, even if the proper carrying costs were used,  
2   Ameren Missouri’s customers would ultimately pay more under the Non-Utility  
3   Stipulation than they would pay under the Non-Unanimous Stipulation and Agreement  
4   proposed by the Company, the Missouri Department of Economic Development -  
5   Division of Energy, Natural Resources Defense Council, United for Missouri, Kansas  
6   City Power and Light and KCP&L Greater Missouri Operations Company (“June 30  
7   Stipulation”)<sup>7</sup>. The June 30 Stipulation includes a \$1.9 million discount on throughput  
8   disincentive recovery<sup>8</sup> but customers would lose that discount and be on the hook for  
9   another \$1.4 million in carrying costs; which means customers will pay \$3.3 million  
10  more for the modified<sup>9</sup> Non-Utility Stipulation unrealized revenue mechanism.

11           **Q.    The third flaw you mentioned is the fact that delaying recovery of a**  
12 **portion of the throughput disincentive guarantees negative up-front earnings to the**  
13 **utility and cumulative negative earnings to the utility until the last true-up, even if**  
14 **proper carrying costs were used. Please explain.**

15           A.    It is important to understand that the longer the time between rate cases,  
16   the larger the annual throughput disincentive becomes because the billing units on which  
17   rates were last based become more and more out-of-date since they do not reflect the  
18   energy savings arising from the energy efficiency programs. In fact, the annual  
19   throughput disincentive compounds quickly because the Company’s losses in a given  
20   year are based on the summation of cumulative energy savings since the date through  
21   which the billing units were updated in the prior rate case. The table below demonstrates

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<sup>7</sup> Now “June 30 Joint Position.”

<sup>8</sup> Assuming a 30 month rate case cycle and 4% increases in future fixed costs

<sup>9</sup> Including modifications to reset the unrealized revenue mechanism consistent with the billing determinants use-per-customer test period and also providing for proper carrying costs.

1 how the lag on recovery simply cannot keep pace with the growing throughput  
2 disincentive and, therefore, creates systemic negative earnings caused entirely by energy  
3 efficiency programs.

(Million Dollars)	2016	2017	2018	2019	2020	2021	NPV
Throughput Disincentive*	\$6.3	\$17.1	\$16.4	\$21.2	\$5.7	\$0.0	\$58.9
Unrealized Rev. In Rates	\$4.2	\$11.4	\$10.9	\$14.2	\$3.8	\$0.0	\$39.2
Unrealized Rev. Delayed	\$0.0	\$2.1	\$5.7	\$5.5	\$7.1	\$1.9	\$18.4
Interest	\$0.0	\$0.1	\$0.4	\$0.4	\$0.5	\$0.1	\$1.2
Net Earnings Impact	(\$2.1)	(\$3.5)	\$0.6	(\$1.3)	\$5.6	\$2.0	\$0.0
Cum. NPV of Earnings	(\$2.1)	(\$5.4)	(\$4.8)	(\$5.9)	(\$1.5)	\$0.0	\$0.0

4 \*Includes an assumption of rates cases every 30 months which would include new rates effective near  
5 the end of 2017 and the middle of 2020

6 Only after the last true-up, five years later, and only if the previous two mentioned flaws  
7 were remedied, would the Company finally be made whole. Again, as explained by  
8 Ms. Barnes in her testimony, this type of lag in recovery serves as a disincentive to the  
9 Company to engage in energy efficiency and is the key component that prevents the  
10 Non-Utility Stipulation from being able to satisfy the MEEIA requirement of utility  
11 interests being aligned with helping customers use energy more efficiently.

### 12 **III. PERFORMANCE INCENTIVE**

13 **Q. Do you have concerns about the general structure of the performance**  
14 **incentive outlined in the Non-Utility Parties' Stipulation?**

15 A. Yes. Ameren Missouri's proposal has a distinct advantage because  
16 relying on net benefits provides a meaningful incentive to encourage the Company to  
17 implement programs in the most cost-effective manner. This is mutually beneficial to  
18 Ameren Missouri and to its customers. As customers get more net benefits, the Company  
19 gains more earnings. In contrast, as Ameren Missouri witness Richard Voytas discusses  
20 in greater detail in his rebuttal testimony to Non-Utility Stipulation filed today, the

1 Non-Utility Stipulation primarily incents the utility purely based on system coincident  
2 peak demand savings<sup>10</sup> without consideration for the cost of achieving them. Structuring  
3 an incentive as the Non-Utility Stipulation allows the utility to chase a reward for itself  
4 while potentially reducing the reward to customers because what it costs to achieve the  
5 savings does not matter for purposes of determining the earnings opportunity. It is  
6 obvious that an incentive model such as sharing net benefits provides rewards in a  
7 win-win fashion and that such an incentive model properly aligns incentives between the  
8 utility and its customers. Ignoring the cost side of the equation does not produce the  
9 same customer protection.

10 **Q. What are your specific criticisms of the Non-Utility Parties' proposed**  
11 **performance incentive?**

12 A. There are several key problems with the Non-Utility Stipulation's  
13 proposed incentive. First, as I have already mentioned, the Non-Utility Stipulation is  
14 proposing to abandon the net shared benefits incentive model. Second, the performance  
15 continuum is structured in a non-sensical manner, including the necessity to exceed the  
16 demand target by many hundreds of percentage points before a meaningful performance  
17 incentive can be achieved. In addition, linking the foregone earnings opportunities to the  
18 retirement of the Company's Meramec Energy Center ("Meramec") does not reflect how  
19 resource decisions are made. Using Meramec to establish the value of the foregone  
20 earnings target severely understates the Company's foregone earnings opportunities.  
21 Finally, I will note that Mr. Voytas' rebuttal testimony filed today addresses the

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<sup>10</sup> The Non-Utility Stipulation includes the possibility for a future approved performance incentive based on kWh yet there is significant doubt as to whether it would be approved by the Commission and what targets would need to be met.

1 significance of (and severe problems with) relying on a performance incentive that is  
2 primarily based on coincident demand savings.

3 **Q. Please describe why you say the performance continuum is**  
4 **non-sensical.**

5 A. There are two main aspects of the performance incentive continuum that  
6 are non-sensical. First is the inability to achieve any performance incentive below 100%  
7 of the targeted savings. The requirement to meet 100% of the target before allowing a  
8 single dollar of performance incentive simply does not reflect the reality that material  
9 levels of achievement, even if less than the target, will impact future supply-side earnings  
10 opportunities by the Company. As Ms. Barnes explains, if the Company has no earnings  
11 opportunity *at all* below the target, then it cannot value demand and supply-side  
12 resources equally because until it hits 100% of target, it is cutting its future earnings by  
13 implementing energy efficiency programs as opposed to investing in supply-side  
14 resources or other infrastructure. Second, the scale of the demand-related performance  
15 incentive is absurd. If the Company achieves 100% of target, it is only eligible for a  
16 performance incentive of \$5.8 million<sup>11</sup>. This performance incentive falls well short of  
17 what Ameren Missouri quantified as its foregone earnings opportunity and also falls well  
18 short of the \$18.75 million from Ameren Missouri's first MEEIA cycle. Only if the  
19 Company can beat the demand savings target by a staggering 520% can it hope to  
20 achieve reasonable earnings comparable to what it considers appropriate (\$30 million, as  
21 proposed in the June 30 Stipulation).

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<sup>11</sup> The \$5.8 million is based on the \$48/kW included in Ms. Kliethermes' correction to her testimony filed on July 14, 2015.

1           To further illustrate the illogical consequences of approving the performance  
2 incentive outlined in the Non-Utility Stipulation, consider that the Company would need  
3 to spend more than \$750 million<sup>12</sup> *over the next three years* to exceed the target by 520%  
4 in order to provide equivalent returns to that of the June 30 Stipulation. Furthermore, the  
5 reward per kW included in the Non-Utility Stipulation ramps up sharply after 834,000  
6 kW of savings thus providing a greater performance incentive for every kW of savings  
7 and therefore enhancing the incentive for the Company to reach even further. Yet  
8 reaching the maximum performance incentive allowed by the Non-Utility Stipulation  
9 could cost more than \$1.2 billion<sup>13</sup> over three years. It is troubling that the Non-Utility  
10 Stipulation promotes these actions. The fact that cost-effectiveness is seemingly not a  
11 factor causes even greater concern that unintended results and costs could materialize.  
12 The more likely conclusion is that the levels of demand savings included in the Non-  
13 Utility Stipulation are unachievable and therefore the performance incentive is largely  
14 illusory.

15           **Q. Do you have an illustration of the demand-based performance**  
16 **incentive outlined in the Non-Utility Stipulation?**

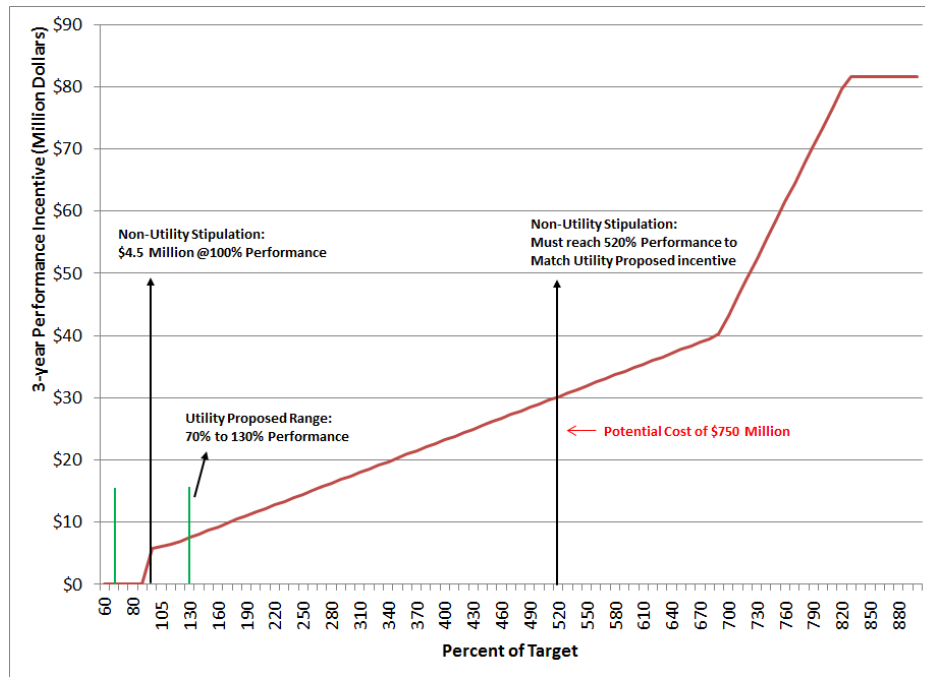
17           A. Yes, the chart below illustrates the issue. The x-axis represents the  
18 Percent of Target achieved and the lines represent the available incentive at each  
19 performance level. The red line represents the demand-based performance incentive  
20 outlined in the Non-Utility Stipulation. The green vertical bars represent the 70% to  
21 130% performance range that is in place for MEEIA 1 and that the June 30 Stipulation

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<sup>12</sup> Based on the \$1,225/kW included in Appendix A of the Non-Utility Stipulation.

<sup>13</sup> Based on the \$1,225/kW included in Appendix A of the Non-Utility Stipulation with a maximum award at 1 GW.

1 includes for MEEIA 2. It is immediately apparent that the overall range in the  
2 Non-Utility Stipulation absolutely dwarfs a more traditional performance incentive range.  
3 The chart clearly demonstrates the outrageous levels of performance that are required to  
4 achieve what the Company considers a meaningful performance incentive.



5

6 **Q. Is it appropriate to use Meramec as a basis for the performance**  
7 **incentive?**

8 A. Not at all. The relevant consideration when determining the performance  
9 incentive is what level of earnings the utility could experience absent the effects of  
10 energy efficiency; i.e., what earnings is the utility foregoing because it made a decision to  
11 invest in demand-side programs instead of in supply-side alternatives? To be clear,  
12 Meramec's retirement is being completely driven by its age as well as the costs of  
13 complying with pending and future environmental regulations. Said another way,  
14 Meramec is scheduled to retire in 2022 whether Ameren Missouri does zero energy  
15 efficiency or implements a more aggressive portfolio like the one included in the June 30

1 Stipulation. Consequently, Meramec's retirement has nothing to do with the appropriate  
2 performance incentive level.

3 **Q. Does energy efficiency accelerate the retirement of power plants?**

4 A. No. The retirement of power plants is generally a function of the plant's  
5 operating costs and the need for on-going capital investment plus the impact of current or  
6 future regulations on those costs<sup>14</sup> versus the benefits of keeping the plant operating.  
7 Energy efficiency does not play a role in this determination but energy efficiency does  
8 impact the amount and timing of the *new* resources needed to replace retired capacity.  
9 The lost earnings in the replacement plant are the relevant comparison as the foregone  
10 earnings caused by energy efficiency because energy efficiency directly impacts the need  
11 for those additional resources.

12 **Q. Do you have any additional insights about your claim that energy  
13 efficiency is not the driver of Meramec's retirement?**

14 A. Yes. Consider the fact that the decision regarding Meramec's operations  
15 was considered a completely independent attribute when developing alternative resource  
16 plans for Ameren Missouri's Integrated Resource Plan ("IRP"). The figure below, taken  
17 from Ameren Missouri's 2014 IRP<sup>15</sup>, highlights this clearly since it shows the "Meramec  
18 Retirement Options" attribute in addition to the independent attributes of both "Energy  
19 Efficiency" and "Demand Response." In fact, Ameren Missouri conducted a pre-analysis  
20 of the Meramec Retirement Options in isolation, which held all other plan attributes  
21 constant; thus demonstrating the independence of the retirement decision from the

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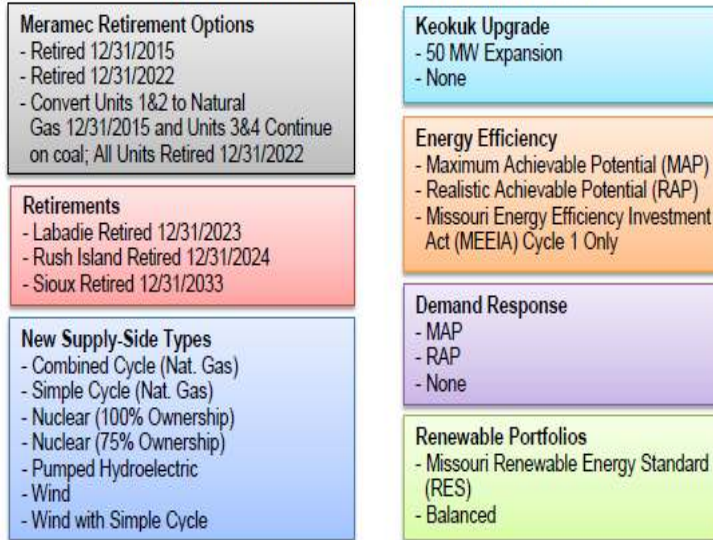
<sup>14</sup> The power plant's age and other such information are also relevant. The factors listed above are generally meant to encompass the quantitative variables for an economic analysis.

<sup>15</sup> Chapter 9, p. 2, of Ameren Missouri's 2014 IRP.



- 1 implementation of other resource options, including independence from whether or not
- 2 investments in energy efficiency are made.

**Figure 9.1 Attributes of Alternative Resource Plans**

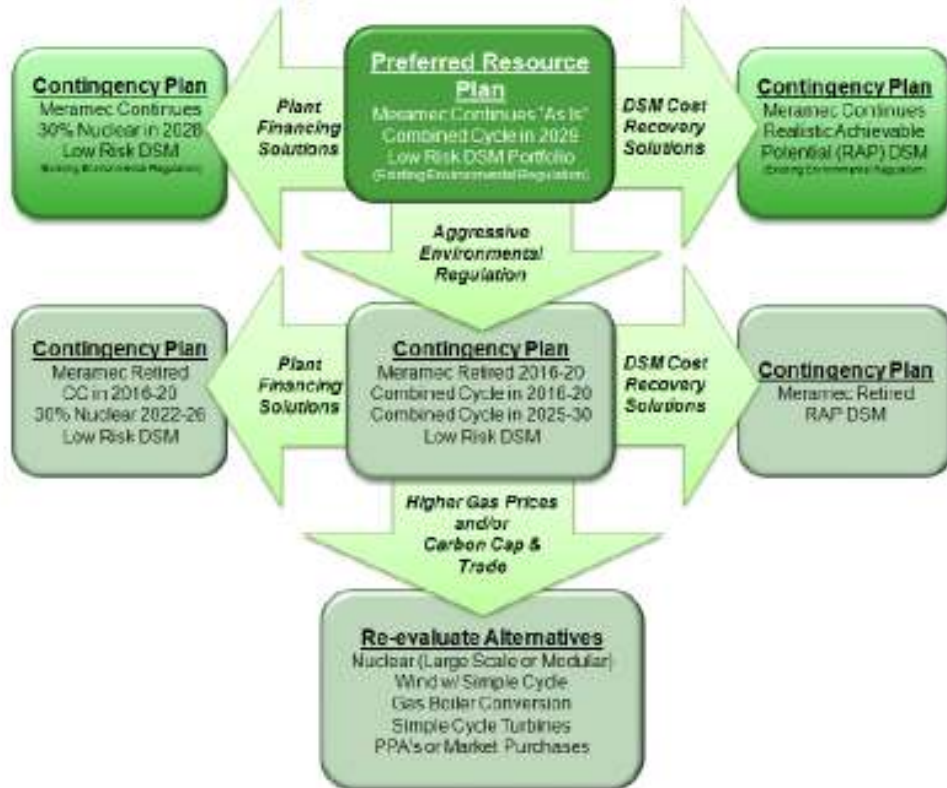


3

4 Furthermore, consider the decision-making diagram from Ameren Missouri's  
5 2011 IRP below<sup>16</sup>. It clearly shows that environmental regulations are the deciding factor  
6 in when to retire Meramec. In addition, the diagram below also demonstrates the  
7 independence of Meramec's retirement decision from energy efficiency because the  
8 retirement of Meramec is unchanged whether or not there were constructive "DSM Cost  
9 Recovery Solutions" (which determines the amount of energy efficiency to pursue).

<sup>16</sup> Chapter 1, p. 21. of Ameren Missouri's 2011 IRP.

Figure 1.15 Decision Roadmap



1

2

**Q. Is the 2027 retirement date referenced by Ms. Kliethermes a retirement date that Ameren Missouri has considered in its resource planning?**

3

4

A. No, it is not. It is my understanding that the 2027 retirement date for Meramec was used for setting the Company's depreciation rates in Case No. ER-2010-0036. Ameren Missouri's current preferred resource plan has Meramec retiring at the end of 2022 and the Commission-approved new depreciation rates for Meramec based on the 2022 retirement date in the Company's latest rate case, Case No. ER-2014-0258. These facts, in addition to the fact that the 2027 retirement date was never considered in Ameren Missouri's resource planning, is further proof that energy efficiency could not possibly be the driver of the change in future earnings caused by changing the depreciation rates from a retirement date of 2027 to 2022.

12

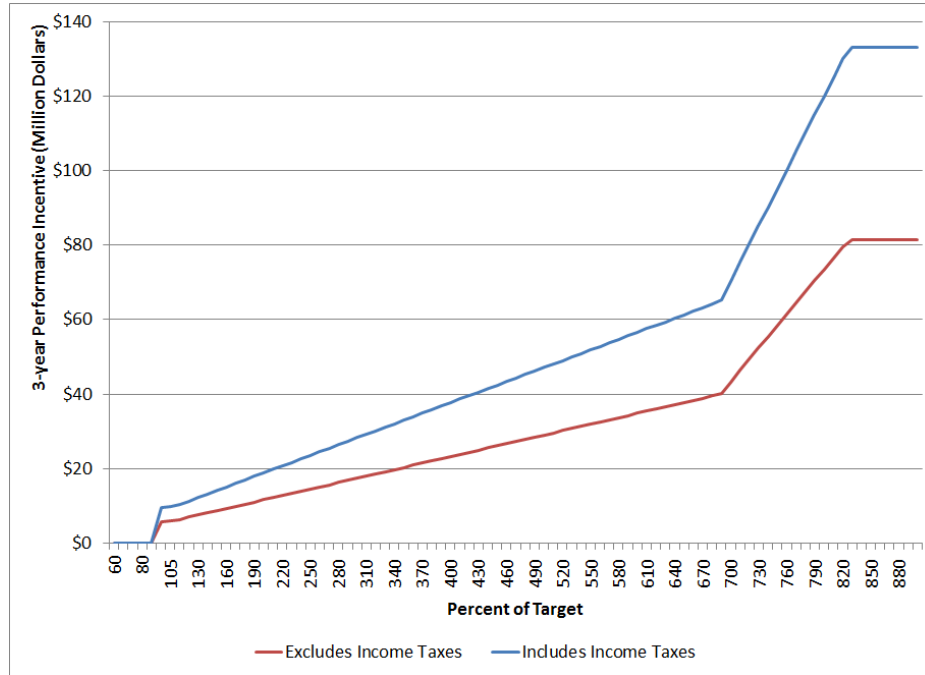
1           **Q. Ignoring whether Meramec is a rational target for future earnings**  
2 **opportunities, are there any material flaws in Ms. Kliethermes’ calculation of the**  
3 **foregone earnings opportunity?**

4           A. Yes. Initially there were two flaws: 1) Ms. Kliethermes was estimating  
5 the so-called “demand-related” performance incentive by assuming Meramec retirement  
6 would be accelerated from **2030 to 2026** due to energy efficiency. After the Company  
7 sent data requests, Ms. Kliethermes apparently recognized her mistake and attempted to  
8 correct the first flaw by revising these dates to be 2027 and 2022. As explained earlier,  
9 the Company already plans to retire Meramec in 2022 and its depreciation rates are  
10 already set accordingly, regardless of implementation of DSM programs. Therefore, her  
11 revision in the retirement dates still does not result in an accurate analysis for  
12 performance incentive calculations; 2) Ms. Kliethermes has completely failed to account  
13 for the income tax on the earnings she claims would exist. Said another way,  
14 Ms. Kliethermes’ analysis calculates the after-tax (i.e., as if income taxes have already  
15 been paid) earnings opportunity but does not gross-up the proposed performance  
16 incentive to reflect the fact that Ameren Missouri would need to pay taxes on the  
17 awarded performance incentive. Basically, this mistake alone understates the  
18 performance incentive by more than 60%<sup>17</sup>. The chart below shows the understated  
19 demand-based performance incentive as outlined in the Non-Utility Stipulation (red line)  
20 and the same performance incentive plus the associated income taxes (blue line). To be

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<sup>17</sup> The Non-Utility Stipulation, as corrected by Ms. Kliethermes on July 14, 2015, peak demand savings performance incentive of \$48/kW is missing Ameren Missouri’s marginal State and Federal income taxes at a rate of 38.39% which, if included, would increase the peak demand performance incentive to \$78/kW. At 100% performance that would translate to about \$9.4 million as opposed to the understated and corrected Non-Utility Stipulation amount of about \$5.8 million.

1 clear, the Company's proposed performance incentive in the June 30 Stipulation includes  
2 income taxes. Clearly income taxes need to be accounted for which is entirely consistent  
3 with traditional ratemaking practice.



4

5 **Q. Why is the incentive level proposed by the Non-Utility Stipulation**  
6 **insufficient compared to the Company's foregone earnings associated with**  
7 **implementing energy efficiency programs?**

8 A. Ameren Missouri has performed a careful analysis of the direct foregone  
9 earnings associated with implementing energy efficiency; that is, what would the supply-  
10 side investments be if Ameren Missouri did not implement energy efficiency versus the  
11 supply-side investments after implementing energy efficiency? The difference between  
12 these two earnings opportunities indicated that a \$23 million *annual* performance  
13 incentive is justified<sup>18</sup>. The June 30 Stipulation is requesting a \$30 million *total*  
14

<sup>18</sup> MEEIA 2 Report, p. 40.

1 performance incentive, which is less than half of what it considers its foregone earnings.  
2 In addition, the Company has not even considered the foregone earnings associated with  
3 the foregone transmission and distribution expansion implied by its quantified avoided  
4 transmission and distribution costs. In short, the Company has been quite conservative in  
5 its performance incentive request.

6 **Q. Please summarize your testimony.**

7 A. The Non-Utility Stipulation fails to make the utility whole financially for  
8 its energy efficiency efforts, fails to provide adequate financial incentives to value  
9 demand-side resources equivalent to supply-side resources, and further fails to provide a  
10 win-win performance incentive structure. The June 30 Stipulation represents the basic  
11 continuation of the Company's existing cost recovery structure, has addressed most of the  
12 concerns raised by the parties in this case, and therefore should be approved as a  
13 reasonable framework to keep energy efficiency working in the state of Missouri.

14 **Q. Does this conclude your rebuttal testimony in response to the Non-**  
15 **Utility Stipulation?**

16 A. Yes, it does.

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


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

**AFFIDAVIT OF WILLIAM R. DAVIS**

**STATE OF MISSOURI** )  
 ) ss  
**CITY OF ST. LOUIS** )

William R. Davis, being first duly sworn on his oath, states:

1. My name is William R. Davis. I work in the City of St. Louis, Missouri, and I am employed by Union Electric Company d/b/a Ameren Missouri as Economic Analysis and Pricing Manager.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony to Non-Utility Stipulation on behalf of Union Electric Company d/b/a Ameren Missouri consisting of 20 pages and Schedule(s) N/A, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

  
William R. Davis

Subscribed and sworn to before me this 15<sup>th</sup> day of July, 2015.

  
Notary Public

My commission expires:  
2-21-18

