**GMO-240**

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| Exhibit No.: | |
| Issue: | FAC, Energy Efficiency and DSM Programs |
| Witness: | John A. Rogers |
| Sponsoring Party: | MoPSC Staff |
| Type of Exhibit: | Rebuttal Testimony |
| File No.: | ER-2010-0356 |
| Date Testimony Prepared: | December15, 2010 |

# MISSOURI PUBLIC SERVICE COMMISSION

# UTILITY SERVICES DIVISION

# REBUTTAL TESTIMONY

# OF

# JOHN A. ROGERS

# KCP&L GREATER MISSOURI OPERATIONS COMPANY

# FILE NO. ER-2010-0356

*Jefferson City, Missouri*
*December 15, 2010*

** **Denotes Highly Confidential Information** **

**NP**

Staff Exhibit No. GMO-240
Date 1/18/11 Reporter LMB
File No. ER-2010-0356

## BEFORE THE PUBLIC SERVICE COMMISSION

## OF THE STATE OF MISSOURI

| | | |
|---|---|---|
| In the Matter of the Application of | ) | |
| KCP&L Greater Missouri | ) | |
| Operations Company for Approval | ) | File No. ER-2010-0356 |
| to Make Certain Changes in its | ) | |
| Charges for Electric Service | ) | |

### AFFIDAVIT OF JOHN A. ROGERS

**STATE OF MISSOURI** )
) **ss**
**COUNTY OF COLE** )

John A. Rogers, of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 33 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

John A Rogers
John A. Rogers

Subscribed and sworn to before me this 15th day of December, 2010.

SUSAN L. SUNDERMEYER
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: October 03, 2014
Commission Number: 10942086

Susan L Sundermeyer
Notary Public

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**OF**

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**REBUTTAL TESTIMONY**

**OF**

**JOHN A. ROGERS**

**KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**FILE NO. ER-2010-0356**

Q. Please state your name and business address.

A. My name is John A. Rogers, and my business address is Missouri Public Service Commission, P. O. Box 360, Jefferson City, Missouri 65102.

Q. What is your present position at the Missouri Public Service Commission?

A. I am a Utility Regulatory Manager in the Energy Department of the Utility Operations Division.

Q. Are you the same John A. Rogers that contributed to Staff's Revenue Requirement Cost of Service Report (COS Report) filed on November 17, 2010 and Staff's Class Cost of Service Report (CCOS Report) filed on December 1, 2010?

A. Yes, I am.

Q. Would you please summarize the purpose of your rebuttal testimony?

A. I address certain direct testimony of: 1) KCP&L Greater Missouri Operations Company's (GMO or Company) witness, Tim M. Rush, related to: a) GMO's request to include transmission expenses in GMO's Fuel Adjustment Clause (FAC), b) GMO's proposal to not re-base the Base Fuel Cost in GMO's FAC, and c) GMO's lack of commitment to continue its current and to implement its planned GMO energy efficiency and demand response (demand-side, demand-side management or DSM) programs ; and 2) Southern Union Company, d/b/a, Missouri Gas Energy's (MGE) witness, John J. Reed, related to Mr.

Reed's proposed fuel switching program as a GMO energy efficiency program. On these issues Staff makes the following recommendations:

1. Staff recommends that the Commission not approve GMO's request to include transmission expenses in its FAC, because the transmission expenses GMO proposes to include in its FAC are not consistent with the definition of fuel and purchased power costs in Commission Rule 4 CSR 240-20.090(1)(B).

2. Staff recommends that GMO's FAC be re-based in this rate case and that the Base Energy Cost in the FAC be set equal to the Base Energy Cost in the test year true-up total revenue requirement for this rate case, so GMO neither benefits nor is penalized by the two Base Energy Costs—FAC and revenue requirement—being different in this rate case.

3. Because of the uncertainty GMO has created about continuing and adding DSM programs that are in its last adopted preferred resource plan—its adopted preferred resource plan in Case No. EE-2009-0237—Staff recommends that the Commission direct GMO to comply with the expressed legislative goal of achieving all cost-effective demand-side savings stated in the Missouri Energy Efficiency Investment Act (MEEIA), Section 393.1075, RSMo. Supp. 2009 by: a) filing with the Commission written documentation for each (current and planned) DSM program included in its last adopted preferred resource plan explaining how it plans to meet the MEEIA goal of achieving all cost-effective demand-side savings when it is curtailing its current programs and not adding the new programs in its adopted preferred resource plan, or b) continuing to fund and promote, or implement, the DSM programs in its last adopted preferred resource plan; and

4. Because: a) GMO has not included the fuel switching program proposed by MGE witness Mr. Reed in a Chapter 22 Electric Utility Resource Planning integration analysis, and b) the proposed fuel switching program is not being proposed by GMO, but by a competitor of GMO that would benefit from such a fuel switching program, Staff recommends that the Commission not approve the fuel switching program proposed by Mr. Reed.

**Response to GMO's Testimony: GMO's Proposal to Include Transmission Expenses in Its FAC**

Q. To which parts of Mr. Rush's testimony do you provide rebuttal testimony?

A. There are several. I first provide rebuttal testimony related to the following direct testimony by Mr. Rush:

1. Page 6, lines 1 through 3:

Q. Is the Company requesting to continue the FAC?
A. Yes. The FAC is made up of fuel and purchased power expense plus proposed addition of increasing transmission costs; ...

2. Page 19, lines 9 through 13:

Q. What is the Company proposal regarding a transmission tracker?
A. In the event the Commission denies the requested change to the FAC mechanism outlined on Schedule TMR2010-1 FAC 4CSR240, whereby transmission costs are included in the FAC, the Company requests that a transmission tracking mechanism be authorized in this rate proceeding for the purpose of ensuring appropriate recovery of transmission costs.

Q. Does Staff oppose the inclusion of transmission expenses in GMO's FAC?

A. Yes.

Q. Why?

A. Commission Rule 4 CSR 240-20.090(1)(B) defines fuel and purchased power costs:

(B) Fuel and purchased power costs means prudently incurred and used fuel and purchased power costs, including transportation costs. Prudently incurred costs do not include any increased costs resulting from negligent or wrongful acts or omissions by the utility. If not inconsistent with a commission approved incentive plan, fuel and purchased power costs also include prudently incurred actual costs of net cash payments or receipts associated with hedging instruments tied to specific volumes of fuel and associated transportation costs.

1. If off-system sales revenues are not reflected in the rate adjustment mechanism (RAM), fuel and purchased power costs only reflect the prudently incurred fuel and purchased power costs necessary to serve the electric utility's Missouri retail customers.

2. If off-system sales revenues are reflected in the RAM, fuel and purchased power costs reflect both:

A. The prudently incurred fuel and purchased power costs necessary to serve the electric utility's Missouri retail customers; and

B. The prudently incurred fuel and purchased power costs associated with the electric utility's off-system sales;

In responses to Staff Data Requests Nos. 0250 and 0252, GMO provided Staff the following definitions for the FERC accounts and subaccounts (listed in Schedule TMR2010-4 of GMO witness Tim M. Rush) GMO proposes for inclusion in its FAC (emphasis added):

Question No. :0250
Please describe in detail the expenses included in FERC account numbers 561.400, 561.800, 565.000, 565.020, 565.021, 565.027, 565.030, 575.700, and 928.003 for GMO. Additionally, please provide the name and full description of each subaccount.

RESPONSE:
561.400 Transmission Operations Scheduling, System Control and Dispatching Services
This account includes the expenses received from the *monthly RTO administration fees for scheduling, control and dispatching services.*

561.800 Transmission Operations Reliability Planning and Standards Development Services
This account includes the expenses received from the *monthly RTO reliability planning and standard development services.*

565.000 Transmission of Electricity by Others
This account includes the expenses incurred by GMO for *electricity by others and base plan funding charges.*

565.021 Transmission Operations Electric Transmission Interunit

This account includes the expenses incurred by GMO for *joint dispatch operations between MPS and L&P.*

565.027 Transmission Operations Electric Transmission Demand
This account includes the expenses incurred by GMO for *transmission capacity charges of electricity by others.*

565.030 Transmission Operations Electric Transmission OffSystem
This account includes the expenses incurred by GMO for *wholesale charges of electricity by others.*

575.700 Market Administration, Monitoring and Compliance Services
This account includes the expenses received from the *monthly RTO administration fees for marketing administration, monitoring and compliance services.*

928.003 Regulatory Commission Expenses
This account includes the *FERC assessed expenses incurred by GMO.*

Question No. :0252
Please describe in detail the expenses included in FERC account 561, including all subaccounts.

RESPONSE:
561.000 Transmission Operations Load Dispatching
This account includes *labor and other costs incurred by GMO to operate, route and test microwave equipment.*

561.100 Transmission Operations Load Dispatching Reliability
This account includes *costs incurred by GMO to manage the region-wide reliability coordination function.*

561.200 Transmission Operations Load Dispatching Monitoring and Operations
This account includes *labor and other costs incurred by GMO to monitor, assess and operate the transmission system to ensure the system's reliability.*

561.300 Transmission Operations Load Dispatching Services and Scheduling
This account includes *labor and other costs incurred by GMO to process hourly, daily and monthly transmission service request using an automated system such as an Open Access, Same-Time Information System (OASIS).*

561.400 Transmission Operations Scheduling, System Control and Dispatching Services
This account includes the expenses received from the *monthly RTO administration fees for scheduling, control and dispatching services.*

561.500 Transmission Operations Reliability, Planning and Standards Development
This account includes the cost of *labor and other costs incurred by GMO for the system planning of the interconnected bulk electric transmission systems within a planning authority area.*

561.600 Transmission Operations Service Studies
This account includes *costs incurred by GMO to have Southwestern Power Pool conduct feasibility studies for transmission service requests.*

561.800 Transmission Operations Reliability Planning and Standards Development Services
This account includes the expenses received from the *monthly RTO reliability planning and standard development services.*

Q. What do you conclude from the definition of fuel and purchased power costs in Commission Rule 4 CSR 240-20.090(1)(B) and the definitions for the FERC accounts and subaccounts for transmission expenses GMO provided in response to Staff's Data Requests 0250 and 0252?

A. The transmission expenses are primarily for GMO's Southwest Power Pool (SPP) costs (generally for administration fees, reliability planning studies and standards, operation of the regional transmission system, FERC assessed expenses, and wholesale and transmission capacity charges by others) which SPP allocates and assigns to GMO, and are not consistent with the definition of fuel and purchased power costs in Commission Rule 4 CSR 240-20.090(1)(B). Further, from the definitions for the transmission accounts, Staff does not expect that the level of GMO's transmission expenses will be directly related to the level of GMO's fuel and purchased power costs less off-system sales revenue in its current FAC, with the possible exception of account 565.021 for SPP expenses assigned to GMO for joint dispatch operations between MPS and L&P.

Q. What is Staff's recommendation concerning GMO's proposal to include transmission expenses in its FAC?

A. Staff recommends that the Commission not approve GMO's request to include transmission expenses in its FAC, because the transmission expenses GMO proposes be included in its FAC are not consistent with the definition of fuel and purchased power costs in Commission Rule 4 CSR 240-20.090(1)(B).

Q. Does Staff have any other recommendations concerning GMO's transmission expenses in this case?

A. Yes. Staff witness Dan I. Beck recommends in the Staff's COS Report that the Commission authorize GMO to use two transmission expense and revenue trackers, one for MPS and one for L&P. Should the Commission decide to not approve transmission expense and revenue trackers for MPS and L&P, it is still Staff's recommendation that transmission expenses and revenues of MPS and L&P not be included in the GMO FAC for the reasons discussed above.

**Rebasing FAC Base Energy Costs**

Q. What is the second issue raised by Mr. Rush in his direct testimony to which you wish to respond?

A. His testimony is on Page 6, lines 9 through 15 about GMO not seeking to change the Base Energy Cost per kWh rates in its FAC except to add amounts for transmission expenses:

> Q. Is the Company proposing to change the base amounts included in the [FAC] tariff?
> A. The Company is not proposing to re-base the FAC. The current base amounts are $0.02348 per kWh net system input for MPS and $0.0164 per kWh net system input for L&P. The proposed base amounts are $0.02626 per kWh net system input for MPS and $0.01715 per kWh net system input for L&P. The changes proposed are due to adjustments made to the current base amounts to include new costs which are being proposed as additions to the FAC within this case.

Q. Does Staff agree with GMO's proposal to not change the Base Energy Cost per kWh rates for its FAC except to add transmission expenses to the FAC?

A. No.

Q. Why not?

A. As I explain in my direct testimony (Staff's COS Report at page 199 line 7 through page 201 line 2), correctly setting the Base Energy Cost in FAC tariff sheets is critical to both a good FAC and a good FAC sharing mechanism. The Base Energy Cost in a FAC must be equal to the Base Energy Cost in the test year total revenue requirement for the company in the rate case to assure that the company neither benefits nor is penalized as a result of these two Base Energy Costs being different. Further, it makes little sense to revise the Base Energy Cost in a FAC to include test year amounts for transmission expenses (as GMO proposes for both MPS and L&P) but not to change all the Base Energy Cost components in the FAC, because to do so would revise the FAC's transmission expenses for their test year amounts but not revise any of the other FAC Base Energy Cost components for their test year amounts.

Q. Is GMO's estimate of its fuel and purchased power costs less off-system sales revenue for the test year in this rate case greater or less than Staff's estimate of GMO's fuel and purchased power costs less off-system sales revenue using the Base Energy Cost per kWh rates in GMO's current FAC tariff?

A. Greater for both MPS and for L&P.

Q. Why?

A. Staff expects the Base Energy Costs for both MPS and L&P in this rate case to be significantly greater than the Base Energy Costs in GMO's last rate case, Case No. ER-

2009-0090, primarily due to increases in coal and coal transportation costs. In Case No. ER-2009-0090 the Base Energy Costs resulted from a negotiated settlement the Commission approved.

Q. How would the bills of GMO customers be impacted if Base Energy Costs are re-based for MPS and L&P in this rate case?

A. If the permanent rates in this rate case include the test year true-up estimated fuel and purchased power costs less off-system sales revenue, the permanent rates for both MPS and L&P will be higher than if the current Base Energy Costs (from Case No. ER-2009-0090) are used. GMO will immediately begin recovering the true-up estimated fuel and purchased power costs less off-system sales revenue. Future Cost Adjustment Factor (CAF) rates for GMO's FAC will simply be the difference between the test year true-up estimate and the actual fuel and purchased power costs less off-system sales revenue.

Q. How would the bills of GMO customers be impacted if Base Energy Costs in permanent rates for MPS and L&P in this rate case are not changed?

A. The permanent rates would contain the lower Base Energy Costs, so the rates would be lower than if the test year true-up fuel and purchased power costs less off-system sales revenues were included in the permanent rates.

Q. So the increase in the permanent rates would be lower if Base Energy Costs for MPS and L&P are not changed in this rate case?

A. Yes. And that is what GMO has requested in its application filing for this rate case. The increase in permanent rates would be lower. However, FAC adjustments through changes to the CAFs will be greater in nine to twelve months than they otherwise would be.

Q. Would that mean lower bills for GMO's customers, since they only will pay a portion of the difference between the net of actual fuel and purchased power costs less off-system sales revenue, and the Base Energy Costs using the Base Energy Cost per kWh rates in GMO's FAC?

A. Not necessarily. GMO is allowed to collect interest on the difference between the net of actual fuel and purchased power costs less off-system sales revenue and Base Energy Cost using the Base Energy Cost per kWh rates in the FAC until GMO recovers the difference from its customers. With the current 95%/5% incentive sharing mechanism, GMO's customers could end up paying more than the difference.

Q. What does GMO's request to not re-base the Base Energy Cost signify about its current 95%/5% incentive sharing mechanism?

A. The 5% of the cost borne by GMO is not significant enough for it to want to re-base.

Q. Should the Commission still re-base the Base Energy Costs if the Commission changes GMO's incentive sharing mechanism to the 75%/25% sharing mechanism Staff recommends?

A. Yes. Re-basing is integral to Staff's recommendation and not dependent on Staff's proposed change of GMO's incentive sharing mechanism to 75%/25%. In fact, Staff's proposed change to GMO's incentive sharing mechanism is due, in part, to GMO's having chosen not to propose that the Base Energy Cost be re-based in this rate case.

Q. What is Staff's recommendation concerning how fuel and purchased power costs less off-system sales revenue should be treated in GMO's FAC?

A. Staff recommends that GMO's FAC be re-based in this rate case so that both the Base Energy Costs in its FAC and the Base Energy Costs in the test year true-up total revenue requirements for this rate case for MPS and L&P, respectively, are the same, so GMO neither benefits nor is penalized by these two Base Energy Costs being different.

**GMO's Compliance With MEEIA**

Q. What is the third issue raised by Mr. Rush's testimony to which you wish to respond?

A. The third issue concerns GMO's lack of commitment to continuing its current DSM programs and to implement new DSM programs which are all a part of its adopted preferred resource plan. I wish to respond to following direct testimony of Mr. Rush concerning the Missouri Energy Efficiency Investment Act of 2009:

1. Page 23, lines 16 through 20:

> Q. What has the Company done in this filing to address MEEI[A]?
> A. The Company has not taken any action in this filing beyond what is currently in place and was established in the last two rate cases. [GMO] hopes that rules will become effective in sufficient time prior to the conclusion of this case and will become part of the outcome in this proceeding.

2. Page 24, lines 11 through 18:

> Q. Does the current mechanism filed in the case accomplish these policy [MEEIA] goals?
> A. No. From the Company's perspective, the current regulatory accounting mechanism does not adequately address the policy goals set out in the law. Specifically, the current mechanism does not provide timely recovery or earnings opportunities, nor does it sufficiently encourage the implementation of energy efficiency programs by the utility. It is our expectation that the rule that comes out of the MEEI rulemaking process will address these goals and will more adequately address energy efficiency programs and cost recovery.

3. Page 27, lines 1 through 10:

Q. Are the GMO DSM programs considered "pilot" programs with a specific expiration date?

A. There is some uncertainty regarding this issue. Although the tariffs do not specifically reference pilot programs, many of these programs were authorized using the supporting budget information from the Integrated Resource Plan, some even including annual budget amounts within the tariff. This raises questions about the status of these programs once the five-year period for each expires, or when the budgeted amounts for the programs have been spent. It is the [company's] hopes that with the establishment of a rulemaking that adequately provides recovery, all of the programs currently in the portfolio will become permanent.

Q. What do you conclude from this testimony?

A. I conclude that GMO is not committed to continuing current DSM programs and to implement new DSM programs prior to GMO's receiving approval of DSM programs under the anticipated Missouri Energy Efficiency Investment Act rules[1] ("MEEIA rules"). Further, it is Staff's position that GMO is required to comply with MEEIA as a law of the State of Missouri, whether or not any MEEIA rules are effective.

Q. Is your conclusion from Mr. Rush's testimony consistent with what you have been told by GMO employees in the past year?

A. Yes. During its DSM Advisory Group meetings throughout 2010, GMO has stated that it has curtailed the level of participation in its demand response MPower program by not processing new applications for the program. Also, during the Company's discussions with stakeholders concerning its current Chapter 22 compliance filing (Case No. EE-2009-0237), GMO employees, including Mr. Rush, have expressed their concern that the Company may not continue to invest in DSM programs at the planned levels unless the Company receives approval of different DSM cost recovery mechanism.

Q. Why do you believe GMO is required by law to comply with MEEIA regardless of when MEEIA rules become effective?

[1] Commission Case No. EX-2010-0368.

A. MEEIA became law on August 28, 2009. With the enactment of MEEIA, the State of Missouri has declared and directed the following:

> 3. It shall be the policy of the state to value demand-side investments equal to traditional investments in supply and delivery infrastructure and allow recovery of all reasonable and prudent costs of delivering cost-effective demand-side programs. In support of this policy, the commission shall:
>
> (1) Provide timely cost recovery for utilities;
>
> (2) Ensure that utility financial incentives are aligned with helping customers use energy more efficiently and in a manner that sustains or enhances utility customers' incentives to use energy more efficiently; and
>
> (3) Provide timely earnings opportunities associated with cost-effective measurable and verifiable efficiency savings.
>
> 4. The commission shall permit electric corporations to implement commission-approved demand-side programs proposed pursuant to this section with a goal of achieving all cost-effective demand-side savings. Recovery for such programs shall not be permitted unless the programs are approved by the commission, result in energy or demand savings and are beneficial to all customers in the customer class in which the programs are proposed, regardless of whether the programs are utilized by all customers. The commission shall consider the total resource cost test a preferred cost-effectiveness test. Programs targeted to low-income customers or general education campaigns do not need to meet a cost-effectiveness test, so long as the commission determines that the program or campaign is in the public interest. Nothing herein shall preclude the approval of demand-side programs that do not meet the test if the costs of the program above the level determined to be cost-effective are funded by the customers participating in the program or through tax or other governmental credits or incentives specifically designed for that purpose.

Subsections 393.1075.3 and 4, RSMo. Supp. 2009.

Q. Has GMO requested in this rate case cost recovery and utility financial incentives related to its resource planning DSM programs?

A. GMO has requested continuation of the current non-traditional accounting and regulatory asset treatment of its DSM program costs established the last rate case. GMO has

not requested a utility financial incentive in this case for its DSM programs, although it could have done so.

Q. Please describe the DSM programs in GMO's last adopted preferred resource plan?

A. I have summarized below GMO's current and proposed DSM programs contained in its last Chapter 22 Electric Utility Resource Planning filing's adopted preferred resource plan (Case No. EE-2009-0237):

| Programs | Life (Years) | TRC | NPV Net Benefits (1) |
|---|---|---|---|
| Change A Light (2) | 3 | 5.06 | ** $ ** |
| Home Performance with Energy Star (2) | 5 | 1.36 | ** $ ** |
| Low-Income Weatherization (2) | 4 | 0.99 | ** $ ** |
| Low-Income Affordable New Homes (2) | 5 | 1.67 | ** $ ** |
| Energy Star New Homes (2) | 5 | 1.86 | ** $ ** |
| Building Operator Certification (2) | 5 | 1.36 | ** $ ** |
| Energy Optimizer (2) | 20 | 4.92 | ** $ ** |
| Mpower (2) | 20 | 4.15 | ** $ ** |
| Appliance Turn-In | 5 | 2.24 | ** $ ** |
| Blue Line | 3 | 4.13 | ** $ ** |
| Cool Homes (2) | 5 | 2.70 | ** $ ** |
| Energy Star Products (2) | 5 | 4.44 | ** $ ** |
| On-Line Audit (2) | 5 | 12.37 | ** $ ** |
| C&I Custom Rebate | 5 | 3.49 | ** $ ** |
| C&I Prescriptive Rebate | 5 | 3.19 | ** $ ** |
| Total | | | ** $ ** |

(1) Net Present Value (NPV) of Total Resource Cost (TRC) test (over the life of program and program measures) = NPV benefits less NPV costs = NPV total avoided costs less NPV total program costs less NPV participants' costs plus NPV program incentives.

(2) Original tariffs approved in 2008

Q. Did GMO evaluate the impact on customers of curtailing current DSM programs and delaying implementation of planned DSM programs in its adopted preferred resource plan?



NP

A. Yes. The following quotation from GMO's last Chapter 22 Electric Utility Resource Planning compliance filing[2] indicates that GMO has evaluated the impact of increasing the level of achievement and penetration of its DSM programs and found: "The results show that the company and the ratepayer stand to benefit from the company's continuing efforts to achieve more DSM programs and improved DSM penetration.":

> The Preferred Resource Plan was not the lowest cost plan from a Net Present Value Revenue Requirements (NPVRR) perspective. Plan 16 resulted in the lowest expected value of NPVRR of all modeled plans. This plan included a hypothetical 1% incremental annual DSM impact based on achieving DSM energy reductions of 1% of annual retail energy every year of the planning horizon. Plan 16 was modeled to provide an indication of the NPVRR impacts of obtaining increased DSM penetrations over and above the maximum currently identified by the company.
>
> While Plan 16 was based on assumptions regarding the cost of achieving this level of DSM penetration, it does provide insight on the company's plan to achieve even higher amounts of DSM energy and peak reductions. The results show that the company and the ratepayer stand to benefit from the company's continuing efforts to achieve more DSM programs and improved DSM penetration. GMO will continue to take advantage of developing technologies and will expand DSM offerings if cost effective[.]

Q. Do you anticipate there will soon be changes to GMO's adopted preferred resource plan to include changes to the implementation plan for DSM programs?

A. Yes. On June 2, 2010 the Commission issued its Order Approving Nonunanimous Stipulation and Agreement and Accepting Integrated Resource Plan in Case No. EE-2009-0237. The stipulation and agreement calls for GMO, Staff, Public Counsel, the Missouri Department of Natural Resources and Dogwood Energy, L.L.C. to use a series of stakeholder meetings to review work performed by GMO to revise certain parts of its Integrated Resource Plan on a schedule contained in the Stakeholder Process Agreement

[2] KCP&L Greater Missouri Operations Company's Integrated Resource Plan, Case No. EE-2009-0237, Book 1 or 2, Volume 1: Executive Summary, pages 8 and 9.

which is identified as Appendix 1 to the Nonunanimous Stipulation and Agreement. The culmination of the process outlined in the Stakeholder Process Agreement is expected to be a revised Chapter 22 Electric Utility Resource Planning compliance filing by GMO on December 17, 2010. Since changes to the DSM programs and the implementation plan for DSM programs has been a part of the stakeholder meeting discussions, I expect some changes to GMO's plans for its DSM programs will be a part of the revised filing on December 17, 2010.

Q. How do you characterize the level of customer interest in or demand for the GMO demand-side programs?

A. GMO's customers have a high level of interest in or demand for GMO's demand-side programs as demonstrated by spending and participation levels for the current programs over the past two years as summarized in Appendix 6, Schedule JAR 1-1 of the Staff's COS Report in this case. On page 145, lines 8 through 18 of the Staff's COS Report, I summarize the GMO demand-side programs' budget variance:

> GMO's overall spending levels for demand-side programs have approximated the spending goal of one percent of annual revenues to implement cost-effective demand-side programs ordered and approved in stipulation and agreements in GMO's 2007 general rate case (File No. ER-2007-0004) and in GMO's 2007 Chapter 22 Electric Utility Resource Planning compliance filing (File No. EO-2007-0298). Further, as reported by GMO for the September 15, 2010 Status Report filing, through June 30, 2010 the total budget for all GMO demand-side programs is $12,036,668, and the actual total expenditures through this period are $10,564,587, or 12% less than budget. Such "under spending" is normal during the early years of demand-side programs' implementation, as a utility's customers become familiar with newly offered demand-side programs and decide to take actions necessary to participate in demand-side programs.

There is little doubt that GMO has been effective in initiating, promoting and delivering its demand-side programs and that GMO's customers have a high level of interest in the programs.

Q. What is Staff's recommendation to the Commission concerning GMO's DSM programs?

A. Because of all the uncertainty GMO has created about continuing and adding DSM programs included in its last adopted preferred resource plan, Staff recommends that the Commission direct GMO to comply with the MEEIA goal of achieving all cost-effective demand-side savings by: a) filing with the Commission written documentation for each (current and planned) DSM program included in its last adopted preferred resource plan explaining how it plans to meet the MEEIA goal of achieving all cost-effective demand-side savings when it is curtailing its current programs and not adding the new programs in its preferred resource plan, or b) continuing to fund and promote, or implement, the DSM programs in its last adopted preferred resource plan.

**Response to MGE's Testimony**

Q. For what areas of Mr. Reed's testimony do you provide rebuttal testimony?

A. I provide rebuttal testimony to Mr. Reed's testimony regarding: 1) Staff's agreement with Mr. Reed that natural gas appliances are more efficient than electric appliances providing similar energy service when using the full-fuel-cycle approach to measuring efficiency; 2) Staff's disagreement with the suggestion of Mr. Reed that because fuel switching programs are approved for electric utilities in other states, such a program can presently be beneficial for GMO's customers; 3) Staff's disagreement with Mr. Reed's statement that the Commission has adopted the TRC test to evaluate demand-side resources in Missouri; and 4) Staff's disagreement with Mr. Reed's conclusion that his proposed fuel switching program for GMO is a cost effective way to promote energy efficiency and conservation by offering financial incentives (i.e., rebates) to GMO's electric customers to

convert certain end-use applications, such as water heating and space heating, from electricity to natural gas.

Q. Do you have knowledge of full-fuel-cycle approach to efficiency?

A. Yes. The full-fuel-cycle approach to efficiency means measuring efficiency over the entire trajectory path of energy to include the efficiency of extraction of fuel, processing/cleanup of fuel, transportation of fuel, conversion of fuel into another form of energy (generation of electricity), transmission of fuel or energy, distribution of fuel or energy and the end-use appliance. While I was employed by Arkansas Western Gas Company from 2004 to 2008 as Director, Resource Planning, I presented the full-fuel-cycle approach to measuring efficiency in several Arkansas energy policy cases before the Arkansas Public Service Commission (APSC) in 2007, during rulemakings for: 1) Resource Planning Guidelines for Electric Utilities and 2) Rules for Utility Demand-Side Programs; and again in 2008 before the Arkansas Governor's Commission on Global Warming (AGCGW).

Q. Were you successful in getting full-fuel-cycle efficiency included in Arkansas energy policy as a result of the cases you participated in?

A. No. I believe that my presentations on behalf of Arkansas Western Gas were the first formal presentations on using full-fuel-cycle efficiency in energy policy for Arkansas, and the barriers to acceptance of such a policy were still too great in Arkansas. However, I agree with Mr. Reed that there is a growing momentum at the national level and within some states for use of full-fuel-cycle efficiency as a part of energy policy.

Q. Do any of Missouri's rules or regulations concerning utility demand-side programs require the use of full-fuel-cycle efficiency when analyzing energy savings or demand savings?

A. No.

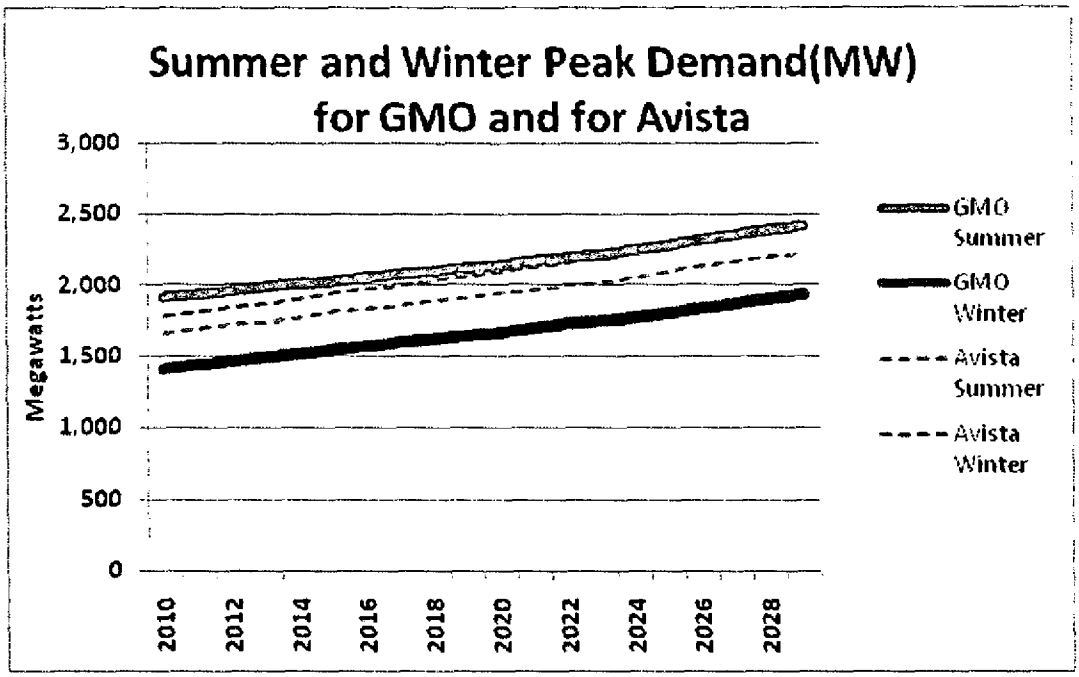
Q. How does MEEIA define energy efficiency?

A. MEEIA defines energy efficiency as measures that reduce the amount of electricity required to achieve a given end use.

Q. Why do you disagree with the suggestion of Mr. Reed that because fuel switching programs are approved for electric utilities in other states, such a program can presently be beneficial for GMO's customers?

A. Mr. Reed states that fuel switching programs have been approved for Puget Sound Energy in Washington and Oregon, Avista Corporation in Idaho and Washington,CenterPoint Energy in Texas, and Philadelphia Electric Company in Pennsylvania. However, there are very important differences between GMO and these utilities:

| | GMO | Puget Sound Energy | Avista Corporation | CenterPoint Energy | Philadelphia Electric |
|---|---|---|---|---|---|
| **Type of Utility** | Electric | Combined | Combined | Diversified Energy | Electric |
| **Electric Peak** | Strong Summer Peak | Winter | Winter | n/a | n/a |
| **Ownership** | Investor | Investor | Investor | Investor | Municipal |




Q. What observations and conclusions are you able to make as a result of these differences?

A. I make the following observations:

1. GMO has a strong summer peak, forecasting a summer peak demand exceeding the winter peak demand for the next 20 years, while Puget Sound Energy and Avista are winter peaking electric utilities.

2. GMO is an electric utility, while Puget Sound Energy and Avista are combined electric and natural gas utilities, and CenterPoint Energy is a very large diversified energy company (electricity, natural gas, pipelines and energy marketing).

3. All are investor-owned except Philadelphia Electric Company, which is a municipal electric utility.

I draw the following conclusions from my observations:

1. Fuel switching programs for Puget Sound Energy, Avista and CenterPoint Energy result in money moving from "one pocket to the other" within the

company, while Mr. Reed's proposed fuel switching program for GMO results in money moving from GMO's pocket to the pocket of MGE.

2. Because the energy and demand savings from the proposed fuel switching program will result primarily from space heating in the winter, and because GMO is such a strong summer peaking utility, GMO would expect to experience no generation or transmission avoided costs (benefits) from the program for several decades, if ever.

Q. Why do you disagree with Mr. Reed's statement that the Commission has adopted the TRC test to evaluate demand-side resources in Missouri?

A. Evaluation of demand-side resources in Missouri must be in compliance with Chapter 22 Electric Utility Resource Planning rules. The Chapter 22 rules require the evaluation of all supply-side resources and demand-side resources on an equivalent basis through comprehensive resource analysis, integration analysis, risk analysis and strategy selection. The TRC test is used only in the screening of DSM measures and DSM programs. DSM programs that pass the TRC screening test are passed on as demand-side resources for the utility's integration analysis.

Q. Has Mr. Reed performed an analysis of his proposed fuel switching program in compliance with Chapter 22?

A. No. Mr. Reed has not evaluated his proposed fuel switching program in compliance with Chapter 22. Further, Mr. Reed has not performed any analysis of the cost effectiveness of the proposed fuel switching program for GMO (see Mr. Reed's direct testimony at page 40, lines 15 and 16).

Q. Does Staff have a recommendation for the Commission concerning the fuel switching program proposed by Mr. Reed?

A. Because: a) GMO has not included the fuel switching program proposed by Mr. Reed in a Chapter 22 Electric Utility Resource Planning integration analysis, and b) the proposed fuel switching program is not being proposed by GMO, but by a competitor of GMO that would benefit from such a fuel switching program, Staff recommends that the Commission not approve the fuel switching program proposed by Mr. Reed.

Q. Does this conclude your testimony at this time?

A. Yes.