

Exhibit No.:
Issues: DSM Cost-Recovery and
Evaluation
Witness: Adam Bickford
Sponsoring Party: Missouri Department of
Natural Resources – Division
of Energy
Type of Exhibit: Rebuttal Testimony
Case No.: ER-2010-0036

REBUTTAL TESTIMONY
OF
ADAM BICKFORD
MISSOURI DEPARTMENT OF NATURAL RESOURCES
DIVISION OF ENERGY

February 11, 2010

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

UNION ELECTRIC COMPANY d/b/a AMERENUE
RATE CASE

CASE NO. ER-2010-0036

1
2 **Q. Please state your name and business address.**

3 A. My name is Adam Bickford. My business address is Missouri Department of Natural
4 Resources, Division of Energy, 1011 Riverside Drive, P.O. Box 176, Jefferson City,
5 Missouri 65102-0176.

6 **Q. Are you the same Adam Bickford who filed Direct Testimony on behalf of the**
7 **Missouri Department of Natural Resource, Division of Energy¹ previously in this**
8 **case?**

9 A. Yes, I am.

10 **Q. On whose behalf are you testifying?**

11 A. I am testifying on behalf of the Missouri Department of Natural Resources ("MDNR"),
12 an intervenor in these proceedings.

13 **Q. What is the purpose of your rebuttal testimony in these proceedings?**

14 A. The purpose of my rebuttal testimony is to respond to Staff's position on the role of
15 evaluation and DSM program cost recovery.

16 **Q. Please summarize Mr. Rogers' testimony on these topics.**

17 A. In its "Staff Report on Revenue Requirement Cost of Service" ("Staff report"), John
18 Rogers maintains that DSM program costs cannot be recovered prior to a determination
19 that a program is cost effective and has realized measurable and verifiable energy
20 savings (47). In addition, the Staff report states:

21 The determination of whether or not a program is cost-effective and efficiency
22 savings have been achieved cannot be made until after the program has both been
23 implemented and evaluated post-implementation. (47)
24

¹ On February 1, 2010 the Missouri Department of Natural Resources Energy Center was elevated to Division level and renamed the "Division of Energy."

1 **Q. Do you agree with Mr. Rogers' assertions?**

2 A. MDNR does not believe Staff's position as stated by Mr. Rogers is consistent with the
3 intent of SB 376 to encourage the adoption of more energy efficiency, as expressed by
4 Governor Nixon, the sponsor of SB 376, Senator Brad Lager, and others.² It will not
5 result in more timely DSM cost recovery for utilities -- also a requirement of SB 376.
6 Staff's position emphasizes the role of post-implementation evaluation as a prerequisite
7 for cost recovery of DSM expenses. MDNR sees the value and need for post-
8 implementation evaluation, but we maintain that Staff's approach does not consider
9 other available options for DSM evaluation, measurement and verification. Also,
10 Staff's position on ratemaking treatment of DSM expenses discourages utility
11 expenditures in this area. To illustrate these options I have completed a report that
12 examines the policies governing DSM cost recovery and evaluation policies in the
13 thirteen states belonging to the Midwest Energy Efficiency Alliance (MEEA). This
14 report is attached to this testimony as Schedule AB-1.

15 **Q. Please summarize this report.**

16 A. The report summarizes statutes, Commission dockets and orders addressing DSM
17 savings goals, cost recovery mechanisms, and evaluation plans in the thirteen
18 Midwestern states that are members of MEEA³. These statutes and decisions were
19 made between 2007 and 2010.

20 Our review of these statutes and decisions reveals five major points:

² http://governor.mo.gov/newsroom/2009/Energy_Efficient_Investment_Act

³ Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin

- That MDNR's energy savings goals (seeking a one and two percent reduction of energy usage and demand) are consistent with goals established in other Midwestern states,
- That the ten Midwestern states⁴ with cost recovery policies support expensing of DSM program costs,
- That these ten Midwestern states support a variety of evaluation schedules, ranging from annual documentation of savings to evaluations and reviews every four years,
- That there are a variety of options for selection of evaluators, including: the utility hires an independent evaluator (7 states), the commission or Energy agency hires an independent evaluator (2 states) or the Commission itself conducts the evaluation (1 state), and
- That many states have developed standards for the conduct and content of evaluation studies.

Q. Please describe Missouri's current approach to DSM cost recovery and DSM program evaluation.

A Missouri currently limits utility cost recovery to capitalization of its DSM expenses by placement into a regulatory asset account with an amortization period of 10 years. Missouri does not have an established policy governing the evaluation of DSM projects.

Q. Will SB 376 change this approach?

⁴ Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Ohio, South Dakota, and Wisconsin. Nebraska and North Dakota do not have established policies for cost recovery or evaluation. Both states conduct these activities on a case-by-case basis. Missouri is not included in this review because it does not have a process for cost recovery or evaluation in its rules or statutes.

1 A. Yes. The language in SB 376 links “timely cost recovery for utilities” to “[providing]
2 timely earnings opportunities associated with cost-effective measurable and verifiable
3 efficiency savings”. (see 393.1075.3(1) and (3) RSMo.) Staff focuses on the
4 completion of post-implementation evaluation and verification prior to utilities’ cost
5 recovery. The analysis in Schedule AB-1 suggests that an annual review and
6 evaluation schedule, while it may not provide for a detailed evaluation of all program
7 impacts, will provide sufficient measurement and verification information to allow for
8 utilities to recover their DSM costs on a timelier basis rather than waiting until after the
9 program has been implemented and evaluated post-implementation, as proposed by
10 Staff.

11 **Q. What is MDNR’s position relative to capitalization of DSM program expenses?**

12 A. MDNR maintains that the current approach of capitalizing DSM expenses over a ten-
13 year period presents a major disincentive for substantial utility investment in DSM
14 programs. MDNR seeks to establish a regulatory framework that encourages utilities
15 to set and achieve aggressive DSM savings goals. As discussed in my Direct
16 Testimony of December 18, 2009, MDNR’s position favors a regulatory framework
17 that expenses DSM program costs and provides for appropriate incentives for utility
18 savings through DSM programs provided that a significant energy savings goal is
19 adopted. This framework includes more timely cost recovery for DSM program
20 expenses than is currently permitted, appropriate incentives for exemplary utility
21 performance, and a rate structure that encourages energy efficiency.

1 **Q. What relationship does MDNR's position on expensing DSM program costs have**
2 **to Missouri's current approach to cost capitalization through a regulatory asset**
3 **account and Staff's recommendation that the current approach be continued?**

4 A: Generally, expensing DSM program costs is opposed to cost capitalization. Schedule
5 AB-1 shows that no state with cost recovery policies required cost capitalization
6 through a regulatory asset account. Nine of the ten states with cost recovery policies
7 employ annual expensing exclusively. Only Michigan combines expensing with cost
8 capitalization and utilities have the option of capitalizing their DSM program measures
9 with an effective life greater than one year. Based on this, MDNR's position on
10 expensing is opposed to Missouri's current approach to cost capitalization over a ten-
11 year period, which Staff's testimony in this case recommends be continued.⁵

12 **Q: What is MDNR's position on cost recovery and evaluation relative to Staff's**
13 **position?**

14 A: Staff's position emphasizes the role of post-implementation evaluation and verification
15 of DSM program savings as a prerequisite for cost recovery. Based on the information
16 summarized in Schedule AB-1, MDNR is in favor of linking annual (current) cost
17 recovery to annual verification of DSM program savings. We believe that this linkage,
18 of DSM program expensing to annual verification of DSM program performance, is
19 central to creating a regulatory framework that will support utility expenditures for all
20 cost-effective DSM measures. Based on the information from other Midwestern states,
21 we believe that limiting verification to a single post-implementation evaluation, as
22 proposed by Staff, is not the right approach. While MDNR supports comprehensive
23 post-implementation evaluation of DSM programs, we do not believe that cost

1 recovery should be delayed until such evaluations are completed. In this sense, we do
2 not agree with Staff's position.

3 **Q: Regarding Staff's current cost recovery approach, what would be the maximum**
4 **amortization period MDNR could accept?**

5 A: If the current cost recovery approach is continued, MDNR would recommend a
6 maximum amortization period of three years.

7 **Q: Does this complete your testimony?**

8 A. Yes it does.

⁵ Staff Report on Revenue Requirement Cost of Service, p.24 130-31.

