

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

In the Matter of Union Electric Company d/b/a Ameren)
Missouri's Filing to Implement Regulatory Changes) **Case No. EO-2012-0142**
Furtherance of Energy Efficiency as Allowed by MEEIA)

NOTICE

On June 6, 2012, I received the attached document by mail from M. Sami Khawaja of the Cadmus Group, Incorporated. The document addresses the above noted case currently before the Commission.

The Missouri Public Service Commission ("Commission") has promulgated rules denoted as the "Standards of Conduct" at 4 CSR 240-4.010 and 4.020. Section 4 CSR 240-4.20 specifically deals with Ex Parte and Extra-Record Communication Rules. This notice is filed in conformance with the rule.

Respectfully Submitted,


Terry M. Jarrett
Commissioner

Dated at Jefferson City, Missouri
On this 6th day of June, 2012

May 25, 2012

Terry Jarrett
Missouri Public Service Commission
200 Madison Street, PO Box 360
Jefferson City, MO 65102-0360

Dear Commissioners:

Cadmus has reviewed Ameren's application for approval of a demand-side incentive mechanism (DSIM), file number EO-2012-0142. We find that Ameren's application is consistent with best practice methodologies for demand-side management (DSM) program implementation, cost recovery, revenue impacts, and performance incentives. We also find that Ameren's application is consistent with the Missouri Code of State Regulations (CSR) and the Missouri Energy Efficiency Investment Act of 2009.

Ameren has raised three issues in its application:

- Appropriate methodology for DSM program cost recovery
- Throughput disincentive
- Comparable supply-side and demand-side earnings potential

Jurisdictions nationwide are implementing several strategies to deal with these issues, and there are generally accepted regulatory mechanisms available for each issue. While the industry has been grappling with these issues since DSM started to become a significant portion of the integrated resource planning portfolio more than a decade ago, no single approach has emerged as a "one size fits all" strategy.

Current Common Strategies

The following are brief descriptions of the current strategies employed most widely for each issue.

Cost Recovery Mechanisms

The three commonly employed mechanisms for recovering expenditures of the DSM programs themselves are these: (1) expensing; (2) deferral and amortization; and (3) contemporaneous recovery.

Of 51 jurisdictions reviewed, Cadmus found that only eight jurisdictions currently treat DSM as an expense, while two allow deferral and amortization of DSM expenses. The remaining 41 jurisdictions have moved to—or are planning to adopt—some form of contemporaneous cost recovery mechanism (typically a tariff rider or legislated System Benefits Charge).

Ameren's proposed expense-tracker mechanism is consistent with a contemporaneous recovery approach.

Throughput Disincentive

Successful DSM programs reduce the utility's sales from what they otherwise would have been. Alternatively, supply-side resources are increased to meet the future projected demand.

As in Ameren's case, rates typically recover a portion of the utility's fixed costs through the volumetric portion of the rate structure. Consequently, the decline in sales associated with successful DSM programs leads to an under-recovery of the utility's authorized fixed costs.

Regulatory commissions have authorized three basic mechanisms to address the recovery of fixed costs: (1) lost revenue adjustment mechanisms; (2) decoupling; and (3) straight fixed-variable pricing. While 29 jurisdictions have adopted lost revenue or decoupling mechanisms, another 12 have authorized but not yet implemented them.

The fixed cost recovery portion of Ameren's shared net benefit approach is consistent with lost revenue adjustment mechanisms adopted in other jurisdictions.

Comparable Supply-Side and Demand-Side Earnings Potential

Utility investors earn a return on investment in utility-owned assets. Typically, DSM investments do not result in a utility-owned asset. Consequently, the earnings potential is dissimilar between supply-side and demand-side resource options. Recognizing this dissimilarity, the NARUC, the Missouri CSR, and the Missouri Energy Efficiency Investment Act recommend the adoption of mechanisms that allow the supply-side and demand-side resources to be treated on an equivalent basis. Twenty-four jurisdictions have adopted shareholder incentive mechanisms, and another 11 have authorized but not yet implemented them.

The incentive portion of Ameren's shared net benefit approach is consistent with these approaches.

Impact of Regulatory Strategy on Savings

A review of jurisdictional savings as a percentage of revenue indicates a strong correlation between overall savings and the existence of regulatory mechanisms aiming to mitigate the disincentives associated with DSM investments. Of the 19 jurisdictions saving more than one-half percent of sales annually through energy efficiency, all but one have implemented or authorized lost revenue or decoupling mechanism. Also, 15 of 19 have implemented or authorized a performance incentive mechanism.

Other Issues

As described below, the two other issues impacting Ameren's filing are these: (1) technical reference manual and deeming savings; and (2) deeming net-to-gross values.

Technical Reference Manual (TRM) and Deeming Savings

Several jurisdictions have adopted either a statewide or utility-specific TRM. The main driver behind adoption of a TRM is to establish a set of savings to use for program planning and cost-effectiveness analysis. The TRM values are structured with best available science at the time of the program launch. That, however, does not guarantee that actual savings will match the TRM values, so it is not unusual to have utility goal attainment measured using verified savings. (In other words, it is common to use the TRM values as deemed measure savings and third-party verification of the number of installations.) This occurs through a careful audit of the program databases, using a statistically valid sample to verify accuracy of records (including correct application of TRM values, TRM algorithms, etc.), phone surveys, and site visits. The purpose of this effort is to estimate the appropriate number of measures to use in calculating *verified savings*.

In conjunction with the verified savings, a full evaluation (billing analysis, engineering simulation, etc.) is used to estimate *ex post gross savings* and net-to-gross analysis is determined to estimate *net savings* (Figure 1). This model, which is being considered in Indiana among others, is currently in place in Ohio and Michigan.

Figure 1. The Typical Approach to Classification of Savings

