

**BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

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**DIRECT TESTIMONY OF**

**CHRIS B. GILES**

**ON BEHALF OF  
KANSAS CITY POWER & LIGHT COMPANY**

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**IN THE MATTER OF THE APPLICATION OF  
KANSAS CITY POWER & LIGHT COMPANY  
FOR APPROVAL TO IMPLEMENT A PORTFOLIO OF DEMAND SIDE  
MANAGEMENT PROGRAMS INCLUDING  
AFFORDABILITY, ENERGY EFFICIENCY, DEMAND RESPONSE AND  
EDUCATIONAL PROGRAMS, AND TO IMPLEMENT A RIDER FOR RECOVERY OF  
PROGRAM COSTS AND INCENTIVES ASSOCIATED WITH THIS PORTFOLIO**

**DOCKET NO. 10-KCPE-\_\_\_\_-TAR**

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

2 A: My name is Chris B. Giles. My business address is 3301 Trailridge, Independence,  
3 Missouri 64055.

4 **Q: By whom and in what capacity are you employed?**

5 A: I am currently a regulatory consultant to Kansas City Power & Light Company  
6 (“KCP&L” or “Company”). I have been a consultant to KCP&L since my retirement in  
7 July 2009 from my position as KCP&L’s Vice-President, Regulatory Affairs.

1 **Q: As the Vice-President, Regulatory Affairs, what were your responsibilities?**

2 A: My responsibilities included all aspects of regulatory activities including cost of service,  
3 rate design, revenue requirements, and tariff administration.

4 **Q: Please describe your education, experience and employment history.**

5 A: I graduated from the University of Missouri at Kansas City in 1974 with a Bachelor of  
6 Arts degree in Economics and in 1981 with a Master of Business Administration degree  
7 with concentrations in accounting and quantitative analysis. I was first employed at  
8 KCP&L in 1975 as an Economic Research Analyst in the Rates and Regulation  
9 Department. I held positions as supervisor and manager of various rate functions until  
10 1988 when I was promoted to Director of Marketing. In January 1993, I returned to the  
11 rate area as Director, Regulatory Affairs. In March of 2005, I was promoted to Vice-  
12 President, Regulatory Affairs.

13 **Q: Have you previously testified in a proceeding at the Kansas Corporation**  
14 **Commission (“KCC” or “Commission”) or before any other utility regulatory**  
15 **agency?**

16 A: I have previously testified before both the KCC and the Missouri Public Service  
17 Commission on numerous issues regarding utility rates and regulation.

18 **Q: What are your current consulting responsibilities?**

19 A: My responsibilities include assisting and advising the current Senior Director, Regulatory  
20 Affairs regarding all aspects of regulatory activities including cost of service, rate design,  
21 revenue requirements, and tariff administration. In this capacity, I remain actively  
22 involved in KCP&L’s regulatory strategy, including the recovery of costs and mitigation  
23 of the financial impacts of KCP&L’s demand side management (“DSM”) programs.

1 **Q: What is the purpose of your Direct Testimony?**

2 A: The purpose of my testimony is to describe KCP&L's proposed cost recovery and  
3 financial mitigation mechanism related to implementation of KCP&L's DSM customer  
4 programs including demand response, affordability, energy efficiency, and educational  
5 programs as well as a marketing program. Approval of this mechanism will allow  
6 KCP&L to aggressively pursue implementation of the portfolio of DSM programs  
7 contained in this filing.

8 **Q: Are you familiar with the Commission's orders in Docket Nos. 08-GIMX-441-GIV**  
9 **("441 Docket") and 08-GIMX-442-GIV ("442 Docket") related to energy efficiency**  
10 **and demand response programs?**

11 A: Yes, I have reviewed in detail the Commission's orders and related material presented in  
12 the workshops leading up to the Commission's orders. In addition, I have researched  
13 various legislative statutes, commission orders and rulemakings related to energy  
14 efficiency in other states.

15 **Q: How does KCP&L currently recover costs related to its pilot DSM programs?**

16 A: KCP&L is allowed, on a deferred basis, to recover the costs associated with  
17 implementation, administration, evaluation, and customer incentives for its current  
18 programs, collectively referred to as "program costs." Program costs are accumulated for  
19 an annual period and recovery begins six months later, resulting in an 18-month lag for  
20 recovery. These annual costs are recovered pursuant to an Energy Efficiency Rider  
21 ("EE Rider") first authorized in the Commission's Order in Docket No. 07-KCPE-905-  
22 RTS and specifically approved in the annual filings in Docket Nos. 08-KCPE-802-TAR  
23 ("802 Docket") and 09-KCPE-770-TAR ("770 Docket"). KCP&L's annual filing for

1 recovery of 2009 program costs, Docket No. 10-KCPE-636-TAR (“636 Docket”), is  
2 currently pending before the Commission. The charge for the EE Rider appears as a  
3 separate line item on the customer’s bill and is expressed as a cents per kilowatt-hour  
4 (“kWh”) charge.

5 **Q: What is the currently approved kWh charge for KCP&L’s customers?**

6 A: The currently approved charge level, called the EE Factor, varies by customer class as  
7 shown below.

8	Residential Service	\$0.00110/kWh
9	Small General Service	\$0.00101/kWh
10	Medium General Service	\$0.00092/kWh
11	Large General Service	\$0.00083/kWh
12	Large Power Service	\$0.00081/kWh

13 **Q: Will these charge levels change if KCP&L’s pending EE Rider in the 636 Docket is**  
14 **approved?**

15 A: Yes. They will increase somewhat as shown below because KCP&L has continued to  
16 grow customer participation in its pilot programs. These EE Factor levels are based upon  
17 KCP&L’s actual 2009 expenditures for its Kansas DSM pilot programs of approximately  
18 \$9.1 million and reflect Staff’s recommendation in the 636 Docket.

19	Residential Service	\$0.00175/kWh
20	Small General Service	\$0.00130/kWh
21	Medium General Service	\$0.00131/kWh
22	Large General Service	\$0.00107/kWh
23	Large Power Service	\$0.00095/kWh

1 This would equate to a monthly charge of approximately two dollars (\$2.00) for the  
2 average residential and small commercial customer.

3 **Q: How does KCP&L propose to modify the existing cost recovery mechanism?**

4 A: KCP&L proposes two significant modifications. First, KCP&L proposes to remove the  
5 18-month recovery lag currently embedded in the EE Rider. Instead, KCP&L proposes  
6 to recover program costs on a timely rather than a deferred basis. Second, KCP&L  
7 proposes the addition of a shared net benefit mechanism which will address the  
8 throughput disincentive.

9 **Q: Why does KCP&L believe these changes are necessary?**

10 A: On the first issue, KCP&L notes the Commission's statements in its Orders regarding a  
11 rider providing nearly contemporaneous recovery of costs. A rider can be designed to  
12 provide such nearly contemporaneous recovery; however, KCP&L's current EE Rider is  
13 not structured in that manner. Essentially, it can be viewed that money spent on DSM  
14 programs in January of one year is not recovered until 18 months later in July of the  
15 following year. No interest or carrying charges are applied. KCP&L does not believe  
16 that this meets the Commission's goal of nearly contemporaneous recovery of costs nor  
17 does it incent KCP&L to continue implementation of DSM programs. KCP&L is  
18 therefore proposing a structure similar to its Energy Cost Adjustment ("ECA") Rider  
19 which allows for recovery based upon projected expenditures for each year with mid-year  
20 adjustments and annual true-up as will be explained in more detail later in my testimony.  
21 The mid-year review of the projections will help mitigate concerns that customers may  
22 over-pay if projections are incorrect.

1 **Q: Why is the shared net benefits mechanism being proposed?**

2 A: Given the guidelines offered in the Commission's 441 and 442 Orders, KCP&L believes  
3 recovery of lost margin or throughput disincentive associated with implementation of  
4 demand side management programs, particularly energy efficiency programs, is best  
5 recovered through shared net benefits rather than through use of a decoupling  
6 mechanism, at this time, although decoupling may be evaluated in the future as Kansas  
7 progresses down the EE learning curve. Absent recovery of the throughput disincentive,  
8 KCP&L earnings will be reduced by larger and larger amounts over time unless it would  
9 file annual rate cases to recover ongoing costs and return on rate base based on the  
10 reduced level of sales resulting from effective demand side management programs. Even  
11 with annual rate cases the lag associated with test year data and effective date of rates  
12 will, at a minimum, result in an annual reduction in earnings. The direct cost recovery  
13 approach keeps separate projection and account of each individual year's DSM program  
14 costs. In parallel, the performance incentive, through the shared net benefits mechanism,  
15 will focus on the net benefits of each year's DSM programs in net present value terms.  
16 However, KCP&L proposes to soften the rate impacts of the performance incentive by  
17 recovering the shared net benefits over three years. The term "vintage year" refers to the  
18 year the program expenditures were incurred. This differentiates the term vintage year  
19 from the three "recovery years" in which the cost recovery is occurring. The vintage year  
20 and the first recovery year are the same.

21 **Q: Can you describe in detail how this new rider will work?**

22 A: KCP&L proposes two changes to its existing recovery mechanism. First, program costs  
23 would be estimated each December for the upcoming calendar year and the estimates

1 would be re-evaluated each July. If the revised projections cause more than a 10 percent  
2 change in the DSM Factor (which is a cents per kWh charge similar to the EE Factor  
3 used by the EE Rider), then revised DSM Factors would be submitted for the remainder  
4 of the year in order to minimize any over- or under-recovery and any true-up amount.  
5 This forward-looking methodology is consistent with the forward-looking methodology  
6 used in KCP&L's ECA Rider except that the ECA Factors are re-evaluated on a quarterly  
7 rather than a semi-annual basis as they are much larger numbers. These forecasted  
8 calendar year program costs would then be recovered through the proposed DSM Rider  
9 throughout the calendar year with a true-up to actual costs the following year in  
10 conjunction with an audit of costs, similar to the ECA Rider process. Except for any  
11 true-up amounts, all program costs incurred in a given year would be recovered in that  
12 same vintage year - the year in which the program costs are incurred.

13 Second, the cents per kWh factor or DSM Factor would include an additional  
14 amount—an incentive amount—equal to 50 percent of the projected net benefits for the  
15 energy efficiency programs in the portfolio divided by three (3) so that it would be  
16 recovered over three years. The net benefit is the numerical difference between the  
17 estimated present value of benefits and the program costs for the vintage year. For the  
18 demand response programs in the portfolio, the DSM Factor would include 25 percent of  
19 the net benefits of those programs. That is, the new DSM Rider would include 50 percent  
20 of the net benefits generated by energy efficiency programs and 25 percent of the net  
21 benefits generated by demand response programs, with recovery of these spread over  
22 three years. Educational programs and the marketing program would not be included in  
23 the shared benefits calculations.

1           The application of one third of the shared net benefits of the energy efficiency  
2 programs each year, resulting in recovery over three years, is fully shown in the  
3 DSM Rider tariff attached to the testimony of KCP&L witness Curtis Blanc as  
4 Schedule CDB-16. This results in two benefits. First, the initial rate impact is softened.  
5 Second, this provides the ability to fix the percentage as a constant that reasonably  
6 compensates for the increasing throughput disincentive and provides a reasonable amount  
7 of incentive for KCP&L. Note that this mechanism does not compensate KCP&L for lost  
8 margin indefinitely for each vintage year; it only provides for a few years recovery of the  
9 lost margin associated with each vintage year. From a financial perspective, the  
10 mechanism moves KCP&L toward indifference as to whether demand and energy  
11 requirements are met by additional supply resources or demand and energy requirements  
12 are reduced such that additional supply resources are not required or delayed. KCP&L  
13 recognizes that from a societal perspective, meeting future demand and energy resource  
14 requirements with DSM programs, which pass the Total Resource Cost benefit/cost test,  
15 as is the case here, can be a benefit to all and good public policy. The financial  
16 mitigation that is proposed will eliminate KCP&L and its shareholders being penalized in  
17 the transition from supply-side to demand-side resources.

18 **Q: Are there performance goals or targets that tie to the shared benefits percentage?**

19 A: Yes, the performance goals and related shared benefits percentages are included in the  
20 tariff. In simple terms, the percentage may increase or decrease depending upon the  
21 performance results of the portfolio, based on a percent of kWh or kW savings achieved,  
22 relative to the target that will be approved by the Commission for each vintage year DSM  
23 program. Just as with the cost recovery, the DSM Factors will be set up each year



1 assuming that 100 percent of the target is accomplished. When the actual participation  
2 results for a vintage year program are known, the results would be true-up in  
3 conjunction with the annual audit noted above for the actual program costs.

4 **Q: How does the evaluation, measurement and verification (“EM&V”) process fit in**  
5 **with your proposed methodology and true-up?**

6 A: There will essentially be two phases of true-up: an annual true-up and a true-up upon  
7 completion and Commission approval of EM&V for each program. The proposed true-  
8 up process for the new DSM Rider is designed to true-up both program costs and shared  
9 net benefits, and includes two components: one occurs every year and one occurs only  
10 after the EM&V process has been completed and approved for a program. The first is  
11 similar to that used for the Company’s ECA Rider. By April 1 each year, the Company  
12 would file a comparison of its actual program costs for the previous year to the amount  
13 recovered for program costs during that year. It would also include a comparison of  
14 shared net benefits based upon actual program participation for the previous year to the  
15 amount recovered for shared net benefits during that year that was based on projected  
16 program participation. A true-up factor would be included in the DSM Rider beginning  
17 July 1 of that year, subject to an audit by Staff to account for any over- or under-  
18 recovery. The second true-up component occurs following completion and Commission  
19 approval of EM&V results for a program. Following such approval, KCP&L would file a  
20 comparison of shared net benefits for the period encompassed by the EM&V review  
21 based upon actual program participation and savings determined by the approved EM&V  
22 results. The true-up factor included in the DSM Rider would be adjusted to account for  
23 any over- or under-recovery of shared net benefits. The two components of the true-up

1 mechanism must be handled on separate schedules because of the multi-year lag in  
2 completion and review of the EM&V study which is assumed to be conducted after two  
3 full years of a program being in place with completion and approval assumed to be  
4 completed no earlier than the end of the third year following program implementation.

5 **Q: What is the dollar amount of 50 percent of net benefits for energy efficiency?**

6 **A:** Using the amount of savings based on avoided costs compared with program costs on a  
7 net present value basis, over the initial five-year period, KCP&L would recover average  
8 annual revenue of approximately \*\*[REDACTED]\*\* related to implementation of the  
9 energy efficiency programs contained in this proposal. This amount is representative of  
10 what the Commission has termed a throughput incentive and a minimal profit for  
11 KCP&L. The proposed shared benefits percentage is dependent on the approval by the  
12 Commission of the proposed net present value of benefits calculation in this proceeding.  
13 In other words, if the method of calculating the net present value of benefits changes,  
14 then the resulting shared benefits (percentage) must change so that KCP&L would still  
15 recover approximately \*\*[REDACTED]\*\* per year.

16 **Q: What is the dollar amount of 25 percent of net benefits for demand response?**

17 **A:** The average annual revenue recovery over a five-year period for demand response  
18 programs is approximately \*\*[REDACTED]\*\*. As discussed above, the shared benefits  
19 percentage is dependent on the approval by the Commission of the proposed net present  
20 value of benefits calculations.

1 **Q: How does this proposal compare to other states' cost recovery and "incentive"**  
2 **mechanisms?**

3 A: Generally, the only commonality among states regarding demand side management  
4 programs is the three components that impact the utility: program costs, throughput and  
5 profit. The latter two are typically referred to as incentives. Various states contain  
6 specific throughput incentive mechanisms, or combinations of shared benefits  
7 percentages with or without caps, and with performance targets or goals. It is a relatively  
8 simple calculation to determine the average revenue requirement associated with energy  
9 efficiency programs. The various mechanisms adopted by each state will allow the utility  
10 to achieve its full revenue requirement or will allow a lesser or greater amount largely  
11 dependent, in my opinion, on the individual state commission's or the legislature's  
12 appetite or political will to support energy efficiency.

13 **Q: Is KCP&L's proposal consistent with the Commission's orders in the 441 and 442**  
14 **Dockets?**

15 A: Yes, for the most part. The Commission indicated its preference for a shared benefits  
16 approach to any incentives. In addition, the Commission indicated a preference for  
17 decoupling total revenue rather than specific throughput incentives. KCP&L's proposal  
18 provides for recovery of program costs and a shared net benefits incentive without  
19 specific throughput or return on investment designations. KCP&L's intent with this  
20 proposal is to meet the Commission's preferences contained in the 441 and 442 Docket  
21 Orders and, at a minimum, position the Company to be more or less indifferent between  
22 energy efficiency programs and supply side resources.

1 **Q: Did KCP&L consider energy efficiency and demand response programs separately**  
2 **in its analysis, as discussed by the Commission in the 441 Docket?**

3 A: Yes, KCP&L considered demand response programs separately and proposes a lower  
4 financial mitigation percentage compared to its energy efficiency programs. The  
5 Commission indicated in its orders that demand response programs should not include an  
6 incentive or financial mitigation. The only difference between demand response and  
7 energy efficiency programs is the level of throughput incentive required. For purposes of  
8 calculating avoided cost and lost margins, KCP&L assumed zero reduction in kWh sales  
9 as a result of demand response programs. Thus, KCP&L proposes to retain a lower  
10 percentage of net benefits with demand response than energy efficiency programs.

11 **Q: Please discuss the Commission's statement in the 441 Docket that since a rider**  
12 **allows for almost contemporaneous recovery of costs, it reduces the need for**  
13 **carrying costs, creation of regulatory assets, and a return on such deferred assets.**

14 A: The Commission's statement does not recognize that rate of return regulation is not  
15 consistent with energy efficiency and demand response programs. Rate of return  
16 regulation is based on the presumption utilities invest in and build infrastructure, e.g.,  
17 generation plants. Rate of return and cost of capital regulation represents the  
18 determination of the reasonable target level of profit for the utility's shareholders.  
19 Demand response and energy efficiency programs still require a means for utility  
20 shareholders to receive an acceptable level of return or profit. Absent an incentive or  
21 financial mitigation mechanism, a utility's profit will be reduced due to implementation  
22 of energy efficiency and demand response programs.

1 **Q: Why are you proposing a shared net benefits approach?**

2 A: The Commission discussed consideration of the shared benefits approach in its 441 Order  
3 and outlined the following conditions:

- 4 1. Whether the incentive plan is likely to increase the utility's investment in the  
5 energy efficiency program;
- 6 2. Whether the incentive plan is compatible with the interests of utility ratepayers  
7 and other interested parties; and
- 8 3. Whether the incentive plan ties the incentive to the utility's performance in  
9 achieving Commission-set goals.

10 The shared benefit proposed by the Company will result in mitigating the negative  
11 financial impacts that are currently present for utility investment in demand response and  
12 energy efficiency programs. KCP&L will aggressively pursue cost-effective programs  
13 under this proposal. The level of program funding utilized in the current analysis  
14 represents a continuation of current programs as contemplated in the regulatory  
15 (comprehensive energy) plan. However, absent a satisfactory shared benefits mechanism  
16 it is unlikely KCP&L will continue the current level of demand response and energy  
17 efficiency programs or increase the level of funding for these programs.

18 By meeting the cost-effectiveness test, these programs have been shown to be less  
19 costly in terms of present value to customers than the alternative of unmitigated peak  
20 demand and energy usage. The untapped potential for KCP&L's DSM programs exists  
21 because it is never easy to get customers to pay more today to save an even greater  
22 amount later. This is true even under better economic conditions than exist today and has  
23 always been the major impediment to sustainable, aggressive, cost-effective, demand

1 response and energy efficiency program implementation. However, the impact on  
2 customers' bills is mitigated by the sale of energy into the off-system sales market which  
3 is credited back to customers through KCP&L's ECA Rider. The average impact to  
4 customers of KCP&L's proposal over five years is \$0.00308 per kWh or \$3.54 per month  
5 for the average usage of a residential customer.

6 **Q: When does KCP&L propose EM&V occur?**

7 A: The Commission had indicated a preference for EM&V to occur after two years of a  
8 program being in place with the EM&V process expected to take six months to complete.  
9 In fact, this is the schedule used by KCP&L under the Regulatory Plan. Seven of the  
10 programs being proposed with this portfolio have already undergone EM&V on that  
11 schedule. KCP&L can abide by a continuation of that schedule but offers that a longer  
12 schedule may be in order given the maturity level of KCP&L's programs and, as a result,  
13 the expectation that all programs in the portfolio will undergo EM&V at the same time.  
14 KCP&L proposes a true-up and measurement at the end of the first three years of the  
15 portfolio. All items would be trued-up with the exception of the avoided cost per kWh or  
16 kW. Any over- or under-recovery of costs and incentives would be rolled into the  
17 calculation for the next three-year cycle, or refunded to customers as a credit to the next  
18 three-year cycle of programs. It is more cost effective to conduct this analysis on a three-  
19 year cycle rather than annually.

20 **Q: Does that conclude your testimony?**

21 A: Yes, it does.

**BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

In the Matter of the Application of Kansas )  
City Power & Light Company for Approval )  
To Implement a Portfolio of Demand Side )  
Management Programs Including )  
Affordability, Energy Efficiency, Demand )  
Response and Educational Programs, and to )  
Implement a Rider for Recovery of Program )  
Costs and Incentives Associated with this )  
Portfolio )

Docket No. 10-KCPE-\_\_\_\_-TAR

**AFFIDAVIT OF CHRIS B. GILES**

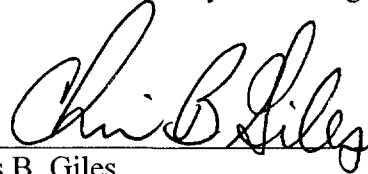
**STATE OF MISSOURI** )  
 ) ss  
**COUNTY OF JACKSON** )

Chris B. Giles, being first duly sworn on his oath, states:

1. My name is Chris B. Giles. I work in Kansas City, Missouri, and I am currently a regulatory consultant to Kansas City Power & Light Company.

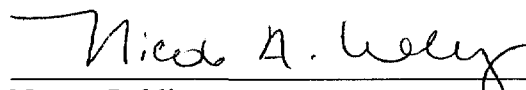
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Kansas City Power & Light Company consisting of fourteen (14) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.



Chris B. Giles

Subscribed and sworn before me this 11<sup>th</sup> day of June, 2010.



Notary Public

My commission expires: Feb. 4, 2011

