

Exhibit No.:
Issues: Demand Side Management
Rate Design
Witness: Laura Wolfe
Sponsoring Party: Missouri Department of
Natural Resources – Division
of Energy
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2011-0028

SURREBUTTAL TESTIMONY

OF

LAURA WOLFE

MISSOURI DEPARTMENT OF NATURAL RESOURCES

DIVISION OF ENERGY

APRIL 15, 2011

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

UNION ELECTRIC COMPANY, d/b/a AMEREN MISSOURI

RATE CASE

CASE NO. ER-2011-0028

TABLE OF CONTENTS

I.	INTRODUCTION_____	1
II.	DEMAND SIDE MANAGEMENT PROGRAM COST RECOVERY_____	2
III.	ALTERNATIVE PROPOSAL TO REMOVE THROUGHPUT DISINCENTIVE_	4
IV.	LOW INCOME WEATHERIZATION_____	7
V.	LIGHTING AND APPLIANCE PROGRAM COSTS_____	9

1 **I. INTRODUCTION**

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

3 A. My name is Laura Wolfe. My business address is Missouri Department of Natural
4 Resources (“MDNR”), Division of Energy, 1101 Riverside Drive, P.O. Box 176,
5 Jefferson City, Missouri 65102-0176.

6 **Q. Are you the same Laura Wolfe who filed Direct Testimony and Rebuttal**
7 **Testimony on behalf of the Missouri Department of Natural Resources, Division**
8 **of Energy in this case?**

9 A. Yes, I am.

10 **Q. What is the purpose of your surrebuttal testimony in this proceeding?**

11 A. The purpose of my surrebuttal testimony is to address the following issues:

- 12 • the recommendations for Demand Side Management (“DSM”) program cost
13 recovery of Missouri Energy Group (“MEG”) witness Ms. Billie Sue Laconte
14 and Staff witness Mr. John Rogers,
- 15 • the alternative method to address the throughput disincentive proposed by
16 AmerenMO witness Mr. William Davis,
- 17 • the low income weatherization program recommendations of Union Electric
18 Company d/b/a Ameren Missouri’s (“AmerenMO”) witness Mr. Daniel
19 Laurent, and
- 20 • Staff’s continuing reliance on the evaluation, measurement and verification
21 (“EM&V”) study of AmerenMO’s Lighting and Appliance Program to
22 determine prudence.

23

1 **II. DEMAND SIDE MANAGEMENT PROGRAM COST RECOVERY**

2 **Q. What is your concern for the recovery of DSM program costs recommended by**
3 **MEG witness Ms. Billie Sue Laconte?**

4 A. Ms. Laconte's argument is not unlike the position presented by Missouri Industrial
5 Energy Consumers ("MEIC") witness Mr. Maurice Brubaker in his direct testimony,
6 which I addressed in rebuttal testimony. Timely cost recovery is an important
7 incentive for utilities to pursue all cost-effective DSM. Requiring utilities to recover
8 the costs of providing cost-effective DSM programs over unreasonable lengths of time
9 creates a disincentive for utilities to pursue all cost effective DSM. Applying a ten
10 year amortization to the recovery of the costs of DSM programs creates a disincentive
11 for AmerenMO to pursue all cost effective DSM savings. Subjecting the costs
12 associated with DSM programs to lengthy amortizations on the premise that that is
13 equal treatment to supply assets fails to recognize that not all supply side investments
14 result in supply assets, or that investment in DSM programs does not result in demand
15 side assets for AmerenMO. Briefly allow me to reiterate my position as detailed in my
16 rebuttal testimony:

17 Depreciation is the recovery of the original cost over the estimated life of the
18 fixed assets such as plant and equipment.¹ Amortization is similar to depreciation, but
19 it is not as directly tied to an estimated life. Amortization is the accounting procedure
20 that gradually reduces the cost value of a limited life or intangible asset through
21 periodic charges to income.^{2, 3} An asset is defined as an economic resource that is

¹ <http://financial-dictionary.thefreedictionary.com/depreciation>

² <http://financial-dictionary.thefreedictionary.com/amortization>

³ Electronic Code of Federal Regulations, Title 18: Conservation of Power and Water Resources, *Part 101 Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act,*

1 expected to provide benefits to a business and has three vital characteristics: (1) future
2 probable economic benefit; (2) control by the entity; and (3) results from a prior event
3 or transaction.⁴ Or, more briefly, an asset is “anything having commercial or exchange
4 value that is owned by a business, institution, or individual.”⁵

5 Like Mr. Brubaker, Ms. Laconte is equating supply side *resources* to supply side
6 *assets* and asserting that demand side resources be treated the same as supply side
7 *assets*. As I detailed in rebuttal, it is very important to realize that AmerenMO pays
8 only a small portion of the cost to install energy efficiency measures, with customers
9 paying the majority of the costs and owning the measures, and that the incentive costs
10 associated with providing DSM measures to customers do not acquire assets for the
11 utility. AmerenMO can not control the use and maintenance of the DSM measure; the
12 customer does. AmerenMO has no access to a commercial or exchange value for
13 individual DSM measures, nor does AmerenMO have any interest in the real or
14 personal property that results from a DSM measure. In short, AmerenMO does not
15 own the DSM measures that are installed through DSM programs.

16 **Q. What is MDNR’s position on the use of amortization to recover DSM program**
17 **costs?**

18 A. DNR’s position is unchanged from that stated in direct testimony and rebuttal
19 testimony: cost-effective demand side management economically reduces energy
20 consumption. The State of Missouri has recognized the value of implementing cost
21 effective DSM programs in the Missouri Energy Efficiency Investment Act

<http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=a1c36a909490a7f1508137221b50c2c6&rgn=div5&view=text&node=18:1.0.1.3.34&idno=18>

⁴ <http://financial-dictionary.thefreedictionary.com/asset>

⁵ *Ibid.*

1 (“MEEIA”). Lengthy amortization of utility DSM costs provides a clear disincentive to
2 utility investment in DSM that is inconsistent with the MEEIA. As stated in direct
3 testimony, MDNR’s position is that utilities achieving the goals of investing in all cost
4 effective DSM should be allowed to expense program costs.⁶

5 **Q. AmerenMO witness Mr. William Davis reiterated in his rebuttal testimony**
6 **AmerenMO’s recommendation to apply a three (3) year amortization to DSM**
7 **program costs. Do you wish to comment on this recommendation?**

8 A. Yes. MDNR supports the removal of disincentives for utilities to implement and
9 administer all cost effective DSM including the above stated untimely recovery of
10 program costs caused by lengthy amortization periods. AmerenMO is the most fit to
11 articulate the disincentives it experiences and make recommendations for the removal
12 of those disincentives. As stated previously in my direct testimony, AmerenMO has
13 demonstrated success to-date with its DSM programs. AmerenMO has identified a
14 three year amortization as necessary to continue to pursue DSM, although, as I will
15 discuss in more detail below, not at a level that MDNR believes will capture all cost
16 effective DSM. This is a step toward timely program cost recovery, and MDNR
17 supports AmerenMO’s recommendation.

18
19 **III. ALTERNATIVE PROPOSAL TO REMOVE THROUGHPUT DISINCENTIVE**

20 **Q. Do you support the alternative method to the Fixed Cost Recovery Mechanism to**
21 **address the throughput disincentive as proposed by AmerenMO witness Mr.**
22 **William Davis in his rebuttal testimony?**

⁶ Section 393.1124, RSMo.

1 A. While the alternative proposal is conceptually intriguing, there are a number of issues
2 that require modification or clarification before MDNR could recommend this
3 mechanism. Reducing the billing units to reflect reductions in sales due to installed
4 energy efficiency measures may be a reasonable method on a pilot or experimental
5 basis for a fixed period of time for AmerenMO to address the throughput disincentive
6 under the MEEIA statute, without consideration for the MEEIA rules as proposed.
7 However, for the method to be transparent, several issues must be clarified.

8 **Q. What must be clarified?**

9 A. First of all, Mr. Davis states that for AmerenMO to continue to spend \$25 million
10 annually on DSM programs, the adjustment to the billing units would need to be
11 250,951 MWh for the residential class, and for the Small General Service, Large
12 General Service, Small Primary Service, and Large Primary Service classes the
13 reduction would need to be 227,678 MWh.⁷ The origins of these adjustment amounts
14 is not clear; information on how those numbers were calculated should be provided.

15 Secondly, Mr. Davis mentions using a true-up mechanism to correct for any over
16 collection related to the DSM billing adjustment in order to keep customers whole if
17 AmerenMO's energy efficiency programs don't obtain the level of MWh savings
18 which is anticipated.⁸ Clarification of how the savings will be calculated for installed
19 energy efficiency measures is needed, as well as the method of refunding over
20 collections or recouping under-collections.

21 **Q. Mr. Davis states that the "\$25 million annual spending level is approximately the**
22 **average level of expenditures over the 2008 IRP implementation plan (2009-2011)**

⁷ Davis Rebuttal, page 6.

⁸ Davis Rebuttal, page 7.

1 **and is predicated upon the billing unit adjustment” proposed. Do you think that**
2 **\$25 million annual expenditures, the average level of expenditures over the last**
3 **three years, is the appropriate amount to use to determine the billing unit?**

4 A. No, I do not. MDNR believes that if the Commission allows AmerenMO to employ
5 this methodology to eliminate the throughput disincentive, AmerenMO should
6 continue to grow its DSM programs. In AmerenMO’s recently filed IRP, AmerenMO
7 identified much more cost effective DSM potential than would be achieved by its
8 proposed \$25 million annual expenditures. That amount of expenditures suggested by
9 AmerenMO is only slightly higher than with the “Low Risk” plan in its IRP.⁹
10 However, the “RAP Plan” from the IRP includes significant additional energy savings
11 and spending levels for DSM programs that are cost effective.¹⁰ If the Commission is
12 inclined to authorize this methodology, MDNR recommends that it be applied in a
13 manner that would achieve the savings identified in the RAP Plan.

14 **Q. Do you support the concept of this methodology to remove the throughput**
15 **incentive?**

16 A. As long as AmerenMO structures it to mirror the RAP plan from the IRP in energy
17 savings, clearly details the determination of the billing unit adjustment, and clearly
18 defines how the savings achieved will be measured for the true up, MDNR can support
19 a pilot or experimental use of this methodology for a fixed amount of time.

20

⁹ Missouri Public Service Commission Case No. EO-2011-0271, *In the Matter of Union Electric Company’s 2011 Utility Resource Filing Pursuant to 4 CSR 240 – Chapter 22*, Electric Utility Resource Filing of Union Electric Company d/b/a Ameren Missouri, Chapter 7, page 1.

¹⁰ Missouri Public Service Commission Case No. EO-2011-0271, *In the Matter of Union Electric Company’s 2011 Utility Resource Filing Pursuant to 4 CSR 240 – Chapter 22*, Chapter 1 - Executive Summary, Figures 1.2 Annual Budgets and Figure 1.3 Annual Saving on page 8, and Chapter 7 – Demand-Side Resource, Figure 7.39 Cumulative EE Savings (Peak MW) on page 119 and Figure 7.40 Cumulative DR Savings (Peak MW) on page 120.

1 **IV. LOW INCOME WEATHERIZATION**

2 **Q. AmerenMO witness Mr. Daniel Laurent noted several recommendations in his**
3 **rebuttal testimony regarding the Low Income Weatherization Program. The first**
4 **recommendation is for “DNR [to] provide quarterly reporting at the regulatory**
5 **stakeholder update meetings to show the estimated electric energy savings at**
6 **customer homes and the associated costs resulting from this program.” Do you**
7 **have any comments regarding this recommendation?**

8 A. Yes, I do. Consistent with the Cooperative and Funding Agreement dated August 14,
9 2007, and signed by AmerenMO (Union Electric Company d/b/a AmerenUE), the
10 Missouri Public Service Commission, the Environmental Improvement and Energy
11 Resources Authority (EIERA) and MDNR, the MDNR’s Division of Energy provides a
12 quarterly report to each of the above listed parties, as well as the Office of Public
13 Counsel, that details the expenditures by month and by service-providing agency. The
14 quarterly report also contains estimated kWh savings, as determined by the National
15 Energy Audit Tool (NEAT) which is used to determine that weatherization measures
16 are cost-effective prior to installation. The quarterly report is not considered a
17 proprietary or highly confidential document and AmerenMO is able to share the report
18 with stakeholders at its quarterly stakeholder meetings. Members of the staff of
19 MDNR Division of Energy participate in AmerenMO’s stakeholder meetings,
20 providing updates on MDNR’s ARRA programs and will continue to do so at the
21 request of AmerenMO.

22 **Q. Another recommendation by Mr. Laurent for the Low Income Weatherization**
23 **Program is that AmerenMO’s funds of “\$1.2 million per year should not be spent**

1 **on gas measures or on Missouri residents that are not Ameren Missouri electric**
2 **customers.” Do you have any comments regarding this recommendation?**

3 A. Yes. The agencies that provide low income weatherization services in the AmerenMO
4 territory are required to confirm the provider of the service recipient’s energy, and
5 AmerenMO funds are used only for weatherizing AmerenMO electric customers’
6 homes. The low income weatherization assistance program employs a whole-house
7 approach to improving the energy efficiency of the home. Many of the weatherization
8 measures that are installed are not electric-specific or natural gas-specific. For
9 example, installing insulation or minimizing infiltration with caulking will improve
10 both electric and natural gas energy efficiency. The agencies do not engage in any
11 parsing of the savings and associated costs between the two energy sources, and to do
12 so would create an unreasonable administrative burden. MDNR recommends the
13 Commission allow MDNR to continue to administer AmerenMO annual \$1.2 million
14 low income weatherization funds as it has to date, consistent with the Federal
15 Weatherization Assistance Program as administered by the US Department of
16 Energy.¹¹

17
18 **V. LIGHTING AND APPLIANCE PROGRAM COSTS**

19 **Q. Staff witness Mr. John Rogers reiterated in his rebuttal testimony the**
20 **recommendation that “the L&A expenses remain in the DSM regulatory asset**
21 **pending Staff’s review of the EMV report for the L&A” stating that “[s]hould**
22 **Staff receive the EMV report for the L&A as expected, Staff will review the EMV**

¹¹ Department of Energy, Weatherization Assistance Program, <http://www1.eere.energy.gov/wip/wap.html>

1 **report and, depending on the results and the evaluation techniques used by the**
2 **EMV contractor, may recommend that some or all of the L&A costs be included**
3 **in the test year true-up revenue requirement for this case.”¹² Do you have any**
4 **comments regarding this recommendation?**

5 A. Yes, I do. As stated in my rebuttal testimony, an evaluation, measurement,
6 and verification study (“EM&V”) will not determine if expenditures for the DSM
7 program were prudent, or imprudent. The EM&V of a DSM program seeks to
8 demonstrate the value of energy efficiency programs by providing accurate, transparent
9 and consistent assessments of methods and performance.¹³ An evaluation that
10 determines that a program is not performing as anticipated is not proof of imprudent
11 expenditures, but rather a lesson learned that could lead to program changes to improve
12 the performance. MDNR opposes delay of recovery of Ameren’s expenditures on the
13 L&A program on this basis. The funds were expended, the energy efficient lights and
14 appliances were installed, and savings are occurring.

15 Since the filing of rebuttal testimony in this case, AmerenMO has provided the
16 EM&V report for the Lighting and Appliance Program. In brief, the report states that
17 the program "exceeded its goals for CFL sales and savings during PY2" and that the
18 "evaluation found evidence that market transformation is occurring". However,
19 nowhere in the report is there a determination that the costs were prudent or imprudent,
20 because that is not the purpose of the evaluation. The program was operated consistent
21 with a tariff approved by the Commission. MDNR recommends that the Commission

¹² Rogers Rebuttal, page 17.

¹³ American Council for an Energy-Efficient Economy, “Evaluation, Verification, and Measurement:”,
<http://www.aceee.org/topics/emv>

1 reject Staff's recommendation to delay the amortization and recovery of the program
2 costs of the Lighting and Appliance Program. Staff has provided no proof the
3 expenditures were imprudent. There is no reason to delay the recovery of costs
4 incurred by Ameren MO to implement and administer this program.

5 **Q. Does this conclude your testimony?**

6 A. Yes.