AUSLEY & MCMULLEN

ATTORNEYS AND COUNSELORS AT LAW

227 SOUTH CALHOUN STREET
P.O. BOX 391 (ZIP 32302)
TALLAHASSEE, FLORIDA 32301
(850) 224-9115 FAX (850) 222-7560

September 21, 2007

HAND DELIVERED

Ms. Ann Cole, Director
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Petition to determine need for Polk Unit 6 electrical power plant by Tampa Electric Company; FPSC Docket No. 070467-EI

Dear Ms. Cole:

Enclosed for filing in the above docket on behalf of Tampa Electric Company are the original and fifteen (15) copies of Rebuttal Testimony of Howard T. Bryant.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning same to this writer.

Thank you for your assistance in connection with this matter.

Sincerely,

James D. Beasley

CMP ____
COM 5
CTR 1
ECR JDB/pp
Enclosures
GCL 1
OPC cc: All Parties of Record (w/encls.)
RCA ____
SCR ____
SGA ____
SEC ____
OTH ____

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing Rebuttal Testimony of Howard T. Bryant, filed on behalf of Tampa Electric Company, has been furnished by hand delivery(*) or U. S. Mail on this 21st day of September 2007 to the following:

Ms. Jennifer S. Brubaker*
Staff Counsel
Office of General Counsel
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

George Cavros, Esq.
120 E. Oakland Park Blvd., Ste. 105
Fort Lauderdale, FL 33334

ATTORNEY

TECO
TAMPA ELECTRIC

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 070467-EI
IN RE: TAMPA ELECTRIC'S
PETITION TO DETERMINE NEED FOR
POLK POWER PLANT UNIT 6

REBUTTAL TESTIMONY
OF
HOWARD T. BRYANT

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED REBUTTAL TESTIMONY

OF

HOWARD T. BRAYNT

Q. Please state your name, address, occupation and employer.

A. My name is Howard T. Bryant. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") as Manager, Rates in the Regulatory Affairs Department.

Q. Are you the same Howard T. Bryant who submitted prepared direct testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address the statements and conclusions of Mr. David Nichols and Dr. Stephen A. Smith testifying on behalf of the Southern Alliance for Clean Energy.

Q. Please provide an overall assessment of Mr. Nichols's testimony.

A. Mr. Nichols's testimony primarily fails to demonstrate a clear understanding of the impact of incentives on customer participation in demand-side management ("DSM") programs. He has erroneously assumed that there is a direct correlation of customer participation to increased incentives; therefore, his claim that simply increasing customer incentives by a certain ratio above the company's current levels will provide a commensurate increase in savings is incorrect.

Further, Mr. Nichols asserts that the Rate Impact Measure ("RIM") Test has been and will continue to be a hindrance to the company in delivering cost-effective DSM in its service area. This assertion is difficult to accept given the Energy Information Administration's ("EIA") ranking of Tampa Electric's 2001-2005 DSM results as high as the 96^{th} percentile nationally on conservation and energy efficiency accomplishments and as high as the 90^{th} percentile nationally on load management accomplishments. These EIA rankings have been achieved through the delivery of cost-effective DSM programs as measured by the RIM Test.

Q. Do you agree with Mr. Nichols's statements that Tampa Electric has not identified all potential cost-effective DSM measures?

A. No, I do not. Tampa Electric has identified all cost-effective DSM measures through the process established and repeatedly utilized since 1995 by the Florida Public Service Commission ("Commission") for its DSM goals setting dockets, which entails the evaluation by utilities of a comprehensive list of DSM measures for potential program development. Tampa Electric has taken steps to go beyond the list by including: 1) the evaluation of measures that have evolved from research and development efforts, 2) measures that have savings potentials beyond those prescribed by building codes and 3) measures promoted by other utilities in the company's geographic region. This comprehensive effort required over 1,000 individual cost-effectiveness evaluations to be performed. After identifying cost-effective measures with potential for program inclusion, new DSM goals for the 2007-2014 period were established and program development commenced. The culmination of this effort produced the company's requested DSM program changes brought before the Commission in Docket Nos. 070056-EG and 070375-EG. The Commission found the company's

request in Docket No. 070056-EG to be cost-effective and appropriate and voted to approve the company's request at its August 28, 2007 Agenda Conference. In addition, the Commission Staff has completed its analysis of the company's request in Docket No. 070375-EG and has recommended Commission approval of all but two of the company's proposed programs, with one recommended for approval on an interim four year basis and the other recommended for denial based on Staff's conclusion that it does not qualify on the basis of cost-effectiveness.

Q. What cost-effectiveness methodology has the Commission employed in its DSM goals setting and program approval processes?

A. Since the 1980s, the methodology employed by the Commission to determine DSM program cost-effectiveness has been the RIM Test.

Q. Why has the RIM Test and not the Total Resource Cost ("TRC") Test been utilized by the Commission as the correct methodology to set DSM goals and determine the cost-effectiveness of DSM programs?

A. The Commission clearly articulated the basis for its

decision to employ the RIM Test in setting DSM goals in Docket No. 930551-EG, Order No. PSC-94-1313-FOF-EG, issued October 25, 1994 when it stated,

> "We will set overall conservation goals for each utility based on measures that pass both the participant and RIM tests. The record in this docket reflects that the difference in demand and energy savings between RIM and TRC portfolios are negligible. We find that goals based on measures that pass TRC but not RIM would result in increased rates and would cause customers who do not participate in a utility DSM measure to subsidize customers who do participate. Since the record reflects that the benefits of adopting a TRC goal are minimal, we do not believe that increasing rates, even slightly, is justified." (Emphasis added)

Simply stated, the Commission determined that if a DSM program only passed the TRC Test, it would be unfair for customers who did not participate in the DSM program to "pay the freight" for those who did. That would create a

subsidy which violates the principles of utility rate making. In this regard, Section 366.03, Florida Statutes, provides:

> "...No public utility shall make or give any undue or unreasonable preference or advantage to any person or locality, or subject the same to any undue or unreasonable prejudice or disadvantage in any respect...."

To the contrary, utilizing the RIM Test to determine DSM goals and program cost-effectiveness is fair to both participants and non-participants. Therefore, the RIM Test has been correctly termed the "no losers" test. This means that a cost-effective DSM program under the RIM Test evaluation provides benefits to <u>all</u> customers by the deferral or avoidance of new capacity which would thereby result in lower rates than would otherwise occur in the absence of the program.

Q. How do incentives impact the RIM Test?

A. Incentives are one of the components of utility cost in the RIM Test. Incentives are offered by the utility to encourage customer participation; however, as the

incentive is increased, the cost-effectiveness measured by the RIM Test decreases. Therefore, incentives are established at a level that will encourage customer participation while maintaining DSM program cost-effectiveness.

Q. Do you agree with Mr. Nichols's assertion on page 7 of his testimony where he states that an increase in incentives will result in an increase of customer participation?

A. No, I do not. Tampa Electric's extensive DSM experience does not support Mr. Nichols's claim of a direct one for one correlation of incentive level to customer participation. Tampa Electric has experienced decreased customer participation in its Heating and Cooling Program as incentives were increased. Specifically, during the early 1990s, the customer incentive for installing a qualifying heat pump was $350 and participation was approximately 6,000 to 7,000 customers annually. In the mid-1990s, the customer incentive was increased to $750 for qualifying units but participation decreased to approximately 6,000 in 1996 and only 3,800 in 1997.

Additionally, the company has offered free audits to

residential and commercial customers since 1981; through 1996, 345,600 residential and 16,800 commercial customers have participated. Yet Tampa Electric's residential customer base was 575,100 and its commercial customer base was 70,200. So even offering a free opportunity for customers to have their residences or facilities audited to learn about measures and practices to help reduce electric bills has not persuaded all customers to participate.

Q. On page 8 of Mr. Nichols's testimony, he states that the benefit/cost ratio for the RIM Test, "…should be at 1.0, and not above that level." Do you agree?

A. No, I do not. The RIM Test is comprised of several assumptions regarding utility cost and benefit and DSM program demand and energy reductions. Cost assumptions include estimates for DSM program administration, marketing, advertising, delivery, incentives and revenue losses. Benefit assumptions include estimates for the cost of the avoided unit, its fixed and variable costs, operational characteristics and the fuel forecast for the avoided unit as well as for the utility's other generators in its fleet. Additionally, DSM program demand and energy reductions assumptions are based on the efficiency level

of the new measure and the baseline measure, the hours of measure operation and when those hours will occur during the day, the anticipated temperatures throughout the heating and cooling seasons, and various of other assumptions depending on the end-use measure. All of these assumptions – costs, benefits and demand and energy reductions - are made with the best knowledge available at the time the cost-effectiveness analysis of a DSM program is conducted. However, to assume the assumptions are perfect, year after year, is not realistic but is exactly the underlying premise when a RIM Test value of 1.0 is sought. Only a novice DSM program designer would attempt this lofty feat.

Finally, if a utility initially designed a DSM program to be exactly 1.0 RIM cost-effective, the very moment it became non-cost-effective due to a change in any of the various program assumptions or parameters, the utility would be required to discontinue the program until such time it was cost-effective again. This inconsistent "on again, off again" approach to providing DSM programs to customers would not produce ongoing, long-term results necessary for system planning and certainly would not endear the utility to its customers in such a manner so as to be correctly viewed as a resource to be trusted for

information on the efficient use of electricity - a position held and cherished by Tampa Electric for a number of years.

Q. Do you agree with Mr. Nichols's discussion of the Total Resource Cost ("TRC") Test as the appropriate test to be used for DSM cost-effectiveness evaluations?

A. No. For reasons I have previously stated, Tampa Electric agrees with the Commission's longstanding principle that the appropriate test for determining the cost-effectiveness of DSM programs is the RIM Test. It provides the proper safeguard against the subsidization by a non-participant in a DSM program to a participant.

Q. On pages 10, 11 and 15 of Mr. Nichols's testimony, he suggests the level of incentives that could be paid under the TRC Test would proportionately increase participation and have no negative impact on rates. How do you respond?

A. I disagree. The TRC Test is indifferent to the level of incentives. However, there are two issues. First, it cannot be said that an increase in incentives will always produce a proportionate increase in participation as Mr. Nichols indicates on pages 10 and 11 of his testimony. As

I previously stated and discussed, Tampa Electric's experience does not necessarily comport with his position. Indeed, offering free energy audits has not resulted in full participation indicating that increases in incentives will not necessarily induce participation in a conservation program. Additionally, Florida Power and Light ("FPL") recently completed a pilot test of its residential load management program to determine the impact on customer participation relative to lowering incentives. The company found there was no significant decrease in new participation. The Commission agreed with that finding and approved FPL's new incentive structure in Docket No. 070350-EG, Order No. PSC-07-0720-TRF-EG, issued September 4, 2007.

Second, the issue of increased incentives not having an impact on rates is incorrect. Rates will be impacted less than otherwise if and only if the RIM Test results are considered. Once incentives are increased beyond what is cost-effective, as measured by the RIM Test, rates will in fact increase and subsidization by non-participants begins.

Q. On several occasions throughout Mr. Nichols's testimony, he promotes the idea of a financing program administered

by the utility to finance the installation of DSM measures. Based on his proposal, how do you respond?

A. Tampa Electric has several fundamental concerns with the financing proposal suggested by Mr. Nichols. First, Mr. Nichols incorrectly states there will be no administrative costs associated with providing a financing program to customers beyond initial set up costs. The management and ongoing facilitation of the program will entail monthly payment processing, reporting requirements, late payment arrangements, collection issues, and if a third party lender is utilized for the program, contract management of by Tampa Electric must occur.

Second, Mr. Nichols proposes that the payment for the DSM measure installed on a premise stays linked to the premise and <u>not</u> the customer who made the buying decision. Therefore, if that customer moves, the next customer would then carry the burden of continuing the payment for the DSM measure. If the next customer did not want the DSM measure (e.g., the customer prefers a gas measure and not the electric DSM measure), the DSM measure might be removed prior to the final payment of the measure. Who then has responsibility for payment? How will total payment of the DSM measure be made? These are important

questions, the answers to which impact all of Tampa Electric's customers, but which are not addressed or resolved in Mr. Nichols's testimony.

Third, collection issues will undoubtedly arise for the payment stream associated with the DSM measure. When that occurs, Rule 25-6.105(8), Florida Administrative Code ("F.A.C.") does not allow the utility to discontinue service to a premise for non-payment of merchandise or a non-regulated service provided by the utility. Therefore, a customer could purchase a DSM measure through a service offered by the utility, the customer could then decide not to pay for the DSM measure and the utility could not discontinue service for the non-payment.

Fourth, Tampa Electric is concerned about the situation where a payment stream for a DSM measure has been established but the measure breaks prior to its estimated useful life and before total payments have been made. At this juncture, the customer is faced with: 1) a broken piece of equipment, 2) an outstanding balance to be paid on that broken equipment, 3) the need to replace the broken equipment, and 4) the likelihood of a second loan for the new replacement equipment. Under this circumstance, the customer has payment options: 1)

continue paying for the broken piece of equipment while establishing a new payment stream for the new equipment, 2) pay for the new piece of equipment only, or 3) not pay for either one since the utility cannot discontinue service for non-payment. Two of these three options are not acceptable but are real possibilities. Furthermore, the utility's administrative costs associated with this event cannot be ignored. Resources will be used to assist the customer through this process and to ultimately attain a new, working piece of equipment as the desired end result.

Fifth, Tampa Electric has some experience in attempting to provide lower interest loans to customers investing in energy efficiency equipment. The company developed a loan program in partnership with a local bank. The interest rate on the customer's loan was discounted four percent and the customer made monthly payments directly to the bank. During the development of the loan program, Tampa Electric made numerous attempts to secure several bank partners; however, the company was only able to attract the assistance of one bank. Over the course of the program, other banks were contacted for participation but to no avail. Program activity was very modest. After five years, the one participating bank made a decision to

terminate its involvement due to low customer participation and Tampa Electric was not able to secure another bank partner.

Finally, Tampa Electric does not have the expertise to conduct the banking operation and procedures required by a financing program.

With these many concerns and past experience, Tampa Electric firmly opposes the establishment of a financing program administered through its billing system as some type of tariff arrangement or as a partnership with a lending institution.

Q. How would you assess the American Council for an Energy-Efficient Economy ("ACEEE") report entitled "Potential for Energy Efficiency and Renewable Energy to Meet Florida's Growing Energy Demands" utilized by Mr. Nichols?

A. The report from ACEEE was first published in February 2007. Once published, the investor-owned utilities ("IOUs") of Florida conducted a review of the report and then requested an opportunity to discuss the report's results with the principal author. During the discussion, the author acknowledged some errors, expressed concern

over some data sources utilized in the report and asked the utilities to provide additional feedback. The IOUs accommodated the request.

A second draft report was issued and some corrections had been made; however, the IOUs still offered comments to improve the accuracy of the report. The second report was issued in June 2007 and the IOUs were disappointed to discover that their comments and corrections had generally not been incorporated. Therefore, concerns still exist with the ACEEE report and the company does not believe it should be used as the basis of the Commission's decision in this case.

Q. How does the IOUs experience with ACEEE compare to the Commission's process for DSM goals setting?

A. The Commission undertook a similar effort during a previous DSM goals setting process. The utilities of the state were among many contributors to the effort due to their load research and other customer baseline information that was necessary to achieve a reasonable evaluation. It is my opinion the ACEEE organization should have considered engaging the utilities from the outset of its project.

Q. Should the Commission approve Mr. Nichols's recommendations, as described on page 17 of his direct testimony, for Tampa Electric to evaluate DSM measures based on the TRC Test, to establish an energy efficiency financing program and for the Commission to jettison the RIM Test in favor of the TRC Test?

A. No. For the reasons identified in my rebuttal testimony, the Commission should reject Mr. Nichols's recommendations. The Commission should further reject Mr. Nichols's general recommendation that the Commission itself should abandon the RIM Test in favor of the TRC Test. The RIM Test was adopted after many days of hearing with full participation of the utility industry and environmental groups and an exhaustive review and thorough consideration by the Commission. It would be entirely inappropriate to abandon that test in this proceeding.

Q. Do you agree with Mr. Nichols's statements that Tampa Electric has not identified all potential cost-effective DSM measures?

A. No. Tampa Electric employed an exhaustive process to identify all cost-effective DSM by using the Commission-

prescribed methodology utilized in its DSM goals setting processes during the last three DSM goals setting proceedings. In those proceedings, the Commission has consistently found that setting DSM goals and developing DSM programs with the RIM Test will not result in increased rates and will not cause customers who do not participate in a utility DSM measure to subsidize customers who do participate. Further, the Commission found that the benefits of adopting a TRC goal over a RIM goal are minimal; therefore, it did not believe that increasing rates, even slightly, was justified.

Q. Can Tampa Electric reasonably and cost-effectively increase impacts of its DSM programs and utilize additional measures to further mitigate the need for Polk Unit 6?

A. No. The additional DSM identified by Tampa Electric is 41 MW of summer demand and 48 MW of winter demand by the time the Polk 6 unit is scheduled to come on line. This demand is projected to be available to Tampa Electric through the DSM program modifications requested by the company in Docket Nos. 070056-EG and 070375-EG. The Commission has approved the company's request in Docket No. 070056-EG in Order No. PSC-07-0740-TRF-EG issued

September 17, 2007. The Commission is scheduled to decide on Docket No. 070375-EG late in September.

Q. Do you have other concerns with SACE's proposals in this proceeding?

A. Yes, I believe it would be risky, if not reckless, to rely on unproven speculative assertions by SACE that the programs it proposes will actually result in the levels of reduced energy consumption and demand. The unfounded reliance on these measures will limit Tampa Electric's alternatives of adding new capacity to its system to handle the energy and capacity needs of Tampa Electric's customers.

Moreover, conservation measures do not and cannot produce the same resources available to meet the demands by our customers for electric power. This is because while programs may induce conservation under some circumstances these programs may not produce these savings at all times of the day or at all times during the year. In such instances, the company must be ready to provide service. The only way to ensure that this service will be available is to add generating units.

Q. Have you reviewed the prepared direct testimony of SACE witness Dr. Steven Smith?

A. Yes, I have. Dr. Smith reiterates or adopts positions taken by Mr. Nichols in his testimony. That being the case, my rebuttal comments concerning Mr. Nichols's testimony serves as my rebuttal to Dr. Smith's testimony, as well.

Q. Please summarize your testimony.

A. Tampa Electric specifically rejects the proposals offered by SACE's witness Nichols primarily because they are not proven or based on actual experience derived from accurate data. In addition, Mr. Nichols does not demonstrate a thorough understanding of cost-effectiveness analyses and their impacts on customer rates. Tampa Electric has utilized a comprehensive approach to evaluating all possible DSM programs available to negate the need for Polk Unit 6. The company has employed longstanding Commission approved principles to identify new DSM programs as well as modifications to its existing programs in an effort to put forth all DSM that is cost-effectively available. Cost-effectiveness of DSM programs should be measured on a RIM Test basis - a decision the Commission

has previously reached and correctly applied in three DSM goals setting dockets as well as several other dockets involving the approval of specific utility DSM programs outside the goals setting process. The Commission has accurately found that any deviation from the RIM Test will create a subsidy being paid by the non-participating customers to the participating customers - an act prohibited by statute. Therefore, based on the aforementioned for reasons, the Commission should reject SACE's proposals.

Q. Does this conclude your testimony?

A. Yes, it does.