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designates confidential information

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

10.29.10 14:02:47
Kansas Corporation Commission
/S/ Susan K. Duffy

STATE CORPORATION COMMISSION

OCT 29 2010



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-795-TAR

CROSS ANSWERING TESTIMONY

OF

STACEY HARDEN

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

PUBLIC VERSION

**** [REDACTED] ** *DESIGNATES***

CONFIDENTIAL INFORMATION

October 29, 2010

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

2 A. My name is Stacey Harden and my business address is 1500 SW Arrowhead
3 Road, Topeka, KS 66604-4027.

4

5 **Q. Did you previously file testimony in this proceeding?**

6 A. Yes. On October 15, 2010, I filed Direct Testimony on behalf of the Citizens'
7 Utility Ratepayer Board ("CURB").

8

9 **Q. What is the purpose of your Cross-Answering Testimony?**

10 A. The purpose of my Cross-Answering Testimony is to respond to the testimonies
11 submitted by Staff witnesses Dr. Michael Schmidt, Mr. Michael Deupree, and Mr.
12 James Sanderson of Kansas Corporation Commission Staff ("Staff"), and the
13 testimonies of Jeffrey Loiter and Dylan Sullivan submitted on behalf of the
14 Climate and Energy Project.

15

16 **Q. Please begin with the testimony provided by Dr. Michael Schmidt. What is
17 the purpose of Dr. Schmidt's testimony?**

18 A. Dr. Schmidt's direct testimony presents Staff's views on energy-efficiency and
19 Staff's positions on issues specific to this case, as well as a number of other
20 energy-efficiency issues including fuel-switching, rate design, and builder
21 incentives.

22

23

24

1 **Q. Does Dr. Schmidt make any recommendations to the Commission regarding**
2 **KCPL’s proposed portfolio of DSM programs?**

3 A. No. Dr. Schmidt does not make any recommendations to the Commission
4 specifically relating to Kansas City Power and Light Company’s (“KCPL” or
5 “Company”) proposed portfolio of DSM programs.

6
7 **Q. What is Dr. Schmidt’s opinion of KCPL’s proposed cost recovery**
8 **mechanism?**

9 A. Dr. Schmidt indicates he does not agree with the company’s forward-looking cost
10 recovery mechanism and that the incentives requested by KCPL through its
11 shared savings mechanism are too high and “unfair and unjust to KCPL customers
12 who in some cases must take specific actions or investments to accomplish the
13 energy savings that KCPL seeks a reward for.”¹ However, despite acknowledging
14 that KCPL’s proposed mechanism is unfair and unjust, Dr. Schmidt concludes
15 that a “sharing benefits mechanism is required.”²

16
17 **Q. Should the Commission conclude that a shared benefits mechanism is**
18 **required in order to achieve energy-efficiency goals?**

19 A. No. First, KCPL’s history of investment in DSM programs is evidence that DSM
20 programs can be designed, administered and offered by utilities, without a shared
21 benefits mechanism. KCPL has been voluntarily offering a variety of DSM
22 programs in Kansas since 2005. KCPL has continued to design and offer new

¹ Direct Testimony of Dr. Michael Schmidt at page 15-16.

² Direct Testimony of Dr. Michael Schmidt at page 16.

1 programs, while increasing participation and investment in its DSM programs,
2 without a shared benefits mechanism.

3 Second, the addition of a performance incentive will raise the cost of
4 energy-efficiency programs for ratepayers. In its Final Order in 08-GIMX-441-
5 GIV (“441 Docket”), Commission indicated that it would consider performance
6 incentives for energy-efficiency programs, but also expressed hesitation to award
7 performance incentive mechanisms. In its order, the Commission stated that it “...
8 views energy efficiency as a means to an end — energy at a low cost to
9 consumers within the context of a balanced energy resource portfolio -- not an
10 end in itself that must be rewarded.”³ The Commission further elaborated that
11 “(t)he Commission's responsibility, however, is not to optimize utility profits, but
12 to seek an appropriate balance between utility customer and shareholder interests
13 ...”⁴ The Commission’s order was supported by the recommendations of Staff
14 and is applicable to KCPL’s request for a shared benefits mechanism.

15
16 **Q. Even though a shared savings mechanism is not required to achieve**
17 **efficiency goals, would CURB oppose a correctly designed mechanism?**

18 **A.** No. CURB would not oppose a shared savings mechanism, if it was designed to
19 meet the following conditions:

- 20 • Actual energy savings from the energy-efficiency program must be
21 verified through an independent EM&V and approved by the Commission,
22 Staff and CURB.

³ November 14, 2008 *Final Order* in KCC Docket No. 08-GIMX-441-GIV at ¶ 89.

⁴ November 14, 2008 *Final Order* in KCC Docket No. 08-GIMX-441-GIV at ¶ 91.

- 1 • Before receiving a financial reward, the verified actual energy savings
- 2 obtained from the energy-efficiency program must meet a target
- 3 performance level that was established by the Commission.
- 4 • After verification of actual savings, the utility would be awarded a
- 5 percentage (no more than 10%) of the savings obtained from the program,
- 6 up to a predetermined cap established by the Commission.

7

8 **Q. Does Dr. Schmidt make a recommendation regarding fuel switching**
9 **implications in KCPL’s proposed portfolio of programs?**

10 A. Yes. Dr. Schmidt recommends the Commission “make a determination in this
11 docket regarding the use of incentives in energy efficiency programs with the
12 intent of encouraging a change in fuel-source, incentives to developers/builders
13 and equipment dealers (rebates for the purchase of a new appliance), and
14 regarding line extension policies by disallowing any monies from such incentives
15 from the revenue requirement of the utility such that those fuel-switching
16 incentives are paid for by the Company’s shareholders and NOT by customers.”⁵
17 However, it is unclear how Dr. Schmidt’s concerns regarding fuel switching relate
18 to KCPL’s proposed portfolio of programs or cost recovery mechanism. None of
19 Staff’s witnesses in this docket address fuel-switching as a concern relating to
20 KCPL’s proposed portfolio of programs.

21

22

⁵ Direct Testimony of Dr. Michael Schmidt at page 20.

⁷ Direct Testimony of Dr. Michael Schmidt at page 16.

1 **Q. Do you agree with Dr. Schmidt’s recommendation regarding fuel-switching?**

2 A. I agree with Dr. Schmidt that incentives paid to customers or builders to incent
3 the purchase and installation of fuel-specific appliances should not be included in
4 rates and should be recovered from the Company’s shareholders. However, his
5 recommendation feels misplaced in the context of this docket. With the possible
6 exception of KCPL’s proposed ENERGY STAR® New Homes Program, none of
7 KCPL’s proposed programs include incentives to encourage the purchase and
8 installation of electric appliances.

9

10 **Q. During his discussion of fuel-switching, Dr. Schmidt also references line**
11 **extension policies. Should the Commission make a decision in this docket**
12 **regarding line extension policies?**

13 A. No. KCPL’s application does not request clarification of the Commission’s line
14 extension policies, nor is it requesting reimbursement for funds spent for line
15 extensions. The Commission should not be tasked in this docket to rule on generic
16 policy issues that are not related to the Company’s application.

17

18 **Q. What is Dr. Schmidt’s position on lost revenue recovery mechanisms?**

19 A. Dr. Schmidt indicates that “Staff is not in favor of giving a utility any amount for
20 the form of decoupling known as “lost revenue” recovery.” Dr. Schmidt further
21 elaborates that “Staff prefers to see “lost revenue” or other decoupling
22 mechanisms implemented in a formal rate case when all factors that influence
23 revenue requirements can be viewed together.”⁷

24

1 **Q. Is KCPL requesting recovery of lost revenues?**

2 A. Yes. Chris Giles testimony indicates that “KCP&L believes recovery of lost
3 margin or throughput disincentive associated with implementation of demand side
4 management programs, particularly energy efficiency programs, is best recovered
5 through shared net benefits ...”⁸ KCPL further elaborated its position in its
6 response to CURB Data Request No. 18, stating “(t)he portion of the proposed
7 shared net benefit that will reduce the throughput disincentive by recovering lost
8 margins at the target threshold is approximately 50% at year 1 and grows over
9 time to 100%.”⁹

10

11 **Q. Based upon Dr. Schmidt’s testimony and KCPL’s acknowledgment that its**
12 **shared savings mechanism is intended to recover lost revenues, should the**
13 **Commission approve KCPL’s shared savings mechanism?**

14 A. No. While KCPL has not requested approval of a lost revenue recovery
15 mechanism, it is clear from its application and data request responses that at least
16 50% of the proposed performance incentive mechanism is intended to recover lost
17 revenues.

18

19 **Q. Do you have another general comment regarding Dr. Schmidt’s testimony?**

20 A. Yes. Dr. Schmidt’s testimony spends a considerable amount of time discussing
21 issues that do not pertain to KCPL’s application like decoupling and the
22 difference between energy efficiency and energy conservation. These issues, as

⁸ Direct Testimony of Chris Giles, at page 6.

⁹ KCPL Response to CURB Data Request No. 18.

1 well as other generic policy issues pertaining to energy efficiency, were addressed
2 by the Commission in the 08-GIMX-442-GIV (“442”) and 441 Dockets. While
3 his testimony may be insightful, it never-the-less lacks relevance to KCPL’s
4 application.

5
6 **Q. What are Staff witness Mr. Deupree’s recommendations to the Commission?**

7 A. Mr. Deupree presents a benefit-cost analysis of KCPL’s proposed portfolio of
8 programs utilizing the benefit-cost framework outlined by the Commission in its
9 442 Docket. Based on his analysis, Mr. Deupree makes the following
10 recommendations to the Commission:

- 11 • Recommends Commission approval of KCPL’s Energy Saver Loan
12 program – conditioned upon establishing an appropriate administrative
13 charge for participants and providing support for the administrative
14 charge during the company’s annual Energy Efficiency Cost Recovery
15 Rider filing;
- 16 • Recommends the Commission approve KCPL’s Cool Homes program –
17 conditioned upon the Company working with Staff to conduct a new
18 Evaluation, Measurement and Verification (“EM&V”) during 2011;
- 19 • Recommends Commission approval KCPL’s Low-Income
20 Weatherization;
- 21 • Recommends the Commission approve KCPL’s Energy Optimizer
22 Program; and
- 23 • Recommends the Commission grant a temporary extension of KCPL’s

1 The ENERGY STAR® New Homes program, postponing any renewal
2 decision until after an EM&V of the program is completed.

3

4 **Q. Did Mr. Deupree perform the benefit-cost tests used as a basis for his**
5 **recommendations?**

6 A. Mr. Deupree prepared the benefit-cost test for KCPL’s Energy Saver Loan
7 program, but relied upon KCPL’s Demand Side Management Option Risk
8 Evaluator (“DSMore™”) model to calculate the benefit-cost tests for KCPL’s
9 remaining programs.

10

11 **Q. How did Mr. Deupree conduct his benefit-cost analyses in DSMore™?**

12 A. In KCC Staff Data Request No. 28, Mr. Deupree asked KCPL to re-run its
13 DSMore™ models assuming ** [REDACTED]
14 [REDACTED]**, avoided capacity of ** [REDACTED]**, a 2% attrition rate for
15 electrical savings, and excluding any non-carbon environmental costs. In its
16 response to KCC Staff Data Request No. 28, KCPL provided Mr. Deupree with
17 the results of the revised benefit-cost tests.

18

19 **Q. Do you agree with Mr. Deupree’s assumptions in his benefit-cost analyses?**

20 A. No, I do not. First, in his testimony, Mr. Deupree indicates that Staff has used
21 “\$66.00 per kW as a general rule of thumb for the appropriate value of avoided
22 generation costs. This value has been obtained from realized costs to construct the

1 Emporia Energy Center (“Emporia”).”¹⁰ Mr. Deupree further elaborates that
2 KCPL’s “estimate of ** [REDACTED] ** is already on the high end of
3 assumptions that Staff believes are reasonable assumptions for avoided costs.”¹¹
4 However, despite Mr. Deupree’s recognition that \$66.00 per kW is an
5 appropriate value for avoided generation costs and that ** [REDACTED] ** is a
6 higher than reasonable assumption for avoided costs, he used ** [REDACTED] **
7 in his benefit-cost analyses.
8

9 **Q. Did Mr. Deupree explain why he used ** [REDACTED] ** for avoided
10 capacity costs instead of \$66.00 per kW?**

11 A. No. Mr. Deupree provided no explanation why he used ** [REDACTED] ** in his
12 benefit-cost analyses, when Staff’s rule of thumb is \$66.00 per kW.
13

14 **Q. What amount should Mr. Deupree have used for avoided capacity costs in his
15 benefit-cost analyses?**

16 A. Mr. Deupree should have used \$0 as his avoided capacity number. Mr. Deupree’s
17 inclusion of ** [REDACTED] ** for avoided capacity costs is inappropriate. Mr.
18 Deupree is including avoided capacity costs as if KCPL could avoid building a
19 combustion turbine (“CT”) entirely, which is inconsistent with the company’s
20 forecasted need to construct a CT 2023 or 2025. As I explained in my direct
21 testimony, KCPL does not avoid the cost of building a CT, but merely saves the
22 time value of money of delaying the construction two years. Because KCPL is

¹⁰ Direct Testimony of Michael Deupree at page 11.

¹¹ Direct Testimony of Michael Deupree at page 11.

1 not avoiding any capacity, Mr. Deupree should have used \$0 as his avoided
2 capacity number.

3
4 **Q. Excluding the amount of avoided capacity costs, are you confident that Mr.
5 Deupree's benefit-cost analyses are accurate?**

6 A. No. Mr. Deupree did not perform his own benefit-cost analyses; KCPL's
7 DSMore™ ran the analyses. As I stated in my direct testimony, KCPL's
8 DSMore™ program is a highly technical and complicated program. This is
9 evidenced by KCPL's response to KCC Staff Data Request No. 1 – which
10 requested “all working papers used to prepare prospective benefit-cost results”.¹²
11 In its response, KCPL provided Staff with 826 DSMore™ spreadsheets,
12 supporting the benefit-cost test results for seven of KCPL's proposed programs.
13 In addition to the benefit-cost test results, each DSMore™ created spreadsheet file
14 contains more than five additional spreadsheets of inputs, financial reports, loads
15 and usages, and greenhouse gas impacts. Because of the sheer volume of data and
16 the complexity of the model that calibrates the data, it is difficult at best to
17 conclude that the benefit-cost tests provided by the Company with the four
18 changes requested by Mr. Deupree are accurate.

19
20 **Q. What are the impacts of overstating avoided costs?**

21 A. Overstating the avoided costs of energy-efficiency programs will inflate the
22 benefit-cost test results. Overstating avoided costs results in spending more
23 consumer dollars on programs that, in fact, do not provide a positive benefit.

¹² KCC Staff Data Request No. 1

1 Many of KCPL’s programs have low Ratepayer Impact Method (“RIM”) scores
2 and barely pass the Total Resource Cost (“TRC”) test. If the avoided costs are
3 overstated, the TRC test results are also overstated. The impact of overstating
4 avoided costs is that programs may barely pass the benefit-cost tests, but may in
5 fact **not** have a positive benefit-cost test result.

6

7 **Q. What benefit-cost tests were emphasized by the Commission in its order in**
8 **the 442 Docket?**

9 A. In the Commission’s order in the 442 Docket, the Commission indicated that it
10 would place emphasis on the TRC Test, because the TRC test reflects the benefit
11 of implementing an energy-efficiency program throughout the utility’s territory.
12 Further, the Commission also identified “mitigation of customer bill increases as a
13 primary goal. Thus, the Commission will also place an emphasis on the review of
14 the Ratepayer Impact Method (RIM) Test.”¹³

15

16 **Q. Under what circumstances should the Commission approve a program with a**
17 **RIM score of less than 1.0?**

18 A. The Commission stated that an energy-efficiency program that scores less than
19 one on the RIM test “may still be considered by the Commission for approval,
20 depending on the degree of RIM test failure, (and) its performance on the other
21 tests ...”¹⁴ I would expect the Commission to consider approval of a program that
22 has a slight RIM failure but can achieve a high TRC score. The RIM test is an

¹³ June 2, 2008 *Order Setting Energy Efficiency Policy Goals* in Docket No. 08-GIMX-442-GIV, at ¶ 39-40.

¹⁴ *Id.* ¶23.

1 indicator of how much rates will increase as a result of the program. CURB
 2 assumes the Commission would seek to minimize any rate increase attributable to
 3 these programs. A slight RIM failure with a significant TRC means rates may go
 4 up slightly, but there is a large overall benefit to the system. However, a poor
 5 RIM score coupled with a low TRC means rates will increase significantly with
 6 very little overall benefit to the system.

7
 8 **Q. What are the results of Mr. Deupree’s benefit-cost analyses?**

9 A. Below is a summary of the benefit-cost tests results calculated by DSMore™,
 10 with the changes requested by Mr. Deupree.

Program Name	RIM	TRC	PAC
C&I Rebate Program	0.46	1.25	1.85
Cool Homes	0.54	1.04	1.39
Optimizer	0.89	1.05	0.89
Energy Star New Homes	0.36	0.65	0.72
Low Income Weatherization	0.05	0.06	0.06
MPower	1.44	1.45	1.45
Energy Saver Loan Program	0.78	0.84	12.77

11
 12 **Q. Do KCPL’s proposed programs achieve a significant TRC score to offset the**
 13 **severe degree of RIM failure?**

14 A. No. According to the benefit-cost analysis performed by Mr. Deupree, KCPL’s
 15 proposed C&I Rebate, Cool Homes, and Optimizer programs have a high degree
 16 of RIM failure, while only achieving TRC scores of 1.25, 1.04, and 1.05,
 17 respectively. In my opinion, these TRC scores significant enough to offset the
 18 failing RIM scores of 0.46, 0.54, and 0.89. Further, as I previously indicated, it is

1 my opinion that these results are overstated, which would make both the RIM and
2 TRC scores lower than presented in Mr. Deupree's analyses.

3

4 **Q. Do you have additional concerns regarding Mr. Deupree's benefit-cost**
5 **analyses?**

6 A. Yes. According to Mr. Deupree's benefit-cost analyses, some of KCPL's
7 proposed programs have failing Program Administrator Cost Test ("PAC")
8 scores. The PAC test indicates how the energy efficiency program compares with
9 supply-side investments. That is, if the result of the Program Administrator Cost
10 Test is less than one, utility bills will increase because the program's costs are
11 greater than the benefits produced for the utility. In its report in the 442 Docket,
12 Staff suggested that "it would be unlikely for a utility to propose a program that
13 did not have a Program Administrator Cost Test value of one or more. The
14 rational utility would weed out those programs in its resource planning
15 process."¹⁵

16

17 **Q. Does Mr. Deupree recommend the Commission approve programs that fail**
18 **the benefit-cost tests?**

19 A. Yes. Mr. Deupree recommends approval of programs that fail the TRC test, fail
20 the RIM test, **and** fail the PAC test. Despite the Commission's statement that "(i)t
21 is unlikely that a program that fails the TRC test will be approved by the

¹⁵ KCC Docket No. 08-GIMX-442-GIV, *Notice of Filing of Staff's Report to Commission*, December 31, 2008, at page 2.

1 Commission,”¹⁶ Mr. Deupree recommends the Commission approve KCPL’s
2 proposed Energy Optimizer and ENERGY STAR® New Homes programs. These
3 two programs not only fail the TRC test, but also have failing RIM and PAC
4 scores. Mr. Deupree provides no explanation as to why he would recommend
5 Commission approval for programs that fail TRC, RIM and PAC.
6

7 **Q. Do you have any final comments regarding Mr. Deupree’s**
8 **recommendations?**

9 A. Yes. I am concerned that Mr. Deupree is simply rubber-stamping approval of
10 KCPL’s portfolio of DSM programs, despite his own concerns. Throughout his
11 testimony, Mr. Deupree clearly expresses his apprehension with aspects of
12 KCPL’s proposed programs, but then recommends approval anyway. Specifically,
13 Mr. Deupree makes the recommendations:

- 14 • despite his recognition that the Energy Saver Loan program fails RIM, and
15 that there are potential cross-subsidies related to the program and that
16 those subsidies are a “real concern which needs to be addressed”¹⁷, he
17 recommends the Commission approve the Energy Saver Loan program;
- 18 • despite the fact that “(g)enerally, Staff is not supportive of equipment
19 incentives given to customers replacing non-operational equipment.
20 Equipment incentives structured in this manner are usually plagued by

¹⁶ KCC Docket No. 08-GIMX-442-GIV, *Order Following Collaborative on Benefit-Cost Testing and Evaluation, Measurement and Verification*, April 13, 2009, at ¶25.

¹⁷ Direct Testimony of Michael Deupree at page 18.

1 free-ridership,”¹⁸ he recommends the Commission approval of KCPL’s
2 requested changes to its Cool Homes program;

- 3 • despite his analysis which shows that there are a “substantial number of
4 participants where any energy savings at all could not be statistically
5 verified,”¹⁹ he recommends the Commission approve KCPL’s Low-
6 Income Weatherization program,
- 7 • despite the fact that the program does not pass the TRC test and that “Staff
8 is generally concerned by energy efficiency program directed towards new
9 construction, and in particular those directed towards new residential
10 construction. Other jurisdictions have found that such programs are often
11 plagued by high degrees of free-ridership,”²⁰ he recommends the
12 Commission approve KCPL’s ENERGY STAR® New Homes
13 Program;
- 14 • despite the fact that the Energy Optimizer program fails the RIM test when
15 all “(d)emand response programs should, as a rule, be able to pass all
16 tests of cost-effectiveness, including the RIM test, as the program provides
17 immediate system benefits through the reduced need for peak
18 generation,”²¹ he recommends the Commission approve KCPL’s Energy
19 Optimizer program.

20

¹⁸ Direct Testimony of Michael Deupree at page 21.
¹⁹ Direct Testimony of Michael Deupree at page 26.
²⁰ Direct Testimony of Michael Deupree at page 30.
²¹ Direct Testimony of Michael Deupree at pages 35-36.

1 Mr. Deupree provides no explanation why he recommends the
2 Commission approve KCPL’s programs despite the fact that, in some cases, his
3 own analysis of the programs showing no verifiable energy savings or that the
4 programs are able to pass the Commission prescribed benefit-cost tests. His
5 approval of programs, despite having real concerns – for which he offers no
6 recommended action to remedy his real concerns – gives the impression of a
7 simple anything goes approval process. The Commission should address Mr.
8 Deupree’s concerns and take them into consideration when deciding whether or
9 not it makes sense to offer programs about which Staff has so many concerns.

10

11 **Q. Please discuss the testimony provided by Mr. James Sanderson. Does Mr.**
12 **Sanderson reject KCPL’s proposed performance incentive mechanism?**

13 A. Yes. Mr. Sanderson recommends the Commission reject KCPL’s proposed
14 performance incentive mechanism in its current form.

15

16 **Q. Why does Mr. Sanderson recommend the Commission reject KCPL’s**
17 **proposed performance incentive mechanism?**

18 A. Mr. Sanderson opposes KCPL’s proposed performance incentive mechanism for
19 the following reasons:

- 20 • Staff believes that providing KCPL’s shareholders with half of ratepayer
- 21 benefits would be excessive and is unjustified²²,
- 22 • performance incentives should not be awarded for demand response

²² Direct Testimony of James Sanderson at page 4.

1 programs²³, and

- 2 • performance incentives should not be awarded for KCPL’s participation in
3 Efficiency Kansas.²⁴

4

5 **Q. Do you agree with Mr. Sanderson’s reasons for rejecting KCPL’s proposed**
6 **performance incentive mechanism?**

7 A. Yes I do. As part of my direct testimony, I provided the Commission with the
8 Edison Foundation’s Institute for Electric Efficiency: State Energy Efficiency
9 Regulatory Frameworks. This publication details the various energy-efficiency
10 initiatives that are currently in place or under review throughout the United States.
11 I testified that the level of incentives requested by KCPL in its application, greatly
12 exceed the performance incentives awarded in other states.

13

14 **Q. What alternative performance incentive mechanism does Mr. Sanderson**
15 **recommend the Commission approve for KCPL?**

16 A. Mr. Sanderson recommends the Commission approve an earnings-equivalence
17 model. Mr. Sanderson indicates that “(t)he goal is to use earnings-equivalence to
18 reward demand side benefits at a rate equivalent to the return on supply side,
19 ratebased investments.”²⁵

20

21

22

²³ Direct Testimony of James Sanderson at page 8.

²⁴ Direct Testimony of James Sanderson at page 9.

²⁵ Direct Testimony of James Sanderson at page 11.

1 **Q. How did Mr. Sanderson determine that an earnings-equivalence model is the**
2 **correct performance incentive mechanism for KCPL?**

3 A. Mr. Sanderson derives the idea for his earnings-equivalence model from an article
4 that was authored by the current KCC Utilities Director, Dr. Michael Schmidt, in
5 December 2007, while he was employed as a regulatory strategy manager with
6 San Diego Gas and Electric.

7
8 **Q. What incentive level does Mr. Sanderson's earnings-equivalence model**
9 **propose for KCPL?**

10 A. Mr. Sanderson's earnings-equivalence model proposes a 23.17% return on
11 investment in DSM programs. Mr. Sanderson recommends the Commission allow
12 KCPL to receive 23.17% of the projected net benefit from its energy efficiency
13 programs.

14
15 **Q. Do you agree with Mr. Sanderson that a performance incentive of 23.17% of**
16 **net benefits is appropriate?**

17 A. No. Mr. Sanderson rejects KCPL's proposed 50% of net benefits performance
18 incentive because it is "larger than most offered in other states."²⁶ However, Mr.
19 Sanderson's alternative performance incentive mechanism is also larger than most
20 offered in other states. Exhibit JMS-1 of Mr. Sanderson's direct testimony details
21 the maximum or cap on performance incentive mechanisms that are offered in
22 other states. Mr. Sanderson uses this exhibit as evidence to support Staff's
23 position that a 50% sharing of net benefits is too large. However, according to Mr.

²⁶ Direct Testimony of James Sanderson at page 4.

1 Sanderson’s own exhibit, eight states allow utilities to receive a percentage of net
2 benefits – and of those eight states, only one (Oklahoma) awards the utility more
3 than 15% of the net economic benefits from its DSM programs. Despite this
4 evidence, Mr. Sanderson still asserts that a 23.17% performance incentive in
5 appropriate.

6
7 **Q. Does Mr. Sanderson explain why it is appropriate to award KCPL with one**
8 **of the highest shared savings mechanisms in the United States?**

9 A. No. Mr. Sanderson provides no explanation why KCPL should be rewarded with
10 one of the highest shared savings mechanisms in the country. Mr. Sanderson
11 merely states that his “proposal is more reasonable.”²⁷ Mr. Sanderson appears to
12 justify his approval of a 23.17% performance incentive, simply because it is less
13 than what KCPL originally proposed.

14
15 **Q. Is there another reason that a performance incentive of 23.17% of net**
16 **benefits it inappropriate?**

17 A. Yes. Mr. Sanderson rejects KCPL’s proposed 50% of net benefits performance
18 incentive because it is conflicts with the evidence he supplied in testimony from
19 The Utility Reform Network (“TURN”). Mr. Sanderson uses TURN’s
20 investigation into utility incentives paid to three California utilities from 1990 to
21 2005, as evidence that large performance incentives do not increase the
22 effectiveness of demand side programs. TURN’s investigation of historical results
23 ultimately concluded that “incentives capped at 7%-11% of program spending

²⁷ Direct Testimony of James Sanderson at page 15.

1 appear quite sufficient ... (l)arger incentives will not necessarily produce better
2 results.”²⁸ Mr. Sanderson specifically agrees stating that he concurs “with
3 TURN’s conclusion that incentives need only be of sufficient magnitude to focus
4 utility management on administration of these programs.”²⁹

5
6 **Q. If the Commission were to adopt TURN’s recommendation that incentives be**
7 **capped at 7%-11% of program spending, how much would KCPL be**
8 **awarded through a performance incentive mechanism?**

9 A. The five year budget for KCPL’s proposed portfolio of programs is \$43.3
10 million.³⁰ Using TURN’s recommended 7%-11% of program spending, KCPL
11 would be awarded between \$3,031,000 and \$4,763,000 over the five years it
12 offers its portfolio of DSM programs.

13
14 **Q. If the Commission were to adopt Mr. Sanderson’s earnings-equivalence**
15 **model, how much will KCPL be awarded through a performance incentive**
16 **mechanism?**

17 A. Using Mr. Sanderson’s proposed 23.17% sharing of KCPL’s estimated net
18 benefits, KCPL would awarded with over \$20 million during the five years that it
19 offers its portfolio of energy-efficiency programs.³¹

20
21

²⁸ Direct Testimony of James Sanderson at page 7.

²⁹ Direct Testimony of James Sanderson at page 8.

³⁰ Direct Testimony of Kevin Bryant at page 8.

³¹ Direct Testimony of James Sanderson at Exhibit JMS-6.

1 **Q. Because TURN’s investigation concluded that larger incentives will not**
2 **necessarily produce better results, does Mr. Sanderson offer an explanation**
3 **of why awarding KCPL with over \$20 million instead of \$4 million will**
4 **produce better results?**

5 A. No. Mr. Sanderson provides no explanation of how KCPL customers will benefit
6 through better results due to awarding KCPL this additional incentive.

7
8 **Q. Is Mr. Sanderson recommending the use of projected/forecasted net benefits**
9 **to determine how much KCPL should be paid today?**

10 A. Yes. Mr. Sanderson states:

11 “KCPL will have to project the benefits of efficiency programs because it
12 will not be known with any certainty what benefits have been produced
13 until EM&V activities have been completed. In other words, KCPL will
14 project benefits to avoid a significant delay in collecting incentives – a
15 delay that would be problematic for KCPL since EM&V will be conducted
16 infrequently with the first round of independent evaluation being
17 conducted two years after program approval. Use of data on actual
18 benefits would mean that KCPL would have to wait two or more years
19 before collecting incentive payments.”

20
21 Based upon these statements, I assume that Mr. Sanderson is suggesting that
22 KCPL be allowed to pre-collect its performance incentive based upon forecasted
23 net benefits.

24
25 **Q. Does CURB think KCPL should be paid today based upon speculative**
26 **forecasts of net savings that may never show up?**

27 A. No. CURB has consistently asserted that performance incentives should be based
28 upon historic, verified savings, before any sharing occurs.

29

1 **Q. Has Staff previously supported the recovery of forecasted expenses?**

2 A. No. In this docket, as well as in 10-EPDE-497-TAR and 10-BHGC-639-TAR,
3 Staff witness Just Grady filed testimony recommending the Commission reject
4 proposals to collect forecasted energy-efficiency program expenses. In this
5 docket, Mr. Grady states that “(w)ith regard to costs that are outside of KCPL’s
6 control, (direct rebate payments, incentives, measurement and verification, etc.) it
7 is Staff’s position that these charges should also be recovered on an actual,
8 historical-cost basis.”³² While Mr. Grady did not specifically mention the
9 inclusion of rewards for performance, the amount of actual savings achieved from
10 energy-efficiency programs is outside the control of KCPL and should not be
11 collected until verification of the actual benefits.

12

13 **Q. Besides the earnings-equivalence model, does Mr. Sanderson make any other**
14 **recommendations to the Commission?**

15 A. Yes. Mr. Sanderson indicates that “Staff would be supportive of an incentive for
16 the performance of energy audits should KCPL propose an incentive of this type
17 in the future.” Mr. Sanderson continues, saying that the Commission “could
18 provide for some measure of incentive based on the *number* of audits performed
19 under KCPL’s programs.”³³

20

21 **Q. What basis is there for Mr. Sanderson’s recommendation that KCPL be**
22 **awarded for completing energy audits?**

³² Direct Testimony of Justin Grady, at page 4.

³³ Direct Testimony of James Sanderson, at page 18.

1 A. There is none. KCPL did not propose an energy audit program. Rather, KCPL has
2 applied to become an Efficiency Kansas partner utility. The Efficiency Kansas
3 program requires that an energy audit be performed before a customer can access
4 funding for energy saving home improvement projects. However, according to
5 Mr. Sanderson's testimony, "Staff does not support providing incentives for
6 partnerships with Efficiency Kansas ..."³⁴

7
8 **Q. What is wrong with Mr. Sanderson's recommendation to provide incentives
9 for the number of audits performed?**

10 A. An energy audit in and of itself does not provide any firm or dependable energy
11 savings. The Commission has previously denied a program designed to offer
12 rebates for energy audits in KCPL's application for a Home Performance with
13 ENERGY STAR® program. The Home Performance with ENERGY STAR®
14 program was designed to provide a rebate to customers to offset the cost of an
15 energy audit if the customer installed one of the auditors recommended
16 improvements. The Commission rejected the program in part because "a
17 participant in the program is not required to implement recommended
18 improvements in a comprehensive and logical way, energy efficiency savings
19 from the program are not likely to be as dependable as possible, in the sense of a
20 resource."³⁵ Mr. Sanderson's assertion that Staff would support an incentive
21 payment to KCPL based upon the number of audits performed is contradictory to
22 previous Commission rulings.

³⁴ Direct Testimony of James Sanderson, at page 9.

³⁵ Docket No. 08-KCPE-581-TAR, *Order on Staff's Report and on Petition for Reconsideration*, September 9, 2008 at ¶31.

1

2 **Q. Do you have any final comments regarding the testimonies provided by**
3 **Staff's witnesses?**

4 A. Yes. First, I am troubled by Staff's recommended approval of energy-efficiency
5 programs, despite Staff's expressed concerns that KCPL's established programs
6 may not be performing up to expectations. I am also troubled that Staff
7 recommends the Commission approve energy-efficiency programs that fail the
8 TRC, RIM and PAC tests. These tests clearly indicate that the programs are not
9 cost beneficial and should not be approved by the Commission. Staff's almost
10 blanket approval of programs that are not cost-effective and do not meet the
11 Commission's stated goals sends the message that no economic rigor will be
12 applied in Kansas: as long as its energy-efficiency, then Staff will recommend
13 approval.

14 Second, no where in the testimonies of six witnesses, did a Staff member
15 question whether KCPL's proposed portfolio of programs meet the Commission's
16 stated policy goals. Specifically, no one on the Commission's Staff addressed
17 whether or not KCPL's programs would "be used as a resource to moderate bill
18 increases that are likely to be caused as utilities build new generation, implement
19 environmental requirements and invest in additional transmission assets."³⁶ I find
20 it unsettling that not one of the Commission's Staff questioned whether KCPL's
21 application makes sense for KCPL's customers, considering that KCPL just went
22 through a large capital build program and completed millions and millions of

³⁶ KCC Docket No. 08-GIMX-442-GIV, *Order Following Collaborative on Benefit-Cost Testing and Evaluation, Measurement and Verification*, April 13, 2009, at ¶ 187.

1 dollars in environmental upgrade to its existing plants.

2

3 **Q. Do you have comments regarding the testimonies submitted on behalf of the**
4 **Climate and Energy Project?**

5 A. Yes. I have general comments regarding the testimonies of Dylan Sullivan and
6 Jeffrey Loiter.

7

8 **Q. What are Mr. Sullivan's recommendations to the Commission?**

9 A. Mr. Sullivan recommends the Commission:

- 10
- reject KCPL's proposed shared savings incentive structure,
 - 11 • approve a revenue decoupling mechanism based on KCPL's revenue
12 requirement approved in 10-KCPE-415-RTS, without a reduction in the
13 company's return on equity, and
 - 14 • approve an alternative shared savings mechanism that would:
 - 15 ○ award KCPL with 10% and 5% of the net benefits from KCPL's
16 energy-efficiency and demand response programs, respectively,
17 once KCPL meets 90% of the portfolio-level energy efficiency and
18 demand response targets approved by the Commission;
 - 19 ○ be capped at \$3.6 million, or another amount the Commission
20 determines appropriate, in shared savings incentives per year;
 - 21 ○ be calculated in a manner similar to the TRC test, using the market
22 avoided costs less the program costs; and
 - 23 ○ penalize KCPL \$500,000, or another amount the Commission

1 determines is appropriate for each year KCPL's portfolio of
2 programs meets less than 80% of the target approved by the
3 Commission.

4

5 **Q. Do you agree with any of Mr. Sullivan's recommendations?**

6 A. Yes. I agree with Mr. Sullivan's recommendation that the Commission reject
7 KCPL's proposed performance incentive mechanism. I also agree with aspects of
8 Mr. Sullivan's alternative performance incentive mechanism. Specifically, I
9 agree with Mr. Sullivan's assertion that awarding KCPL with 10% of the savings
10 achieved from its energy-efficiency programs, with a pre-determined cap, would
11 be an appropriate incentive structure. Additionally, I agree with Mr. Sullivan that
12 the Commission could impose a penalty upon KCPL if it fails to meet at least
13 80% of its target energy savings.

14

15 **Q. Do you disagree with any of Mr. Sullivan's recommendations?**

16 A. Yes. I disagree with Mr. Sullivan KCPL should be rewarded with 5% of the net
17 benefits achieved from its demand response programs because the Commission
18 has previously ruled that performance incentives should not be awarded for
19 demand response programs. I also disagree with Mr. Sullivan's recommendation
20 that the Commission approve a revenue decoupling mechanism based on KCPL's
21 revenue requirement approved in 10-KCPE-415-RTS, without a reduction in the
22 company's return on equity.

23

24 **Q. Did KCPL request Commission approval for a full decoupling mechanism in**

1 **its application?**

2 A. No.

3

4 **Q. Then why does Mr. Sullivan recommend the Commission approve a full**
5 **decoupling mechanism for KCPL?**

6 A. Mr. Sullivan stresses that KCPL's portfolio of programs will likely impact
7 KCPL's short-term profitability and asserts that the best way to remove this
8 disincentive is to ensure KCPL's actual revenues to cover its fixed costs match its
9 authorized revenues. Mr. Sullivan discusses other ways the Commission could
10 remove KCPL's throughput disincentive – straight fixed variable rate designs, lost
11 revenue recovery mechanisms, more frequent rate cases, and performance
12 incentives – but ultimately determines that the most appropriate way to encourage
13 KCPL's investment in DSM programs is with a full decoupling mechanism.

14

15 **Q. Should the Commission adopt Mr. Sullivan's recommendation and approve**
16 **a full decoupling mechanism for KCPL?**

17 A. No. Mr. Sullivan's recommendations regarding decoupling and its ability to
18 remove the throughput disincentive, whether valid or not, should not be taken into
19 consideration in this docket. First, KCPL did not request a full decoupling
20 mechanism and it is unknown whether or not KCPL would support such a
21 mechanism. Second, CURB and Staff have previously testified that decoupling
22 should not be awarded in a tariff docket, but rather should only be awarded in a
23 general rate case. Finally, Mr. Sullivan's recommendations that the Commission
24 approve a full decoupling mechanism for KCPL without a reduction in the

1 company's return on equity, is contradictory to the Commission's guidelines
2 established in 441 Docket.³⁷

3

4 **Q. What are Mr. Loiter's recommendations to the Commission?**

5 A. Mr. Loiter does not make any specific recommendations to the Commission
6 regarding KCPL's application. Mr. Loiter simply addresses KCPL's proposed
7 portfolio of programs in a generic, big-picture type of view point.

8

9 **Q. Can you summarize Mr. Loiter's testimony?**

10 A. Yes. Mr. Loiter spends his testimony summarizing a single point: KCPL should
11 do more.

12

13 **Q. Aside from wanting more, does Mr. Loiter offer any specific evaluation of**
14 **KCPL's current spending or the cost-effectiveness of KCPL's proposed**
15 **portfolio of programs?**

16 A. Mr. Loiter concludes that the proposed \$43 million five-year budget seems
17 reasonable but never addresses whether or not it makes economic sense to spend
18 \$43 million over five-years. Mr. Loiter never addresses whether the programs
19 pass or fail the Commission prescribed benefit-cost tests, nor does he ever
20 question whether KCPL's portfolio of programs will avoid or significantly
21 displace the need for need generation. Mr. Loiter's conclusions regarding KCPL's

³⁷ The Commission stated in its final order in the 441 Docket that "decoupling lowers risk for a utility, because utility revenues are stabilized and protected from sales fluctuations." As a result, "The utility's likelihood of receiving its rate-case established revenue requirement is significantly increased. The Commission will accordingly factor this lowered risk in setting rates of return in rate cases." at ¶64.

1 portfolio of programs appear to be generic in nature and do not specifically focus
2 on the Commission's policy guidelines for energy-efficiency programs.

3
4 **Q. What were your recommendations to the Commission regarding KCPL's**
5 **application?**

6 A. My original recommendations to the Commission were stated in my direct
7 testimony.

8
9 **Q. Are those still your recommendations?**

10 A. For the most part yes. However, based upon the benefit-cost analyses and
11 concerns addressed in Mr. Deupree's testimony, I recommend the Commission
12 take a closer look at each of KCPL's proposed programs to ensure that KCPL
13 customers are truly getting a benefit from their energy-efficiency dollars.
14 Additionally, I recommend the Commission reject Mr. Sanderson's earnings-
15 equivalence model and his recommendation to provide incentives to KCPL based
16 upon the number of energy audits conducted in its service territory. Finally, the
17 Commission should conclude that the Climate and Energy Project's suggestion
18 that decoupling be implemented in this tariff docket, without a reduction in
19 KCPL's return on equity, is inappropriate for this proceeding.

20
21 **Q. Does this conclude your testimony?**

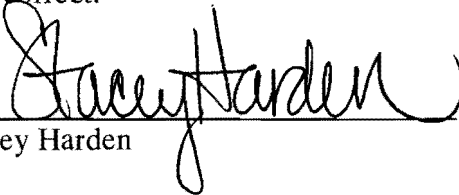
22 A. Yes.

VERIFICATION

STATE OF KANSAS)
COUNTY OF SHAWNEE) ss:

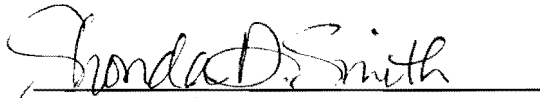
I, Stacey Harden, of lawful age, being first duly sworn upon her oath states:

That she is a regulatory analyst for the Citizens' Utility Ratepayer Board, that she has read the above and foregoing document, and, upon information and belief, states that the matters therein appearing are true and correct.



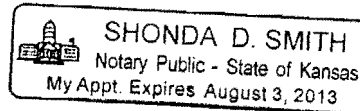
Stacey Harden

SUBSCRIBED AND SWORN to before me this 29th day of October 2010.



Notary Public

My Commission expires: 08-03-2013.



CERTIFICATE OF SERVICE

10-KCPE-795-TAR

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was placed in the United States mail, postage prepaid, electronic service, or hand-delivered this 29th day of October, 2010, to the following:

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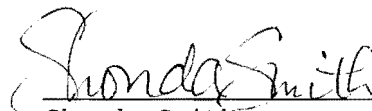
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