

REBUTTAL TESTIMONY
OF
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RECONCILIATION OF REVENUES COLLECTED UNDER RIDER EDR WITH THE ACTUAL COSTS
ASSOCIATED WITH ENERGY EFFICIENCY AND DEMAND-RESPONSE PLANS.

RECONCILIATION OF REVENUES COLLECTED UNDER RIDER GER WITH THE ACTUAL COSTS
ASSOCIATED WITH NATURAL GAS ENERGY EFFICIENCY PLANS.

AMEREN ILLINOIS COMPANY

DOCKET No. 11-0341

OCTOBER 9, 2012

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ATTACHMENTS

STAFF EX. 4.1 – AMEREN'S DRR-STAFF JLH 4 01R ATTACH 1_JLH 4 01A ATTACH 9.PDF –
AOE PY2 BUSINESS IMPLEMENTATION PLAN OVERVIEW, AUGUST 17, 2009

STAFF EX. 4.2 – AMEREN'S DRR-STAFF JLH 4 01R ATTACH 2_JLH 4 01A ATTACH 10.PDF –
AOE BUSINESS PROGRAM: PROGRAM YEAR TWO IMPLEMENTATION PLAN, OCTOBER 12,
2009

1 **I. INTRODUCTION**

2 **A. IDENTIFICATION OF WITNESS**

3 **Q. Please state your name.**

4 A. My name is Jennifer L. Hinman.

5 **Q. Are you the same Jennifer L. Hinman who previously submitted direct**
6 **testimony in this docket?**

7 A. Yes. My testimony is contained in Staff Ex. 2.0.

8 **B. SUBJECT MATTER**

9 **Q. What is the subject matter of the contested issue in this proceeding?**

10 A. The contested issue in this case pertains to the reconciliation of the revenues
11 collected under Rider GER – Gas Energy Efficiency Cost Recovery ("Rider
12 GER") – with the actual incremental costs prudently and reasonably incurred in
13 connection with approved Gas Energy Efficiency ("GEE") Measures¹
14 implemented by Ameren Illinois Company ("Ameren" or "AIC" or "Company")
15 during the June 2009 monthly billing period through the May 2010 monthly billing
16 period, Program Year 2 ("PY2") reconciliation period. The purpose of Rider GER
17 "is to provide for the recovery of costs, fees and charges for approved Gas
18 Energy Efficiency (GEE) measures implemented by the Company and approved
19 by the Commission." Ameren Illinois, Rider GER, Ill. C. C. No. 2, Original Sheet
20 No. 41. The Commission-approved GEE Measures are set forth in Ameren's

¹ "GEE Measures (Measures) mean activities and programs that are developed, implemented, or administered by or for the Company related to gas energy efficiency plans approved by the Illinois Commerce Commission (ICC) pursuant to a Commission Order." Ameren Illinois, Rider GER, Ill. C. C. No. 2, Original Sheet No. 41.

21 GEE Plan² that was filed in Docket No. 08-0104 ("GEE Plan Docket") and
22 approved on October 15, 2008, subject to the conditions, modifications, and
23 requirements stated in the GEE Plan Order.³

24 In my direct testimony, I recommended that the Commission:

- 25 1. disallow all Small Business ("SB") HVAC program costs recovered through Rider
26 GER for PY2; and
- 27 2. direct the Company to monitor projected benefits and costs of all of its energy
28 efficiency programs and to only continue to spend ratepayer funds on a program if
29 and when projected benefits exceed projected costs.

30 I presented an adjustment to Rider GER recoverable costs to disallow all SB
31 HVAC program costs recovered through Rider GER for PY2. The costs
32 associated with the Company's expenditures on the SB HVAC program do not
33 appear to be reasonably and prudently incurred. Ameren acted imprudently and
34 unreasonably by continuing to spend ratepayer funds on the SB HVAC Program
35 despite clear evidence that the projected benefits of the program did not exceed the
36 projected costs and that continuation of the program in PY2 would meaningfully
37 reduce the net benefits of the portfolio to ratepayers.

38 **C. PURPOSE OF TESTIMONY**

39 **Q. What is the purpose of your rebuttal testimony?**

40 A. The purpose of my rebuttal testimony is to respond to issues addressed in the
41 rebuttal testimony of Ameren witnesses Kenneth C. Woolcutt (Ameren Ex. 4.0)

² Ameren CILCO, et al., Docket No. 08-0104, Ameren Ex. 1.1, *Ameren Illinois Utilities Natural Gas Energy Efficiency Plan*, February 11, 2008 ("GEE Plan")

³ Ameren CILCO, et al., Docket No. 08-0104, Final Order, October 15, 2008 ("GEE Plan Order")

42 and John Chamberlin (Ameren Ex. 5.0). The Commission provided the
43 Company the authority to use discretion to prudently modify the portfolio as
44 better information about particular programs and market conditions became
45 available. Information became available that made it clear that the planning
46 assumptions were not reasonable. This information was timely for PY2. Ameren
47 ignored or at least failed to act on this information to minimize impacts to
48 ratepayers. Ratepayers were harmed by this inaction during PY2.

49 **Q. Do you address every issue raised by Ameren in its testimony?**

50 A. No. My silence on an issue or failure to address any statement or position
51 offered by Ameren in this proceeding should not be construed as either an
52 endorsement or a criticism of that statement or position.

53 **D. ATTACHMENTS**

54 **Q. Are you sponsoring any attachments with your testimony?**

55 A. Yes. I've attached the following exhibits:

- 56 • Staff Ex. 4.1 – Ameren's DRR-Staff⁴ JLH 4 01R Attach 1_JLH 4 01a Attach 9.pdf
57 – AOE PY2 Business Implementation Plan Overview, August 17, 2009
- 58 • Staff Ex. 4.2 – Ameren's DRR-Staff JLH 4 01R Attach 2_JLH 4 01a Attach 10.pdf
59 – AOE Business Program: Program Year Two Implementation Plan, October 12,
60 2009

⁴ Ameren's Data Request Response to Staff data request ("Ameren's DRR-Staff")

61 **II. REBUTTAL TOPICS**

62 **A. DISALLOWANCE ADJUSTMENT CHANGE**

63 **Q. Has the amount of your adjustment changed?**

64 A. As is noted in ICC Staff Ex. 3.0, some of the PY1 Small Business HVAC costs
65 were recovered during PY2. My recommended adjustment is revised downward
66 to adjust for those PY1 costs. Staff accepts Ameren witness Woolcutt's
67 adjustment to remove the PY1 costs (that were inadvertently included) from the
68 disallowance recommendation. Staff Ex. 3.0 at 3. Ameren acted imprudently
69 and unreasonably by continuing to spend ratepayer funds on the SB HVAC
70 Program despite clear evidence that the projected benefits of the program did not
71 exceed the projected costs and that continuation of the program, or at least the
72 tune-up portion of the program was expected to substantially reduce net benefits
73 to customers during PY2. I recommend that the Commission approve my
74 adjustment to Rider GER recoverable costs to disallow all SB HVAC Program
75 costs recovered through Rider GER for PY2, \$119,550.

76 **B. CLARIFICATION OF STAFF'S POSITION AND RECOMMENDATION**

77 **Q. As an initial matter, is there anything you would like to clarify regarding**
78 **your recommendations made in direct testimony?**

79 A. Yes. To be clear, I am not proposing a disallowance in this docket due to the fact
80 the PY1 and the early PY2 total resource cost ("TRC") test values were less than
81 one. I am recommending to disallow the PY2 expenditures on the SB HVAC
82 program because the program implementer's report casted substantial doubt on
83 whether the program would be cost-effective during PY2, or that it would ever be

84 cost-effective if tune-ups are offered through the program, and there were not
85 extenuating circumstances that would justify continuing the program despite its
86 lack of cost-effectiveness. Ameren was granted authority to modify its programs
87 as information became available. Ameren neglected its obligation to do so and
88 ratepayers were forced to pay for a failed program as a result. Ameren
89 witnesses repeatedly mischaracterized my testimony that my disallowance is
90 because the TRC value was less than one in PY1.

91 **Q. Based on your review of the Company's rebuttal testimony, please**
92 **summarize what you view as the main issue in this case.**

93 A. The Commission provided the Company the authority to use discretion to
94 prudently modify the portfolio as better information about particular programs and
95 market conditions became available. Information became available that made it
96 clear that the planning assumptions were not reasonable. This information was
97 timely for PY2. Ameren ignored or at least failed to act on this information to
98 minimize detrimental impacts to ratepayers during PY2. Ratepayers were
99 harmed by this inaction during PY2. It is unreasonable to allow Ameren to cite
100 portfolio level cost-effectiveness as its defense. Discretion to manage the
101 program trumps portfolio level TRC.

102 Ameren witness Chamberlin testifies that Staff has mischaracterized and
103 misinterpreted the exhibits Staff relied upon to reach its conclusion that the SB
104 HVAC PY 2 costs be disallowed. Ameren Ex. 5.0 at 19. With respect to Mr.
105 Chamberlin's assertion that it will be cost-effective over the three year period, the
106 Company has been unable to provide evidentiary support for this projection.

107 Ameren should be attuned to information on the program as it becomes available.
108 In the tune up program, the implementer showed very poor results and proposed to
109 address the poor results by limiting the number of tune-ups done rather than
110 changing the nature of the tune-ups or dropping them from the program. Ameren's
111 implementer never said tune-ups would be cost-effective on its own, only that cost-
112 effective measures could carry tune-ups if only a small number were done. Staff
113 believes that absent extenuating circumstances like an expectation that things
114 would turn around or benefits elsewhere in the program were tied to tune-ups which
115 it never demonstrated, should the measure continue.

116 **C. PORTFOLIO LEVEL COST EFFECTIVENESS**

117 **Q. Please summarize Ameren's position regarding Commission guidance on**
118 **the use of the TRC test.**

119 A. Ameren witness Woolcutt cites the electric efficiency Plan Order, which states:

120 Calculation of the total resource cost test at the portfolio level provides
121 utilities with greater flexibility to ensure that measures with less short-
122 term energy savings value, but greater value over several years, will be
123 included in any overall portfolio of measures and programs. This
124 contention is reasonable and it is hereby approved. However, the
125 utilities and DCEO are not precluded from applying the TRC test at the
126 "measure" or program level, if they so choose.

127 Docket No. 07-0539, Final Order at 21, February 6, 2008. (Emphasis added).

128 Ameren Ex. 4.0 at 7-8. Notably, the Commission appears to base its decision on
129 the fact that applying the TRC test at the portfolio level helps to ensure that utilities
130 do not have a bias towards measures that only generate savings in the current
131 program year, but instead are able to offer measures with longer lifetimes to

132 customers so that savings will occur for a number of years. However, the SB
133 furnace tune-up measure at issue here does not fall into this long lifetime measure
134 category. In fact, the assumed lifetime of a SB furnace tune-up was listed at only
135 two years in an energy efficiency plan approved by the Commission. Docket No.
136 10-0562, Nicor Ex. 1.1 at 124. Ameren witness Chamberlin even admits that tune-
137 ups "have small direct savings" and "the purpose of the tune up is not the direct
138 savings". Further, Ameren's implementer points out that "[f]urnace tune-ups will
139 ultimately yield low TRC's". Staff Ex. 4.1 at 21. The measure results in a small
140 amount of first-year savings, and virtually no savings in future years. Thus, it
141 appears that even if the findings in the electric efficiency plan Docket No. 07-0539
142 were relevant to the gas costs at issue in this proceeding, the tune-up measure at
143 issue that was causing the SB HVAC program to produce negative net benefits to
144 ratepayers does not even meet the qualifications specified in that Order.

145 Ameren witness Woolcutt goes on to state that the Commission affirmed this
146 policy determination in Docket No. 10-0568. Ameren Ex. 4.0 at 7. The
147 Commission's Final Order states:

148 The Commission finds that evaluating cost-effectiveness on a portfolio
149 level is necessary to ensure that Ameren not be penalized for planning
150 assumptions that turn out to be inaccurate. The Commission also finds
151 Ameren's proposal to... apply any ex post TRC test at the portfolio level
152 is reasonable and is hereby adopted.

153 Docket No. 10-0568, Final Order at 30, December 21, 2010. (Emphasis added).

154 To clarify, I am not proposing to penalize Ameren for planning assumptions that
155 turn out to be inaccurate, that prudence requires Ameren to take appropriate action.

156 As discussed later in this testimony, Ameren appears to have knowingly added

157 cost-ineffective measures to the SB HVAC program to the detriment of the
158 program. The Commission's Final Order states:

159 The Commission also finds Ameren's proposal to apply the TRC test at
160 the measure level for planning purposes, if it chooses, and apply any ex
161 post TRC test at the portfolio level is reasonable and is hereby adopted.

162 Docket No. 10-0568, Final Order at 30, December 21, 2010. (Emphasis added).

163 Ameren's proposal that the Commission found reasonable and adopted in Docket
164 No. 10-0568 can be found in the rebuttal testimony of Ameren witness David M.
165 Costenaro. In Docket No. 10-0568, Ameren witness Costenaro states:

166 Consistent with my Direct Testimony, Ameren Ex. 2.0, p. 2, lines 42-44,
167 all measures and programs proposed for the Ameren Illinois energy
168 efficiency portfolio Plan 2 are considered cost-effective as they have
169 been screened to satisfy the TRC test. The clarification that Ameren
170 Illinois seeks is in regards to planned values vs. evaluated, ex post
171 values. Ameren Illinois agrees with Ms. Hinman's statement that all
172 planned measures should be cost-effective. If there is a criterion for
173 evaluated, ex post values to be cost-effective, Ameren Illinois requests
174 that criterion should apply only at the portfolio level. We believe this
175 criterion is consistent with 220 ILCS 5/ 8-103(f)(5) requiring the utility to
176 "Demonstrate that its overall portfolio of energy efficiency and demand
177 response measures, not including items covered by item (4) of this
178 subsection (f), are cost-effective using the total resource cost test and
179 represents a diverse cross-section of opportunities for customers of all
180 rate classes to participate in the programs." Ameren Illinois requests this
181 in Order to avoid a scenario where prudently planned expenditures are
182 disallowed. An example of such disallowance might be if the evaluated
183 cost-effectiveness of an individual measure drops due to a change in
184 market conditions during the implementation period.

185 Docket No. 10-0568, Ameren Ex. 7.0 at 12. (Emphasis added).

186 **Q. Did the TRC test results play a role in deciding whether to modify or**
187 **continue the SB HVAC program?**

188 A. Yes. Ameren witness Woolcutt states:

189 While the TRC test results did play a role in deciding whether to modify
190 or continue the SB HVAC Program, these other factors outweighed any
191 concerns with a low TRC value, particularly because we were confident
192 that the overall portfolio remained cost effective.

193 Ameren Ex. 4.0 at 10:204-207. Further, Ameren witness Woolcutt opines:

194 However, even if the program did not become cost effective in the
195 future, the Company relied on the Commission's directive to remain cost
196 effective at the portfolio level such that the programs that might not yield
197 significant savings in the short term be given the chance to benefit the
198 overall portfolio.

199 Ameren Ex. 4.0 at 11. In other words, Ameren appears to have interpreted the
200 Commission's portfolio level decision in the electric plan dockets to mean that it is
201 acceptable for Ameren to continue cost-ineffective programs and include cost-
202 ineffective measures that produce negative net benefits to ratepayers as long as
203 the entire portfolio at least produces a small amount of net benefits. Whether that
204 amount is \$1, or \$1 billion worth of net benefits, it is irrelevant that eliminating cost-
205 ineffective measures the portfolio could provide significantly greater net benefits to
206 ratepayers. Staff believes Ameren's interpretation of the Commission's conclusion
207 in the electric plan order is erroneous and harmful to ratepayers.

208 **Q. Please summarize Staff's position regarding Commission guidance on the**
209 **use of cost-effectiveness testing from the GEE Plan Order.**

210 The Commission's findings regarding the gas plan and cost-effectiveness
211 calculations relevant to the contested costs at issue in this proceeding (SB HVAC
212 gas costs) were noted in my direct testimony.

213 The Commission made clear its concerns regarding the cost effectiveness of GEE
214 programs and its desire that Ameren monitor the cost effectiveness of these

215 programs and react appropriately to changes in various market or other program-
216 related factors. For example, the Commission explicitly ordered Ameren to monitor
217 the cost effectiveness of some gas measures in light of evidence that demonstrated
218 the program was forecasted to be cost ineffective. In the GEE Plan Order, the
219 Commission concluded that Ameren should monitor the "projected" benefits and
220 costs of some proposed gas efficiency measures and Ameren should only market
221 the efficiency measures if and when projected benefits exceed projected costs.
222 GEE Plan Order at 10-11; Staff Ex. 2.0 at 7-8. The Commission granted flexibility
223 based on the assertion that the flexibility would be used to increase effectiveness.
224 The Order in Docket No. 08-0104 states:

225 AIU specifically requests flexibility to adjust these programs as needed
226 to maximize their effectiveness and benefit to consumers, to recover
227 prudently incurred costs of these programs through a rider, and to
228 accept AIU's budgeted savings and spending targets as reasonable
229 estimates until experience is gained and such estimates can be refined.

230 GEE Plan Order at 2. (Emphasis added). Based on the foregoing, it is
231 inappropriate for Ameren to assert:

232 First, it seems fundamentally unfair for Staff to recommend disallowance
233 based on program level TRC test results when the Commission has
234 repeatedly determined that utilities should be developing portfolio level
235 TRC results.

236 Ameren Ex. 4.0 at 12. Ameren should not be surprised regarding Staff's position in
237 this docket given the Commission's direction provided to Ameren in the GEE Plan
238 Order. I believe Ameren did not comply with the Commission's order with respect
239 to its decision to continue the program in PY2.

240 **Q. With respect to the appropriate level to measure cost effectiveness, other**
241 **than the electric efficiency plan orders cited by Ameren and the gas**
242 **efficiency plan order, are there other policies in Illinois related to this issue**
243 **that involve funds that flow through the energy efficiency riders?**

244 A. Yes, Section 16-111.5B and Section 16-111.7 of the Act. In addition to the GEE
245 Plan Order, certain costs that are legislatively mandated to flow through
246 Ameren's energy efficiency riders relate to cost-effective energy efficiency
247 measures screened at the program level and measure level, not portfolio level as
248 Ameren advocates in this proceeding. Thus, even though the minimum
249 requirement for Plan approval pursuant to Sections 8-103(f)(5) and 8-104(f)(5)
250 both require the entire portfolio to be cost-effective, except for low income
251 programs, expansion of the Section 8-103 programs or measures are required to
252 be cost-effective. Section 16-111.5B(a)(3) of the Act requires Ameren and
253 ComEd to provide "an assessment of cost-effective energy efficiency programs
254 or measures that could be included in the procurement plan." 220 ILCS 5/16-
255 111.5B(a)(3). Further, Section 16-111.5B(a)(4) requires that the Illinois Power
256 Agency shall include in the procurement plan "energy efficiency programs and
257 measures it determines are cost-effective". 220 ILCS 5/16-111.5B(a)(4). In
258 future energy efficiency rider reconciliation proceedings it would be inappropriate
259 for Ameren to advocate portfolio level cost-effectiveness when Illinois statute
260 specifies a program level assessment must be done. 220 ILCS 5/16-111.5B.

261 Further, Section 16-111.7 of the Act created On-bill financing ("OBF")
262 programs to allow utility customers to purchase cost-effective energy efficiency

263 measures, including cost-effective measures set forth in a Commission-approved
264 energy efficiency and demand-response plan under Section 8-103 of the Act and
265 that are cost-effective as that term is defined by that Section, with no required initial
266 upfront payment, and to pay the cost of those products and services over time on
267 their utility bill. 220 ILCS 5/16-111.7. The prudently incurred costs are recovered
268 under the energy efficiency tariff at issue in this docket. Thus, in the future
269 reconciliation proceedings it would also be inappropriate for Ameren to advocate
270 portfolio level cost-effectiveness when Illinois statute specifies a measure level
271 cost-effectiveness assessment for OBF expenses that flow through Ameren's
272 energy efficiency riders.

273 **Q. Do you agree that the portfolio test is the "appropriate level" test to**
274 **evaluate a portfolio?**

275 A. I agree it is one measure. However, I believe all levels have a role in effectively
276 evaluating energy efficiency proposals. Effective measures are the building
277 blocks to effective programs, which are the building blocks to an effective
278 portfolio. Simply having all of the measures cost effective doesn't mean programs
279 will be cost effective. Having cost-effective programs doesn't necessarily mean
280 the entire portfolio will be cost effective due to the addition of portfolio-wide costs.
281 However, I also believe ineffective programs can be detrimental to the portfolio's
282 effectiveness and should be avoided absent other policy objectives and
283 extenuating circumstances as discussed below. A recent 2012 Best Practices
284 Study "recommend[s] that energy efficiency programs be screened at the
285 program level using the TRC test or the Societal Cost test... This allows

286 regulators to balance the goal of achieving key public policy objectives (through
287 the use of the TRC test or the Societal test)..." 2012 Best Practices Study⁵ at
288 57. (Emphasis added). The study also highlights findings from a survey of
289 states and the level of cost-effectiveness measurement each has adopted as
290 appropriate. Page 56 of the 2012 Best Practices Study states:

291 A recent ACEEE report surveyed states on the level at which program
292 administrators screen for cost-effectiveness. The most prevalent
293 responses to the question of "what level" the benefit-cost tests are
294 applied were: the "portfolio" level (30 states, 70%) and the "program"
295 level (30 states, 70%), although nearly half of those states noted that
296 they had some expectations at the program level (e.g., low-income
297 programs, pilot programs, etc.) where the benefit-cost test was not
298 required or waivers were granted. Thirteen states (30%) applied their
299 benefit-cost test requirements at the measure level, and a majority of
300 those states provide exceptions for things like low-income programs
301 and/or situations where measures can be bundled together into a cost-
302 effective package of measures (e.g., certain "whole house" type
303 programs).

304 2012 Best Practices Study at 56. ACEEE 2012 Study⁶ at 31, 61-62. As quoted
305 above, both portfolio level and program level cost effectiveness assessments
306 were used in 70% of states. Ameren's recommendation to ignore a program
307 level cost effectiveness assessment should be rejected.

⁵ Tim Woolf, Erin Malone, Kenji Takahashi, and William Steinhurst. Synapse Energy Economics, Inc. Prepared for National Home Performance Council. July 23, 2012. "Best Practices in Energy Efficiency Program Screening: How to Ensure that the Value of Energy Efficiency is Properly Accounted For" ("2012 Best Practices Study") Report available at: <http://www.synapse-energy.com/Downloads/SynapseReport.2012-07.NHPC.EE-Program-Screening.12-040.pdf>
Presentation available at: <http://www.synapse-energy.com/Downloads/SynapsePresentation.2012-07.NHPC.EE-Program-Screening.12-040-Presentation.pdf>

⁶ ACEEE (2012). American Council for an Energy Efficient Economy, "A National Survey of State Policies and Practices for the Evaluation of Ratepayer-Funded Energy Efficiency Programs," Kushler, Nowak, and Witte, Report Number U122, February 2012. ("ACEEE 2012 Study") Report available at: <http://www.aceee.org/sites/default/files/publications/researchreports/u122.pdf>

308 **Q. As part of the development of Ameren's GEE Plan that was approved by the**
309 **Commission, how did Ameren decide which measures to include in the**
310 **portfolio?**

311 A. As pointed out in direct testimony, Ameren screened the measures for cost-
312 effectiveness and included only those measures found to be cost-effective.
313 Despite this claim, Staff found cost-ineffective measures contained in Ameren's
314 GEE Plan filing, and the Commission determined that Ameren should only offer
315 those measures if and when projected benefits exceed projected costs (i.e., cost-
316 effective). Staff Ex. 2.0 at 3, 9, 16.

317 Ameren witness Woolcutt states:

318 Consistent with the other programs reviewed and approved by the
319 Commission, the SB HVAC Program met certain criteria, including
320 having an acceptable TRC test result for planning purposes^[7] and the
321 potential to penetrate and transform the small business market such that
322 small businesses would eventually make energy efficient choices.

323 Ameren Ex. 4.0 at 3. (Emphasis added). In response to a data request seeking
324 clarification, Ameren states:

325 Ameren Illinois notes that any program with a TRC > 1 is assumed to be
326 "an acceptable TRC test result for planning purposes."

327 Ameren's DRR-Staff JLH 5.03(c). Thus, Ameren acknowledges that it is desirable
328 for programs to be cost effective and all of the programs that Ameren proposed and
329 that the Commission approved in Ameren's GEE Plan were cost effective, with the
330 exception of the low-income program. Ameren claims they use measure level cost-
331 effectiveness analysis as the first screening item to determine which measures

⁷ In an effort to select programs and measures that are projected to be cost effective, potential programs and measures undergo the TRC test at the planning stage.

332 should be included in the overall portfolio. Second, despite this claim, Ameren did
333 not provide in its plan a TRC value for the tune-up measure.

334 Despite the fact that AIC recognizes measures should be cost-effective at
335 the planning stage, the Company apparently included a cost-ineffective measure,
336 small business furnace tune-ups, without alerting the Commission of its
337 ineffectiveness. In fact, the SB furnace tune-ups were not included as a measure in
338 the TRC test filed with the GEE Plan and approved by the Commission. The
339 Company has never provided good data to say SB furnace tune-ups are a great
340 measure. Ameren's implementer even points out to Ameren that "[f]urnace tune-
341 ups will ultimately yield low TRC's". Staff Ex. 4.1 at 21. (Emphasis added).
342 Ameren witness Chamberlin even admits that tune-ups "have small direct savings"
343 and "the purpose of the tune up is not the direct savings". It appears to Staff that
344 the Company abused its flexibility by continuing to promote this cost-ineffective
345 measure in PY2 despite knowing the detrimental impact of promoting such a cost-
346 ineffective measure to ratepayers in PY2. Ameren's prudent planning should not
347 stop after Commission approval of the Plan. If Ameren would not be willing to
348 propose cost-ineffective tune-ups in the energy efficiency plans filed with the
349 Commission, then it should not require ratepayers to fund these cost-ineffective
350 measures.

351 **Q. Is it possible for a program to produce positive net benefits to ratepayers**
352 **by including both cost-effective and cost-ineffective measures?**

353 A. I agree it is possible in principle that could be the case if the net benefits from the
354 cost-effective measures are sufficient to overcome the net costs of the cost-

355 ineffective measures, with the adoption of cost-ineffective measures working to
356 decrease the amount of net benefits that ratepayers receive.

357 In fact, Staff has previously supported the inclusion of certain cost-ineffective
358 measures in an energy efficiency portfolio when legitimate justifications existed for
359 including particular measures, as was the case with the Furnace Tune-up measure
360 that was part of the Small Business Direct Install Program in the Nicor Gas EE Plan
361 docket. (See Docket No. 10-0562, Staff Ex. 1.0, pp. 6-7; Order, Docket No. 10-
362 0562, May 24, 2012, p. 39)

363 **Q. Given Staff's support regarding this in certain instances in the past, do you**
364 **think the furnace tune-up is an appropriate cost-ineffective measure to**
365 **support including in Ameren's SB HVAC program?**

366 A. I do not agree it is appropriate in this case. Ameren has provided no evidence to
367 show that any customer who received a furnace tune-up has bought a high
368 efficiency furnace in a later year. No link has been shown despite assertions to
369 the contrary. There is no compelling reason that Ameren needed to continue
370 offering the furnace tune-ups in PY2.

371 **Q. Did the Commission approve the tune-up measure in Ameren's second**
372 **plan filing?**

373 A. Similar to the GEE Plan filing, in Ameren's second energy efficiency plan filing
374 (Docket No. 10-0568), Ameren excluded non-residential furnace tune-ups from
375 their energy efficiency plan and cost-effectiveness screening submitted to the
376 Commission. Despite the fact non-residential furnace tune-ups were a current

377 measure offered in Ameren's portfolio at the time of the 2nd plan filing, Ameren
378 excluded the measure-level TRC results from the plan just as it did in the first gas
379 plan filing. Even though the non-residential furnace tune-ups were excluded from
380 the plan, Ameren has continued to require ratepayers to fund these cost-
381 ineffective measures for over a year during their second plan. In fact, the cost-
382 ineffective measure is only being partially discontinued starting October 15, 2012!
383 For the Gas Forced-air Furnace Tune-up, Measure Code BPH2, Ameren's PY5
384 program application states:

385 Measure discontinued as of October 15th, 2012; applications dated after
386 October 15th, 2012 will not be accepted for this measure unless they
387 have received pre-approval. After Oct. 15th, tune-ups may be eligible
388 under the Custom program. Please see the Custom application or call
389 1.866.800.0747 for details.

390 AOE HVAC & Water Heaters App PY5_Rev5⁸ at 9.

391 **D. EX POST VERSUS PROJECTED TRC**

392 **Q. Please summarize the Company's argument related to the ex post TRC test.**

393 A. The Company argues that "the TRC test results relied upon by Staff" "reflect only
394 a few months of data that comprised essentially all of the upfront program costs
395 (e.g., program design, marketing start-up, database preparation) but only a few
396 completed projects (and therefore lower savings)" and that Ameren Illinois should
397 not have relied on the SB HVAC program's TRC test results because these
398 "reflected the higher ratio of costs to benefits associated with starting up a new
399 program." Ameren Ex. 4.0 at 6-7. The Company emphasizes that Staff

⁸ <http://www.actonenergy.com/portals/0/business/forms/PY5-hvac.pdf>

400 proposes to disallow the SB HVAC program costs based on reviewing the ex
401 post TRC results. Ameren witness Woolcutt states:

402 However, as explained by Dr. Chamberlin, TRC test results should not
403 be the sole consideration when Ameren Illinois is determining if a
404 program should be discontinued. This is particularly true when TRC test
405 results reflect only a few months of data that comprised essentially all of
406 the upfront program costs (e.g., program design, marketing start-up,
407 database preparation) but only a few completed projects (and therefore
408 lower savings), as are the TRC test results relied upon by Staff.
409 Therefore, I fundamentally disagree with Staff's position that Ameren
410 Illinois should have relied on the SB HVAC Program's TRC test results
411 and discontinued the program. To do so would have been a flawed
412 basis to rely on when analyzing the program because the test results
413 reflected the higher ratio of costs to benefits associated with starting up
414 a new program.

415 Ameren Ex. 4.0 at 6:122-7:133. (Emphasis added). Ameren witness Chamberlin
416 adds that:

417 Staff cites a first year cost effectiveness calculation that indicates the
418 program is not cost effective and concludes that the costs associated
419 with the program should be disallowed.

420 Ameren Ex. 5.0 at 14:313-315.

421 **Q. Were the first year TRC results the basis for your recommendation to**
422 **disallow the SB HVAC program costs?**

423 A. No. I primarily relied upon the forecasted or projected TRC (in which projects
424 have not been completed) for PY2 as noted at multiple points in my direct
425 testimony and responses to Ameren's data requests. See Staff Ex. 2.0 at 4-8,
426 10-12, 16, 19. Staff's DRR-AIC 1.10, 1.11, 1.12, 1.17. I do not rely upon the
427 PY2 SB HVAC ex post TRC analysis. I do cite the first year cost-effectiveness
428 calculation given this was information known to Ameren at the time the decision

429 was made to continue the program in PY2. However, I do not recommend
430 disallowing the PY1 SB HVAC program costs despite the fact that it caused the
431 entire gas business portfolio to produce negative net benefits in PY1.

432 **Q. Please give some examples of your emphasis on projected cost**
433 **effectiveness.**

434 A. Several areas in my direct testimony highlight the "projected" terminology and my
435 position. Those statements on cost-effectiveness will not be repeated here. Staff
436 Ex. 2.0 at 4, 7, 8, 9-10.

437 **Q. What is your response to the Company's assertion that first year data from**
438 **the program "comprised essentially all of the upfront program costs (e.g.,**
439 **program design, marketing start-up, database preparation) but only a few**
440 **completed projects (and therefore lower savings)"?**

441 A. Although Mr. Woolcutt and Dr. Chamberlin both contend that start-up costs could
442 be the cause of the low TRC, the implementation contractors in citing serious
443 concerns with the program made no mention of start-up costs as a cause of poor
444 TRC performance of the program and the Company has provided no breakout of
445 start-up costs. Staff Ex. 4.1 at 21. Start-up fixed costs are one thing, but then
446 high costs for tune-ups was a variable labor cost. In addition, Staff did not try to
447 disallow the gas portfolio costs for year 1, even though the entire gas business
448 portfolio was not cost-effective. Further, Ameren did not share the PY2 SB
449 HVAC ex post TRC results with the Commission in this proceeding. Ameren Ex.
450 4.0 at 11. However, based on Ameren's implementers estimation, the PY2 ex

451 post TRC for the SB HVAC program was BEGIN CONF***XX***END CONF
452 Docket No. 11-0687, JLH 1.02 Attach 6 (C&P) at 6.

453 **Q. Do you have any other evidence that you are not disallowing costs because**
454 **programs were not cost-effective on an ex post basis?**

455 A. Yes. As highlighted in the table below, several of Ameren's programs were not
456 cost-effective on an ex post basis for PY2, but I have not recommended the
457 Commission disallow costs associated with those programs.

Program Year 2 Expenses- Actual

	TOTAL Rider EDR Expenses	Ex Post Savings (Net) (MWH)	TRC	Average 1st Year Costs	Levelized Life Cycle Costs	Utility Cost Test (UCT)
RESIDENTIAL EE PROGRAM COSTS						
Home Energy Performance	\$372,787.27	907	0.80	\$0.47	\$0.07	0.94
Appliance Recycling	\$1,786,134.71	13,614	2.46	\$0.15	\$0.02	2.93
Lighting & Appliances	\$2,633,712.71	38,548	2.26	\$0.07	\$0.01	4.47
Multifamily	\$351,847.18	2,924	2.75	\$0.13	\$0.02	3.22
New HVAC	\$3,257,256.74	7,053	1.39	\$0.47	\$0.05	2.49
DR-Direct Load Control	\$1,079,727.76	332	0.34	\$3.48	\$0.37	0.29
Energy Star New Homes	\$3,200.00	8	n/a			
Total Residential Programs	\$10,115,337.73	63,385	1.81	\$0.16	\$0.03	2.84
C&I EE PROGRAM COSTS						
Prescriptive	\$4,849,622.50	41,608	2.12	\$0.11	\$0.01	5.14
Retro-commissioning	\$325,964.26	9,213	4.05	\$0.04	\$0.01	8.61
Custom	\$2,607,682.77	20,907	2.98	\$0.12	\$0.01	6.01
Demand Credit	\$329,700.67	244	0.43	\$1.35	\$0.26	0.39
Total C&I Programs	\$8,112,970.20	71,972	2.42	\$0.11	\$0.02	5.37
OTHER PORTFOLIO COSTS						
Total Other	\$9,284,028.52					
Total Portfolio Costs	\$27,512,336.45					

458

459 **Q. How does the Company respond to the 1st year cost-ineffectiveness?**

460 A. The Company begins bundling the cost-ineffective furnace tune-ups with AC
461 tune-ups and a thermostat measure in a special "Triad" Offer. Thus, despite
462 Ameren's assertions to limit the number of tune-ups to help improve cost-
463 effectiveness for ratepayers, it contemporaneously began promoting the tune-ups
464 through the "Triad" offer and offering the tune-ups to customers free of charge.
465 This certainly does not demonstrate the Company prudently managed the
466 program during PY2.

467 **E. POLICY ISSUES**

468 **Q. Please provide your policy recommendation from direct testimony.**

469 A. My testimony states:

470 In addition, I recommend that the Commission direct that the Company
471 monitor projected benefits and costs of the SB HVAC Program and to
472 only continue the program if and when projected benefits exceed
473 projected costs, consistent with the Commission's direction provided in
474 the GEE Plan Order. (GEE Plan Order at 10-11). Most importantly, I
475 recommend that the Commission make a policy decision in this case
476 and direct that the Company should always monitor projected benefits
477 and costs of all of its energy efficiency programs and to only continue to
478 spend ratepayer funds on a program if and when projected benefits
479 exceed projected costs.⁹ This recommendation will benefit Illinois
480 ratepayers by making it clear to the Company that the Commission
481 believes that ratepayers are entitled to the cost-effectiveness associated
482 with reasonable and prudent decision-making and thus ratepayers will
483 not bear the costs, including administrative costs (which is to a certain
484 degree fixed per program), associated with programs that are projected
485 to provide negative net benefits to Illinois ratepayers.

486 Staff Ex. 2.0 at 18-19.

⁹ Low-income programs may be one exception to this policy.

487 **Q. Are you requesting that Ameren rely solely on the TRC and not consider**
488 **other factors?**

489 A. No. The Company mischaracterizes Staff's position as recommending the
490 Company rely solely on the TRC without considering other factors. As provided
491 in Staff's responses to the Company's data requests, Staff believes other factors
492 should be considered.

493 **Q. How does Ameren respond?**

494 A. Ameren witness Woolcutt states:

495 First, it is inappropriate and improper procedure for new policy to be
496 recommended during mid-cycle of a 3-year plan that was approved by
497 the Commission. The utilities file 3-year energy efficiency plans on a tri-
498 annual basis and that planning docket is where policy, such as the
499 application of portfolio level TRC, has been and should continue to be
500 determined, thereby providing Commission-guidance on how Ameren
501 Illinois should proceed to implement the approved plan. The SB HVAC
502 Program, which passed the TRC test at the planning stage, was
503 submitted, reviewed and approved by the Commission during the initial
504 plan approval stage. The Commission should reject mid-cycle reversals
505 of policy or recommendations of new policy that would negate the
506 Commission's prior directives and fundamentally change the
507 implementation framework set up by the Commission.

508 Ameren Ex. 4.0 at 14.

509 **Q. What is your response?**

510 A. I believe my recommendation is entirely consistent with the Commission's
511 findings in the GEE Plan Order. The GEE Plan Order states:

512 The Commission agrees with Staff's proposal to monitor projected
513 benefits and costs of the proposed gas griddles and spray valve
514 measures and to only market these efficiency measures if and when
515 projected benefits exceed projected costs. The Commission further
516 agrees that allowing AIU flexibility to take into account both projected

517 natural gas prices and other cost factors will benefit the programs (and
518 ultimately, customers) and is not inconsistent with Staff's position and
519 recommendations.

520 (GEE Plan Order at 11). (Emphases added). In surrebuttal testimony pre-filed on
521 August 5, 2008, nearly six months after the Commission's decision regarding the
522 portfolio level TRC calculations for the electric plan,¹⁰ Ameren witness Martin
523 testified:

524 The Ameren Illinois Utilities agree to adopt Mr. Zuraski's
525 recommendation to monitor projected benefits and costs of the
526 proposed gas griddles and spray valve measures and only market these
527 efficiency measures if and when projected benefits exceed projected
528 costs. I note, however, that the Ameren Illinois Utilities' agreement with
529 Mr. Zuraski's recommendations would not be based solely on the rise
530 and fall of natural gas futures prices. In other words, the Ameren Illinois
531 Utilities would like to retain the flexibility to offer these measures "if and
532 when projected benefits exceed projected costs," taking into account
533 projected natural gas prices and other cost factors as well.

534 Ameren Ex. 6.0 at 2-3. However, to limit the number of contested issues in this
535 case, I am willing to withdraw this recommendation, due in part to Ameren witness
536 Kenneth C. Woolcutt's claim that "Ameren Illinois already does this." Ameren Ex.
537 4.0 at 12:254.

538 **III. CONCLUSION**

539 **Q. Please summarize your recommendations.**

540 A. I recommend that the Commission approve my adjustment to Rider GER
541 recoverable costs to disallow all SB HVAC Program costs recovered through
542 Rider GER for PY2, \$119,550.

¹⁰ Docket No. 07-0539, Final Order at 20-21, February 6, 2008, discusses portfolio level TRC for electric plan.

543 Q. Does this conclude your prepared rebuttal testimony?

544 A. Yes.