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CASE NO. ER-2010-0036

DIRECT TESTIMONY

OF

STEPHEN M. KIDWELL

ON

BEHALF OF

**UNION ELECTRIC COMPANY
d/b/a AmerenUE**

St. Louis, Missouri
July, 2009

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1 **DIRECT TESTIMONY**
2 **OF**
3 **STEPHEN M. KIDWELL**
4 **CASE NO. ER-2010-_____**

5 **I. INTRODUCTION**

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

7 A. My name is Stephen M. Kidwell. My business address is One Ameren
8 Plaza, 1901 Chouteau Avenue, St. Louis, Missouri.

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

10 A. I am the Vice President of Regulatory Affairs & Energy Efficiency for
11 Union Electric Company d/b/a AmerenUE ("AmerenUE" or "Company").

12 **Q. Please describe your educational background and employment**
13 **experience.**

14 A. I began my career with Union Electric Company over 22 years ago and
15 have experience in demand-side program design, implementation and evaluation,
16 integrated resource planning, load forecasting and load research, market research, key
17 account management, business development, marketing and corporate strategic planning.

18 I received my B.S. degree in Physics cum laude from Rhodes College in
19 Memphis, TN. I also hold M.S. degrees in Nuclear Engineering and Energy Analysis &
20 Policy from the University of Wisconsin – Madison. Finally, I hold an MBA from
21 Washington University in St. Louis.

1 **II. PURPOSE AND SUMMARY OF TESTIMONY**

2 **Q. What is the purpose of your direct testimony in this proceeding?**

3 A. My purpose is to discuss the current state of demand-side programs at
4 AmerenUE and to open dialogue on a key issue - that is, how to best align regulatory
5 incentives with the public policy goals of the State of Missouri with respect to utility
6 investments in demand-side programs. I will identify the issues and propose a course of
7 action for their resolution, but hope for discussions with the Missouri Public Service
8 Commission Staff ("Staff"), the Office of Public Counsel ("OPC") and all other
9 interested parties to this case, with the goal of reaching consensus.

10 **Q. Please summarize your testimony and conclusions.**

11 A. AmerenUE recognizes the benefits of utility-sponsored energy efficiency
12 and wants to develop and implement all cost-effective demand-side programs for the
13 benefit of our customers. To date, the Company has implemented programs aimed at
14 commercial and industrial customers as well as programs to benefit residential customers.

15 However, the current method for AmerenUE to recover its demand-side
16 program costs does not create a level playing field between supply-side and demand-side
17 investments, as required by Senate Bill 376 ("SB 376").¹ AmerenUE recognizes that the
18 current regulatory asset was created when the Commission approved a stipulation in Case
19 No. ER-2007-0002.² The regulatory asset was an improvement at the time, but as
20 AmerenUE's rate of investment in demand-side programs increases, the existing
21 mechanism is simply not sufficient to provide timely recovery of these expenditures, for

¹ SB 376 was signed by Governor Nixon on July 13, 2009. It can be found at Section 386.120, RSMo. (Cum. Supp. 2009).

² Order Approving Tier 1 Partial Stipulation and Agreement Filed on March 15, 2007, ER-2007-0002, April 21, 2007.

1 several reasons. First, the 10-year amortization method provides an inadequate return on
2 utility investments in demand-side programs when compared to supply-side options for
3 meeting future customer demand.³ Second, the long amortization period causes
4 significant lag between investments in demand-side programs and the utility's receipt of
5 cash to support those investments. This lag is not sustainable and will discourage strong
6 ramp-up in energy efficiency expenditures. Third, the long amortization period
7 associated with demand-side cost recovery will create a regulatory asset in the hundreds
8 of millions of dollars in the coming years. This in turn creates heightened concerns about
9 the ultimate recoverability of this asset among holders of AmerenUE equity and debt,
10 which puts downward pressure on credit ratings and could result in higher overall
11 financing costs for the Company and, ultimately, for ratepayers. Finally, the current
12 method gives no consideration to revenues lost by the utility as a result of demand-side
13 initiatives between rate cases. Improving these cost recovery practices would help
14 promote comprehensive and long-term investment in demand-side programs, which is
15 precisely the goal of SB 376.

16 While I will propose a potential solution for improving the current cost
17 recovery mechanism, AmerenUE hopes to discuss many potential mechanisms with the
18 Staff, OPC and others. The Company prefers to engage the other parties to this case in
19 hopes of achieving a consensus solution. AmerenUE is scheduling three meetings with
20 the parties to discuss this subject during August and September. AmerenUE will report
21 back on these meetings in this case and, potentially, subsequently provide additional
22 recommendations in later testimony, after receiving the benefit of input from the parties.

³ AFUDC (Allowance for Funds Used During Construction) does accrue on these investments, but the AFUDC rate does not fully cover the Company's cost of capital.

1 Others may do the same and may then further comment on proposals from any party in
2 rebuttal and surrebuttal testimony. In this way, a strong record can be built to support the
3 Commission's Order on this issue.

4 **III. AMERENUE'S CURRENT AND FUTURE**
5 **DEMAND-SIDE PROGRAMS**
6

7 **Q. Please define how AmerenUE uses the terms "energy efficiency,"**
8 **"demand response," and "demand-side program."**

9 A. Those terms have now been defined by the Missouri legislature, as a part
10 of SB 376, which sets forth the following definitions:

11 *Energy Efficiency* – measures that reduce the amount of electricity
12 required to achieve a given end use.

13 *Demand Response* – measures that decrease peak demand or shift demand
14 to off-peak periods.

15 *Demand-side Program* – any program conducted by the utility to modify
16 the net consumption of electricity on the retail customer's side of the electric
17 meter, including, but not limited to energy efficiency measures, load management,
18 demand response, and interruptible or curtailable load.⁴

19 **Q. Using those definitions, is "demand-side programs" an umbrella term**
20 **which includes both energy efficiency and demand response measures?**

21 A. Yes, the phrase "demand-side programs" includes those terms as well as
22 the terms "load management" and "interruptible or curtailable load programs."

23 **Q. Why is AmerenUE pursuing energy efficiency and demand response**
24 **programs?**

⁴ Section 393.1124.2. RSMo. (Cum. Supp. 2009).

1 A. Energy efficiency and demand response have been identified as
2 AmerenUE's most cost effective resource for meeting future demand growth. In fact,
3 approximately 30% of the resources identified in our last integrated resource plan are
4 expected to come from customer energy efficiency and demand response programs.⁵ The
5 benefits of these resources over time include lower energy usage for customers, lower
6 emissions and a more sustainable system of electricity production and consumption.

7 In 2008, I was given the responsibility for the Company's demand-side
8 programs and directed to bring the benefits listed above to our customers. AmerenUE
9 has launched several programs for residential, commercial and industrial customers this
10 year.

11 **Q. What energy efficiency programs does AmerenUE offer its business**
12 **customers?**

13 A. In February, AmerenUE began offering \$24 million in incentives to
14 Missouri business electric customers as part of the Company's Business Energy
15 Efficiency Programs. These incentives are available to business customers who plan to
16 purchase qualifying energy efficiency upgrades for facilities in the Company's service
17 territory. The programs also offer technical assistance and contractor referrals.

18 AmerenUE's first two Business Energy Efficiency Programs are offering
19 Standard and Custom incentives to customers. Standard Incentive participants can earn
20 fixed cash payments for purchasing typical electric equipment that meets AmerenUE's
21 increased efficiency requirements, including lighting, heating, ventilation and air
22 conditioning equipment ("HVAC"), refrigeration and motors. The Custom Incentive is
23 available for cost-effective energy efficiency measures that the Standard Incentive does

⁵ 2008 IRP, Appendix Q2, Page 3. [4 CSR 240-22.060]

1 not cover. Custom Incentive participants can receive financial assistance when making
2 energy efficiency improvements to existing facilities by purchasing energy efficient
3 equipment, modernizing facilities or making industrial process improvements.

4 AmerenUE is also helping building owners make their new construction
5 projects even more efficient through its New Construction program. This initiative
6 rewards both designers and building owners for using energy efficient design.
7 Technologies include building orientation and passive solar design, daylight harvesting,
8 efficient electric lighting and HVAC systems as well as other measures to create
9 buildings that exceed existing new construction efficiency requirements.

10 The Company is preparing to launch a Retro-Commissioning program that
11 identifies energy reduction opportunities by optimizing building systems and providing
12 subsequent installation of low-cost measures.

13 **Q. Do you believe the business programs have been effective?**

14 A. Yes. To date we have received 327 applications for these incentives, and
15 have completed 100 projects for a total annual energy savings of over 10 million kWh
16 (equivalent to the annual usage of over 700 homes⁶) and provided \$364,000 in incentives
17 to customers. In addition, we have approximately 140 active applications for projects
18 throughout the Company's service territory that are not yet completed but are in process.
19 Almost all rate classes have participated, with the Company having completed 25
20 projects in the 2M class (small general service), 59 projects in the 3M class (large general
21 service), 13 projects in the 4M class (small primary service) and 3 projects in the 11M
22 class (large primary service).

⁶ 10 Million kWh divided by average annual AmerenUE home use of 13,600 kWh \approx 735 homes.

1 **Q. Can you provide some specific examples?**

2 A. Certainly. A big box home improvement chain which has 9 stores in our
3 service territory has made lighting retrofits and received incentives from AmerenUE.
4 Each store received around \$20,000 for a total of just over \$180,000. AmerenUE is
5 especially pleased to have this participation, because these types of chain stores, typically
6 3M customers, have a large potential to save energy through energy efficiency measures.

7 A large hotel in downtown St. Louis is pursuing a project to install
8 occupancy sensor thermostats. There are tremendous savings associated with these
9 devices as they reduce energy usage during periods when rooms are not occupied.
10 AmerenUE collaborated with Laclede Gas Company on this project to offer both electric
11 and gas incentives. We anticipate an annual energy savings of over 700,000 kWh with
12 this project. The electric incentive for this project is approximately \$35,000.

13 **Q. Has AmerenUE implemented energy efficiency programs for**
14 **residential customers?**

15 A. Yes. Over the next 3 years AmerenUE will be providing almost \$20
16 million in incentive dollars towards energy efficiency for residential customers. The
17 Company will be working with a range of partners to ensure that customers have the most
18 cost-effective energy efficiency options available to them. Our goal is to drive change
19 and enhance our customers' energy efficiency through a combination of incentives,
20 education programs and equipment upgrades and replacements. This approach is
21 sometimes referred to as "market transformation," because it works with manufacturers,
22 distributors, retailers and individual consumers to shape the choices offered by the
23 marketplace, and ultimately consumers' individual purchase decisions.

1 **Q. Please explain what residential energy efficiency programs are**
2 **available to AmerenUE customers.**

3 A. AmerenUE's goal with its residential demand-side programs is to provide
4 tools and resources that enable our customers to better manage their energy usage. As
5 part of that effort, two residential programs are currently active and partners are being
6 recruited. Those programs are the Lighting and Appliance Program and the Residential
7 Multifamily Program.

8 The Lighting and Appliance Program tariff was approved in May of 2009.
9 The objective of this program is to transform the lighting and appliance markets through
10 consumer education, partnerships with retailers and manufacturers, and strong marketing
11 and outreach campaigns to build market awareness of the benefits and features of
12 ENERGY STAR®-qualified lighting and appliance products. The program targets seven
13 core products; screw-in compact fluorescent lamps ("CFLs"), dehumidifiers, freezers,
14 window air conditioners, ceiling fans with lights, lighting fixtures and CFL floor lamps.
15 In order to build customer awareness, partner stores hold special promotions and events
16 throughout AmerenUE's service territory. Supported by our sponsorship and AmerenUE
17 supplied incentives and buy-downs, manufacturers and retail stores will actively promote
18 the energy efficiency benefits of ENERGY STAR®-qualified products to our customers.

19 AmerenUE received approval to implement its Residential Multifamily
20 Program in June of 2009 and has started recruiting program partners and scheduling
21 training. This program will provide standard and custom incentives to multifamily
22 property owners and managers, a target group unlikely to make these efficiency
23 improvements without these incentives. The standard incentive program will pay a fixed

1 amount for upgrades of standard efficiency common area lighting and exit signs, small
2 HVAC equipment upgrades, motor upgrades, and electric domestic hot water
3 improvements. Custom incentives are available for more complex energy-efficiency
4 measures (i.e., window improvements, replacement of roof-top air-conditioning units,
5 ventilation system improvements, etc.). All of these measures are subject to an
6 appropriate level of economic analysis to forecast cost-effectiveness and calculate
7 incentive levels.

8 **Q. Have these programs been effective?**

9 A. It is too early to tell. However, AmerenUE sees indications that the
10 market transformation approach of the Lighting and Appliance program is beginning to
11 accomplish the goal of making ENERGY STAR® products available and affordable for
12 all of our customers. For example, two campaigns launching soon will put low-cost, high
13 quality CFLs in 34 Dollar Tree stores and 14 Sav-a-Lot stores. In the Sav-a-Lot stores, a
14 99 cent 100W equivalent CFL and a \$2 two pack of 60W equivalent CFLs will be offered
15 to customers. These stores are a mainstay to fixed income customers and are not
16 typically stores that would participate in a traditional rebate program.

17 In addition, we have participation from a variety of regional chains and
18 local retailers such as Dickey Bubb, Metro-Lighting and Genuine Maytag. It is important
19 to these retailers to have the competitive edge this program can bring in the current
20 economy. Promotions are being planned and more stores are signing up weekly. All
21 participating stores will educate consumers on the benefits of ENERGY STAR®, which
22 AmerenUE believes is an important step in laying the groundwork for a sustainable

1 marketplace for energy efficient products. This effort will benefit AmerenUE and its
2 customers well into the future.

3 **Q. Does AmerenUE plan to offer any additional residential energy**
4 **efficiency programs?**

5 A. Yes. Going forward, the next two residential programs include an
6 extension of the Multifamily Program to provide direct installation of energy efficient
7 measures in income-qualified tenant units⁷ and the Home Performance with ENERGY
8 STAR® Program, which will train and certify additional auditors to identify money-
9 saving energy improvements in existing homes and provide incentives to customers who
10 make the identified improvements. AmerenUE hopes to have these programs approved
11 by the Commission and available to its customers by early fall of this year.

12 Finally, AmerenUE recently launched its new residential energy efficiency
13 website, www.UEfficiency.com. The site is designed to inform and encourage
14 customers to take action by demonstrating how small efficiency steps can add up to
15 significant energy and dollar savings, then provide information on bigger additional steps
16 to consider. A highlight of this site is the personas created to show customers the energy
17 savings associated with no cost changes as well as those that would require some
18 investment. The site also includes a partner locator, where customers can enter their zip
19 codes and get a list of partner stores as well as current promotions listed by store.
20 Attached to my testimony as Schedule SMK-E1 is a printout of portions of the web site
21 and some of the energy savings information it offers customers. AmerenUE has launched
22 a media campaign supporting UEfficiency.com with the goal of raising customer

⁷ Tariff sheets for this program were filed on June 30, 2009 and AmerenUE expects it to be effective on July 30, 2009.

1 awareness and use of the site. Billboards promoting the site have already been launched,
2 while radio and television advertisements are planned to start this fall.

3 **Q. Does AmerenUE offer any demand response programs?**

4 A. Yes. AmerenUE currently has a demand response program for its
5 commercial and industrial customers, called Rider L. The Company is close to filing a
6 tariff to offer a demand response pilot program for residential customers, which it hopes
7 to have in place for August of this year.

8 **Q. What type of program is Rider L?**

9 A. Rider L is a price response program, meaning price signals are used as an
10 incentive for the customer to reduce load; AmerenUE determines when the price signal is
11 appropriate to send and the customer decides how much load to reduce. If the price
12 offered is sufficient to induce the customer to act, i.e., reduce load, the customer will
13 receive payment at a price as defined in the Company's tariffs. If the customer does not
14 reduce load, there is no penalty assessed nor is there an impact on the rate the customer
15 pays. Price responsive programs empower customers to choose a level of risk and reward
16 that best suits them.

17 **Q. Has Rider L been successful?**

18 A. Rider L has only been available for a very short time, since July 9, 2009,
19 making it too soon to do any meaningful evaluation of the program.

20 **IV. DEMAND-SIDE PROGRAM COST RECOVERY**

21 **Q. What overall goals has AmerenUE set for its energy efficiency and**
22 **demand response programs?**

1 A. AmerenUE's latest IRP filing sets the following targets for the first three
2 program years:

3	Energy Savings:	800,000 MWh
4	Demand Savings:	160 MW
5	Total Utility Investment:	\$100 Million (\$ 2009)
6	Total Benefits:	\$210 Million (\$ 2009)
7	Total Resource Costs:	\$115 Million (\$ 2009)
8	Benefit-Cost Ratio:	Total Resource Cost (TRC) value of 1.8 ⁸

9 **Q. Does AmerenUE's Integrated Resource Plan set a long-term goal for**
10 **the Company in acquiring demand-side resources?**

11 A. Yes. AmerenUE's current preferred resource plan sets a long-term goal to
12 reduce demand by 540 MW by 2025, at a cost of approximately \$900 million in today's
13 dollars⁹.

14 **Q. Please describe the Company's current cost recovery mechanism for**
15 **demand-side investments.**

16 A. Currently, costs for administration, research, design, development,
17 implementation and evaluation are booked to a regulatory asset and amortized over 10
18 years, including interest at the Company's AFUDC rate. This mechanism was proposed
19 by Staff in our 2007 rate case and represented an improvement to prior regulatory
20 treatment for demand-side investments, as it recognized and captured investments in

⁸ In accordance with Commission rules, AmerenUE uses the Total Resource Cost ("TRC") test in assessing costs and benefits of demand-side programs for the measure mix lifetime. The TRC is calculated by dividing the benefit by the cost, as follows: (Benefit (Avoided Energy & Capacity))/(Costs (Customer Costs & Utility Program and Administrative Costs))

⁹ Case No. EO-2007-0409, Integrated Resource Plan Filings Risk Analysis and Strategy Selection, U.I., p. 57 of 109.

1 demand-side programs outside of a test year which would otherwise have been lost
2 forever. However, as AmerenUE's rate of investment in demand-side programs
3 increases, the existing mechanism is simply not sufficient to provide timely recovery of
4 AmerenUE's expenditures in this area.

5 **Q. Why is AmerenUE's current energy efficiency cost recovery**
6 **mechanism insufficient?**

7 **A.** It is important to remember that while the current regulatory asset
8 provides for the ultimate recovery of prudent expenditures made on demand-side
9 programs, it fails to provide a sufficient return "on" those expenditures. The investment
10 amount is recovered over a long period of time, but the utility does not earn its rate of
11 return on that investment, as it would do after it constructed a new supply-side resource,
12 and thus does not fully cover its cost of capital associated with demand-side program
13 investments. Just as Missouri utilities are allowed to earn their authorized return on their
14 investments in supply-side resources, the Commission should provide the ability to earn
15 the same return on demand-side resources. This treatment is required by the energy
16 policy of the state, as expressed in following provision of the recently signed SB 376:

17 It shall be the policy of the state to value demand-side
18 investments equal to traditional investments in supply and
19 delivery infrastructure and allow recovery of all reasonable
20 and prudent costs of delivering cost-effective demand-side
21 programs. In support of this policy, the commission shall:
22 (1) Provide timely cost recovery for utilities;
23 (2) Ensure that utility financial incentives are aligned with
24 helping customers use energy more efficiently and in a
25 manner that sustains or enhances utility customers'
26 incentives to use energy more efficiently; and
27 (3) Provide timely earnings opportunities associated with
28 cost-effective measurable and verifiable efficiency
29 savings.¹⁰

¹⁰ 393.1124.3 RSMo

1
2 The failure to provide equal return opportunities on demand-side
3 investments compared to supply-side alternatives is inconsistent with these statutory
4 requirements.

5 **Q. Are there other statutory provisions that relate to providing**
6 **equivalent ratemaking treatment for demand- and supply-side investments?**

7 A. Yes. Such provisions are found in the federal Energy Independence and
8 Security Act of 2007 ("EISA").

9 **Q. Is the existing regulatory asset account treatment for demand-side**
10 **investment cost recovery consistent with the EISA?**

11 A. No. EISA Section 532(17) has multiple provisions for state regulatory
12 commissions' consideration. These considerations include:

- 13 1. aligning utility incentives with delivery of cost effective energy efficiency,
14 2. promoting energy efficiency investments,
15 3. removing the throughput disincentive and other regulatory and
16 management disincentives to energy efficiency,
17 4. providing utility incentives for the successful management of energy
18 efficiency programs, and
19 5. allowing for timely recovery of energy efficiency related costs.
20

21 Failing to provide a full return on demand-side investments does not align
22 utility incentives, it does not remove regulatory and management disincentives, it does
23 not provide utility incentives, and it does not provide recovery (let alone timely recovery)
24 of the full cost of capital associated with demand-side investments.

25 **Q. Why is the current 10-year amortization of the regulatory asset**
26 **inappropriate?**

27 A. First, there is no basis for the 10-year amortization period. My
28 understanding is that in Staff witness Lena Mantle's testimony from AmerenUE's 2007

1 rate case (Case No. ER-2007-0002), Ms. Mantle recommended both the regulatory asset
2 accounting treatment as well as the 10-year amortization period. Ms. Mantle's
3 recommendation of a 10-year amortization period was simply a judgment call on her part.
4 There were no studies or references to best practices to support the 10-year amortization
5 period. Second, a 10-year amortization period is detrimental to the cash flow of the
6 utility. If AmerenUE invests a dollar today in a demand-side program, it will not fully
7 recover that dollar for at least 10 years and likely it will take longer than 10 years due to
8 the time between when the expenditure is made and when new rates from a rate case
9 become effective. While this fact does not affect current utility earnings, it creates
10 significant negative free cash flow ("FCF"). AmerenUE estimates that even with full
11 recovery of its investments under the current mechanism, negative FCF associated with
12 demand-side programs will grow to over \$62 million per year within the next five years.

13 **Q. Is this situation sustainable?**

14 A. No, it is not. If the situation is not addressed, AmerenUE may not be able
15 to ramp up its energy efficiency initiatives and also acquire the financial resources
16 needed for other important projects.

17 **Q. How large is AmerenUE's demand-side regulatory asset expected to**
18 **become in the coming years?**

19 A. AmerenUE's 2009 budget for demand-side program investments is
20 approximately \$29 million and is projected to increase at a rate of about 17% per year
21 over the next five years. As this occurs, the regulatory asset will grow to almost \$170
22 million.

1 **Q. Does AmerenUE perceive risk in recovering its costs booked to the**
2 **regulatory asset?**

3 A. Yes. Despite our best efforts to employ the best tools and expertise
4 available to us, prospectively determining the results of demand-side programs is an
5 inexact mixture of art and science. There will be ample opportunity for parties hostile to
6 our interests to judge our results with the benefit of hindsight and attempt to whittle away
7 at our recovery of legitimate costs. The larger the demand-side regulatory asset gets, the
8 more tempting a target it becomes for such parties.

9 **Q. You also mentioned the failure of the regulatory asset to capture lost**
10 **revenues. Has the utility estimated its lost revenues from demand-side programs?**

11 A. Yes. Our current estimate for lost revenues from our programs is
12 approximately \$5 million in 2010, growing to almost \$12 million in 2013. The effect of
13 lost revenues is included in the \$62 million negative FCF value I previously mentioned.

14 **Q. Is AmerenUE proposing to continue the current “capitalization and**
15 **amortization” cost recovery framework for demand-side programs?**

16 A. AmerenUE’s preference is to not continue the current capitalization and
17 amortization framework. After considering our need for more timely cost recovery and
18 the policy implications of SB 376, we have concluded that this accounting treatment, as
19 currently employed in Missouri, is not the proper cost recovery mechanism going
20 forward. That being said, with major overhauls, there may be options which make the
21 capitalization and amortization mechanism viable prospectively.

22 **Q. What demand-side management cost recovery mechanism do you**
23 **propose?**

1 A. The mechanism that best allows for cost recovery would be an energy
2 efficiency rider with an annual incentive provision based on a percentage of the
3 difference between AmerenUE's avoided costs and the costs associated with
4 implementation of demand-side measures. However, recognizing the severe limitations
5 on this type of mechanism under Missouri law, AmerenUE is proposing a DSM tracker.

6 **Q. Please further explain the tracker concept.**

7 A. Under this tracker, the full amount of the regulatory asset as of
8 February 28, 2010 would be included in base rates, plus the average of incremental
9 budgeted amounts for 2010 and 2011. The tracker would accumulate the difference
10 between the amount in rates and the actual amount spent on DSM programs. At the
11 Company's next rate case, AmerenUE would recover (or refund) any amounts in the
12 tracker through a three year amortization of the balance, with interest.

13 **Q. How would incentive mechanisms and lost revenues be addressed in**
14 **the proposed tracker?**

15 A. While these are very important considerations in designing an effective
16 cost recovery mechanism for demand-side programs, AmerenUE is still in the very early
17 stages of implementing its programs. We need additional experience and dialogue with
18 stakeholders before we can adopt a definitive position on these issues.

19 **Q. Why do you think that the combination expense/incentive demand-**
20 **side cost tracker is more appropriate than the Commission's existing**
21 **capitalization/amortization approach?**

22 A. There are several reasons. First, AmerenUE is serious about
23 implementing cost effective demand-side resources and has as its goal to be recognized

1 as a performance leading electric utility in the design, implementation and evaluation of
2 demand-side resources. The model that I propose is structured to encourage strong
3 operational and financial demand-side performance. Second, as previously discussed, the
4 Company's negative free cash flow is a significant concern – especially with the annual
5 levels of investment that AmerenUE is proposing for demand-side resources. The
6 proposed tracker would significantly reduce the free cash flow issue. Third, both state
7 and federal law require and encourage state Commissions to make demand-side resources
8 at least equal, if not priority resources. AmerenUE's proposal is structured to encourage
9 exactly that focus.

10 **Q. What other tools might the Commission use to level the playing field**
11 **between demand-side and supply-side investments?**

12 A. There are several options, most of which are enumerated in SB 376,
13 including the capitalization of investments in demand-side programs, rate design
14 modifications, sharing of the savings to allow the utility to retain a portion of the net
15 benefits of a program, increasing the utility's Return on Equity ("ROE") on its energy
16 efficiency investments, revenue decoupling, shortening the amortization period over
17 which demand-side costs are recovered and adoption of a lost revenue recovery
18 mechanism. These options have been tried in other jurisdictions to some extent and all
19 are worth further discussion with the parties in this case.

20 **Q. Earlier, you mentioned that there may be options to make the**
21 **capitalization/amortization accounting approach viable. If the Commission desires**
22 **to continue the use of this method, is there an operating model that could work?**

1 A. Yes. I've found one other state public service commission, the Public
2 Utilities Commission of Nevada ("Nevada"), which uses the capitalization/amortization
3 accounting approach. However, Nevada's approach is vastly different than the existing
4 Missouri approach. The Nevada approach has cost recovery and incentive components.

5 **Q. Please explain.**

6 A. Nevada's capitalization and amortization of demand-side program costs
7 has the following features:

- 8 1. The program design cost and costs of regulatory approval are not included
- 9 (i.e. they are expensed),
- 10 2. A carrying charge of 1/12 of authorized return on rate base is applied to
- 11 the balance each month,
- 12 3. The balance of the regulatory asset account is included in the filing of
- 13 each general rate case,
- 14 4. The Nevada Public Utilities Commission approves only reasonable and
- 15 prudent expenditures for capital recovery,
- 16 5. A three year amortization,
- 17 6. An incentive which provides a 5% adder to the equity portion of the
- 18 authorized return,
- 19 7. An authorized return on rate base without adder of 9.06%, and
- 20 8. An authorized return on rate base with adder of 11.43%.

21
22 **Q. How does AmerenUE propose to proceed in resolving the issue of cost**
23 **recovery for demand-side programs?**

24 A. As I stated above, AmerenUE would prefer to engage the other parties to
25 this case in hopes of achieving a consensus solution. AmerenUE is working to schedule
26 meetings with the Staff, OPC and other parties in this case, likely one in August and two
27 in September, for the purpose of working through these issues. AmerenUE will
28 subsequently provide a report to the Commission on these conferences, after receiving
29 the benefit of input from the parties.

Direct Testimony of
Stephen M. Kidwell

- 1 **Q. Does this conclude your direct testimony?**
- 2 **A. Yes, it does.**

In the Matter of Union Electric Company)
d/b/a AmerenUE for Authority to File)
Tariffs Increasing Rates for Electric) Case No. ER-2010-
Service Provided to Customers in the)
Company's Missouri Service Area.)

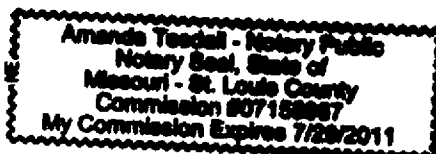
STATE OF MISSOURI)
) **ss**
CITY OF ST. LOUIS)

1. My name is Stephen M. Kidwell. I work in the City of St. Louis, Missouri, and I am employed by Union Electric Company d/b/a AmerenUE as Vice President of Regulatory Affairs.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

Subscribed and sworn to before me this 24th day of July, 2009.

My commission expires:



UEfficiency.com home page:

WELCOME TO UEFFICIENCY.COM JOIN THE MOVEMENT TO USE LESS ENERGY.

Today, the electricity U choose not to use is more valuable than the electricity U do use. If clean sources of energy are the ideal, then efficiency is the new fuel. This means less waste, and lower emissions.

You're the untapped resource, Missourians. It starts with U.

THE RESIDENTIAL U

Learn about the changes U can make at home to use less electricity, save money and reduce your impact on the environment.

- Home/condo owner
- Apartment/house renter

ENTER

THE PARTNER U

Whatever U sell, service or supply, learn how we can partner with U to increase your profitability and satisfy your customers' demand for new and better energy-saving solutions

- Retailers
- Contractor/Auditor/Rater
- Builder/Architect
- Property Owner/Management

ENTER

If none of these describe U, call 1-866-941-9692 (toll free), or email info@uefficiency.com and one of our AmerenUE Residential Energy Efficiency Specialists will get back to U personally.

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'Residential U' landing page:

WELCOME TO UEFFICIENCY.COM JOIN THE MOVEMENT TO USE LESS ENERGY.

Sometimes, the best way to learn what U can do to save energy and reduce your monthly electrical bill is to see what other Missourians are already doing.

THE REARDONS



VISIT

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Example Persona:

Every degree is a difference maker.
By setting their refrigerator's temperature between 35 degrees and 38 degrees F and periodically cleaning its condenser coils, the Millers can save \$19.94 over a year's time.
→ [LEARN MORE](#)

BROWSE PERSONAS | **ENERGY EFFICIENCY PROGRAMS** | **EVENTS** | **RETAILER / CONTRACTOR LOCATOR** | **FAQS** | **CONTACT US**

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AMERA UE
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The green dial has 4 tips, turn it to see them. They start at no cost and each click may require a little more investment. The tip information also has links for more information and the partner retailer locator.

4th tip on green dial- The Big Picture:

In warmer months, the Millers can expect a spike in their bill since air conditioning accounts for a majority of their electricity usage. That's why it pays to have systems running as efficiently as possible with a unit and controls that are appropriate for the size of their home. [CLICK HERE](#) to learn even more ways to increase efficiency throughout your home with the AmerenUE Lighting and Appliance Program.

WHAT'S THE BIG PICTURE?

[CLICK TO FIND OUT](#)

Installing a new high-efficiency (>SEER 13) central A/C would save \$20.55 a year. That's more money for the Millers.

[→ LEARN MORE](#)

THE BIG PICTURE

If 100,000 Missourians followed the Millers' lead, they could collectively save

MEGAWATTHOURS SAVED:
141,957

DOLLARS SAVED:
\$11,077,450

Calculate your own savings using AmerenUE's Energy Savings Toolkit on [Ameren.com](#). Just [CLICK HERE](#), login, and find out how you can save.

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The final tip for each persona builds to an example that indicates how all of our efforts will make a difference and for those who want to start now it provides a link to our free online energy savings toolkit

Retailer/Contractor locator page:

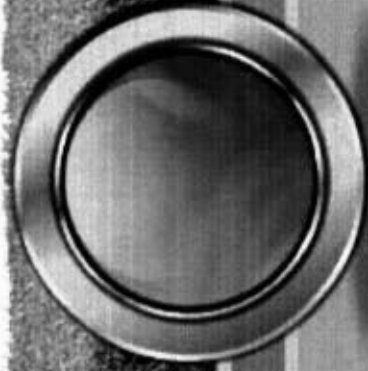
RETAILER AND PARTNER LOCATOR

I AM LOOKING FOR A RETAILER

Find Retailer Partners selling
ENERGY STAR® qualified
products in your area.

I AM LOOKING FOR A CONTRACTOR

Find qualified contractors
providing energy
efficiency services.



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Retailer locator by Zip code:

(contractor locator is similar)

RETAILER AND PARTNER LOCATOR

Dickey Bubbs - Potosi
57.0 Miles

708 East High St.
POTOSI MO 63664
573-436-1177

Butler Supply - Farmington
57.7 Miles

I AM LOOKING FOR A
CONTRACTOR

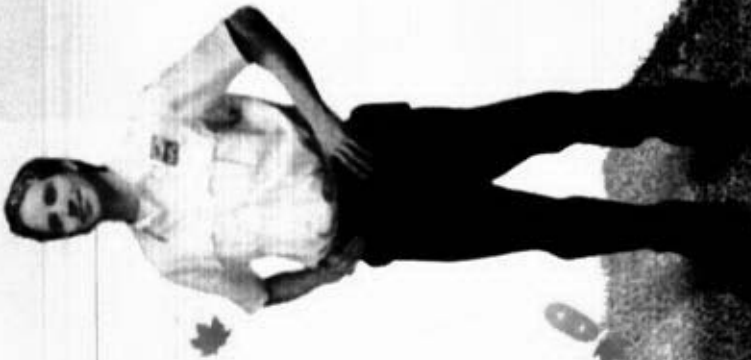

RETAILER

[NEW SEARCH](#)


This retailer carries the following ENERGY STAR® qualified products:
Compact Fluorescent Light Bulbs, Dehumidifiers, Fans with
Lights, Light Fixtures, Window Air Conditioners

Promotions coming soon - check back often.

This retailer carries the following ENERGY STAR® qualified products:
Fans with Lights, Light Fixtures



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Enter zip code, choose a category and find partners in order of mileage from your zip. When a partner is running a promotion it will also be indicated here.