BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

COMMISSION REVIEW OF NUMERIC CONSERVATION GOALS (FLORIDA POWER & LIGHT COMPANY).	DOCKET NO. 080407-EG
COMMISSION REVIEW OF NUMERIC CONSERVATION GOALS (PROGRESS ENERGY FLORIDA, INC.).	DOCKET NO. 080408-EG
COMMISSION REVIEW OF NUMERIC CONSERVATION GOALS (TAMPA ELECTRIC COMPANY).	DOCKET NO. 080409-EG
COMMISSION REVIEW OF NUMERIC CONSERVATION GOALS (GULF POWER COMPANY).	DOCKET NO. 080410-EG
COMMISSION REVIEW OF NUMERIC CONSERVATION GOALS (FLORIDA PUBLIC UTILITIES COMPANY).	DOCKET NO. 080411-EG
COMMISSION REVIEW OF NUMERIC CONSERVATION GOALS (ORLANDO UTILITIES COMMISSION).	DOCKET NO. 080412-EG
COMMISSION REVIEW OF NUMERIC CONSERVATION GOALS (JEA).	DOCKET NO. 080413-EG

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VOLUME 9

Pages 1790 through 1908

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PROCEEDINGS: HEARING

FLORIDA PUBLIC SERVICE COMMISSION

COMMISSIONERS PARTICIPATING:	CHAIRMAN MATTHEW M. CARTER, II COMMISSIONER LISA POLAK EDGAR COMMISSIONER KATRINA J. McMURRIAN COMMISSIONER NANCY ARGENZIANO COMMISSIONER NATHAN A. SKOP
DATE:	Thursday, August 13, 2009
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	LINDA BOLES, RPR, CRR Official FPSC Reporter (850) 413-6734
PARTICIPATING:	(As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

NUMBER:	ID.	ADMTD.

REPORTER'S NOTE: No exhibits marked or admitted in this volume.

P R O C E E D I N G S

(Transcript follows in sequence from Volume 8.)

CHAIRMAN CARTER: Mr. Burnett.

MR. BURNETT: Yes, sir. We would call Mr. Masiello back to the stand.

CHAIRMAN CARTER: Commissioners, we're making progress, so we're just going to push on for a while.

MR. BURNETT: Mr. Chairman, while Mr. Masiello is getting ready, I just wanted to let everyone know I had passed out this color two-sided chart. This is, just so we can avoid any potential objections to this and everyone knows what it is, this is, these are tables taken directly from Mr. Masiello's rebuttal testimony on Pages 29 and 30. So you could either reference the rebuttal testimony. This is just a little bit easier to read, so I just wanted --

CHAIRMAN CARTER: Okay. You don't need a number or anything?

MR. BURNETT: No, sir, not at all. Not at all. Just for ease of viewing.

CHAIRMAN CARTER: Thank you.

JOHN MASIELLO

was called as a witness on behalf of Progress Energy Florida, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BURNETT:

Q. Mr. Masiello, are you ready?

A. Yes, I am.

Q. Mr. Masiello, you realize that you're still under oath; correct?

A. I do. Yes.

Q. And have you filed rebuttal testimony in this proceeding?

A. I have.

Q. Do you have any changes to make to your prefiled rebuttal testimony?

A. Yes, I have just one.

Q. Please tell me what it is.

A. On Page 12 of my rebuttal, we have a table that shows the contrast between what was suggested for carbon from Mr. Spellman's testimony of, the price of carbon was the, from the CBO, the Congressional Business Office, versus what we had used. Those numbers start with 2014. We show that we used Progress Energy Florida to create our E-RIM $22 a ton. The CBO had recommended for Mr. Spellman was a 17. So we were higher there. That number should drop down and every subsequent number should drop down just one year. So the 22 should go through to 2015 and then the 24 goes to 2016, and the

2016 goes to 2017 and so on.

Q. Thank you, sir. And with that correction, if I asked you the same questions in your prefiled rebuttal testimony today, would you give the same answers that are in your prefiled testimony?

A. I would.

MR. BURNETT: Mr. Chair, we request that Mr. Masiello's prefiled rebuttal testimony be entered into the record as if it was read here today.

CHAIRMAN CARTER: The prefiled testimony of the witness will be inserted into the record as though read.

IN RE: COMMISSION REVIEW OF NUMERIC CONSERVATION GOALS (PROGRESS ENERGY FLORIDA, INC.)

FPSC DOCKET NO. 080408-EG

REBUTTAL TESTIMONY OF JOHN A. MASIELLO

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is John A. Masiello. My business address is 3300 Exchange Place, Lake Mary, Florida, 32746.

Q. Have you previously filed Direct Testimony in this proceeding?

A. Yes. I have provided testimony to the Florida Public Service Commission ("FPSC" or the "Commission") on behalf of Progress Energy Florida, Inc. ("PEF" or "Progress Energy").

II. SUMMARY OF REBUTTAL TESTIMONY

Q. Please summarize your rebuttal testimony.

A. The purpose of my rebuttal testimony is to address the Direct Testimony of the following: John D. Wilson, Philip H. Mosenthal, William Steinhurst, Ralph Cavanagh and the Direct Testimony of Richard F. Spellman and Caroline Guidry (GDS). Mr. Spellman's recommendations for the revision of goals proposed by the FEECA utilities are unsubstantiated, unsupportable, and unrealistic. Mr. Spellman's

recommendation that PEF's energy efficiency goals be based on an estimate of the maximum achievable cost-effective potential determined through the use of the E-TRC test and the Participant Test as the primary cost-effectiveness tests is extreme and has no consideration of rate impacts or requirements of the FPSC. Mr. Spellman's assertion that the RIM test discourages meaningful and impactful measures by encouraging peak demand vs. energy savings is also without merit and is simply wrong. Additionally, both Mr. Spellman's and the intervener witnesses' proposed goals are not based on any sound or principled analysis and, in some instances, are simply pulled out of thin air. Further, Mr. Spellman's testimony contains inaccurate descriptions of PEF's performance, erroneous conclusions related to the processes and methodologies used throughout the course of goals development, and a misunderstanding of appropriate cost-effectiveness testing.

In contradiction to the GDS and SACE/NRDC testimony, my rebuttal testimony and the rebuttal testimony of witness Dean will demonstrate that the "high" scenario (E-RIM) goal that PEF has proposed in our 2009 DSM Goals filed on June 1, 2009, will balance the needs of all of our stakeholders by:

- Adhering to the prescribed regulatory requirements
  - Florida Energy Efficiency Conservation Act (FEECA)
  - HB 7135
- Meeting the objectives of the FPSC
- Considering rate impacts to our customers

Furthermore, my testimony in this matter demonstrates that because of PEF's proven history of successful implementation and management of energy efficiency and demand response programs, we are in the strongest position to propose the

appropriate goals and programs to meet the complex challenges facing our customers and environment. PEF shares the same objectives as the FPSC which are to meet the energy efficiency needs of our service-territory today and in the future while preserving the environment, maintaining diligent awareness of impacts to electric rates, and upholding our responsibility to all stakeholders to ensure that PEF continues to be a strong electric provider in the future. PEF is committed to working with the Commission to build on our success of historical DSM accomplishments while forging a path to the future with well analyzed and appropriate goals as proposed in our "high" scenario (E-RIM) goals filing.

My testimony and Mr. Dean's testimony also shows that:

- The goals proposed by PEF in the Goals Docket Filed on June 1, 2009 are appropriate, properly analyzed, meet the objectives established in Florida rules and statutes, and should be approved as proposed.
- The FPSC has long recognized the appropriateness of the RIM and Participant Tests as effective measures in determining the best balance of programs/costs to all ratepayers.
- PEF's proposed goals analyze impacts to customers' bills and the recommended goals represent a balanced approach to ensure that all customers are considered.
- A two year payback is an appropriate component that has long been recognized by the FPSC, as a means to reduce free ridership and reduce costs.

Q. What is your position on the issues incorporated with the testimony of Jim Dean filed on behalf of the IOUs in this docket?

A. Mr. Jim Dean has filed testimony on behalf of the four major IOUs. Jim Dean's testimony focuses on five main topics to include:

- Interpretation of Florida Statute 366.82 regarding "maximum achievable energy savings"
- Goal setting process
- Reduction of green house gases through conservation
- Interpretation of Florida Statute 366.82 regarding cost effectiveness tests (RIM/TRC)
- Two year payback

I accept, incorporate and adopt Mr. Dean's testimony as my own.

Q. Are you sponsoring any exhibits with your testimony?

A. No.

III. REBUTTAL TESTIMONY

Proposed Goals

Q. Is PEF in agreement with GDS's and SACE/NRDC's proposed goals for PEF?

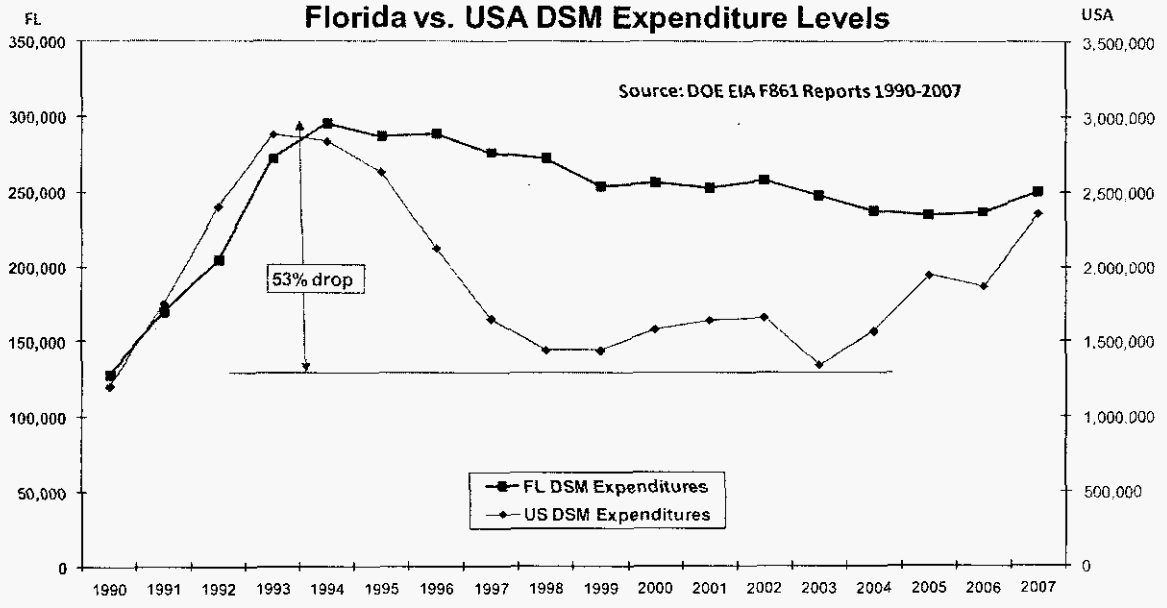
A. No. Mr. Spellman proposes goals in his testimony that are developed by making unsupportable "adjustments" to PEF's technical and achievable potential, adding in energy efficiency measures that have been appropriately eliminated due to free ridership consideration, selectively increasing market penetrations, and by making other self-serving revisions to arrive at goals for each of the FEECA utilities. Given his caviler approach to making these adjustments in an effort to support his

suggestion that Florida lags behind the rest of the nation in energy efficiency, it appears that Mr. Spellman is unfamiliar with the goals setting process in Florida and the success of DSM programs under the Florida Energy Efficiency Conservation Act (FEECA). By proposing arbitrary "percentage of sales" goals for PEF instead of goals that are supported by principled analysis, the SACE/NRDC witnesses appear to suffer from this same infirmity.

PEF has a long history of aggressively pursuing energy efficiency and demand response over the past 28 years. Under the guidance of the Public Service Commission, PEF has developed and implemented DSM programs through an integrated resource planning process that has avoided the need for 17 power plants. Since 1993, PEF has conducted approximately 600,000 energy audits and currently offers 16 programs incorporating over 100 measures. We have nationally-recognized programs and advertising campaigns that are used throughout the nation as examples for energy service providers to emulate. We are in homes and businesses everyday to educate and motivate our customers on energy efficiency. We go far beyond what we take credit for in our annual EIA report. We are in the homes of low-income families installing efficiency measures at no cost and at the same time providing substantial education to encourage behavior that provides long term benefits. Additionally, we work with our schools and communities to take advantage of every opportunity to encourage participation in our energy efficiency and demand response programs. PEF has been actively engaged in the education and delivery of both energy efficiency and demand response programs that have resulted in the savings of over 12,000 GWH and 1,575 WMW since 1980. Unlike other states whose commitment to funding and support of DSM programs has changed over time, DSM expenditures

in Florida have remained stable. Table 1 below shows the comparison of Florida and U.S. DSM Expenditures.

Table 1: Florida versus USA DSM Spending Levels



I reiterate that PEF has complied with FEECA by submitting realistic, ambitious, and achievable goals that are based on extensive analysis to assess the full technical and achievable potential for energy and peak demand savings for DSM in Florida. PEF's proposed goals are based upon the Company's most recent planning process of the total cost-effective kilowatt and kilowatt-hour (kWh) DSM savings reasonably achievable in PEF's service territory over the ten-year period 2010 to 2019 and were developed using the Commission's approved cost-effective methodology. This validated process, which was agreed upon by all parties, resulted in submission of cost effective goals that should be approved in this docket.

Q. What is your response to the comments made in Spellman's testimony stating, "The ultimate goal of the FEECA statutes is to implement successful energy efficiency programs that can reduce the growth rate of electric consumption."?

A. I disagree with Mr. Spellman's assertion. His view of FEECA's "ultimate goal" is a misinterpretation based on "cherry picking" sentences from the Statute while dismissing other language. For example, the FEECA statute states that "Reduction in, and control of, the growth rates of electric consumption and of weather-sensitive peak demand are of particular importance." By conveniently ignoring that FEECA also recognizes the reduction in "weather-sensitive peak demand" as being "of particular importance", Mr. Spellman's statement demonstrates his lack of knowledge of Florida's laws, rules, and unique characteristics, as well as a bias against demand response programs that focus on reducing weather-sensitive peak demand.

Additionally, FEECA specifically states that "...it is critical to utilize the most efficient and cost-effective demand-side renewable energy systems and conservation systems in order to protect the health, prosperity, and general welfare of the state and its citizens." Contrary to Mr. Spellman's view, "implementing successful" programs is not equivalent to "utilizing the most efficient and cost-effective" programs. Further, FEECA does not encourage energy efficiency programs over other types of demand-side programs. To suggest that any one of the FEECA goals is superior above the other is demonstrative of a flawed understanding of the statute and of Florida's history with Demand Side Management. As Mr. Spellman admits, Florida utilities have been highly successful in their contribution to FEECA goals as demonstrated by his statement that PEF is first in the nation with other Florida utilities closely behind depending on the year evaluated. Progress Energy and Florida

utilities are national leaders as Mr. Spellman fully admits in his testimony. It is a contradiction to state otherwise. This status has not come easily and is the result of many years of working with the Florida Public Service Commission to implement aggressive DSM programs. PEF's success is a testament to our Public Service Commission and the legislators that wrote and continue to support FEECA. Our efficiency programs target the most energy intensive measures impacting the major loads that provide significant energy savings. These measures range from high efficiency heating and air conditioning systems, to attic insulation, duct repair, wall insulation, window replacement, and a list of over 100 total measures. The full portfolio design has succeeded in placing an emphasis on reducing the growth rates of weather sensitive peak demand, reducing and controlling the growth rates of electricity consumption, reducing the consumption of expensive resources such as petroleum fuels. Indeed, PEF has implemented and continues to implement successful energy efficiency programs to reduce electric consumption in Florida. To allege otherwise is flat wrong. When meaningful analysis is applied to objective data, the results clearly show that Florida and the FPSC have been and continue to be a national leader in DSM and energy efficiency.

Unlike PEF, neither GDS nor the SACE/NRDC witnesses have submitted any specifics to the Commission as to how their proposals would work in Florida, what programs and measures would be used to achieve their proposals, or what their proposals would mean in costs to Florida customers. Instead, the GDS and SACE/NRDC witnesses pick arbitrary goals that are unsupported by any meaningful analysis (much less an analysis specific to Florida) and ask the Commission to approve them based on the belief that unspecified measures and programs could be

created quickly and would instantly work in Florida at some undetermined cost. Offering such rank speculation and supposition to the Commission shows a fundamental lack of understanding of how the Commission and the Florida legislature have responsibly and prudently managed demand side management and energy efficiency in Florida over the past two decades.

PEF's Performance

Q. What is your response to Witness Wilson's statement regarding his uncertainty whether FEECA utilities are saving energy at an average cost of no more than one-half of the typical cost of a new power source?

A. Mr. Wilson's assertion is illustrative of the superficial and inaccurate testimony put forth by the SACE/NRDC witnesses. Mr. Wilson quotes from reports that inaccurately depict the accomplishments of Progress Energy Florida. In the Summit Blue report that Mr. Wilson relies on, PEF's cost for DSM programs is shown as the highest at $1.70 per kWh. However, the Summit Blue report did not account for the fact that 76% of PEF's DSM expenses are used to support and maintain the existing 1,000 MWs of demand response that PEF has obtained through its aggressive historical efforts.

The Bridge Strategy Group has prepared an analysis of information contained in the Summit Blue report that properly allocates the costs for each type of program and determined that the values presented by Summit Blue are significantly overstated. Specifically, Table 2 below shows that the first year cost $1.70 per kWh for PEF becomes $0.42 per kWh when costs are properly accounted for. Further, Summit

Blue incorrectly states the residential cost per kWh at $1.05, instead of the proper cost of $0.37 when existing DR system costs are excluded.

Table 2:

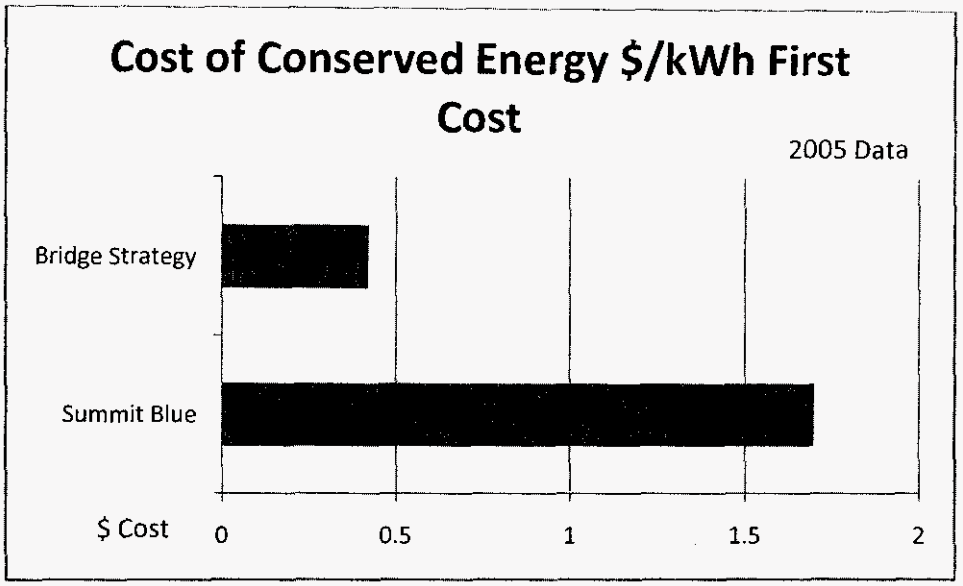
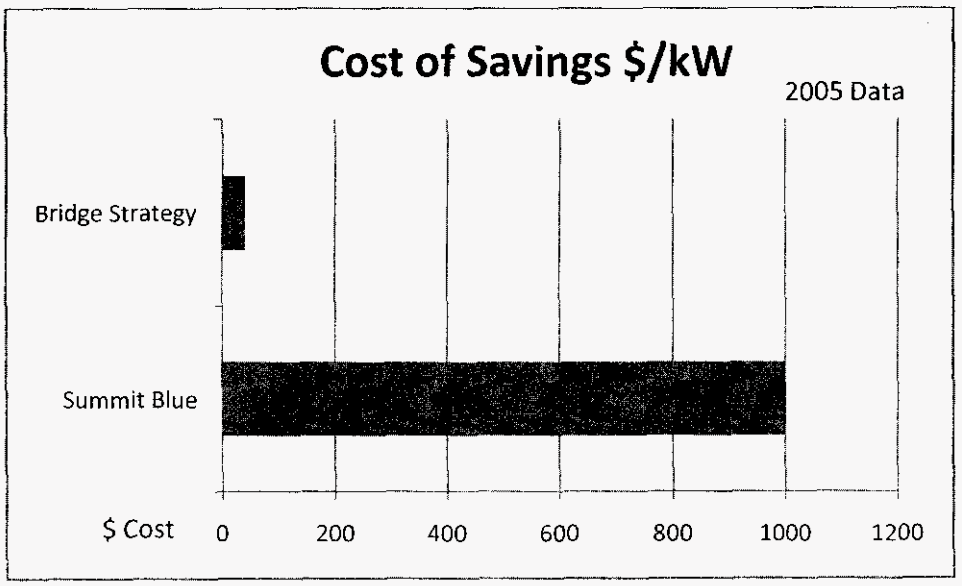


Table 3:



*PEF cost of demand $/kW

Additionally, Table 3 above shows that the $1000 costs for residential kW that Summit Blue asserts becomes $41 when the calculation is based on present demand response megawatts and relationship to cost.

Thus, Mr. Wilson has relied on incorrect data to make incorrect assertions about the costs of DSM in Florida. Again, this is yet another example where the lack of knowledge and awareness of the long standing history of successfully implementing DSM programs in PEF's service territory leads to misleading and frankly, a total disregard for accurately presenting information. The Commission should reject Mr. Wilson's inaccurate and uncorroborated statements and subject the balance of the SACE/NRDC testimony to heightened scrutiny as to its accuracy and validity.

Processes and Methodologies

Q. Do you agree with Witness Spellman's suggestion that the FEECA Utilities estimates for the anticipated cost of GHG emissions are too low?

A. No I do not agree. PEF's carbon costs were based on EPA carbon projections that, as shown in Table 4 below, are higher than the recent Congressional Budget Office (CBO) figures that Mr. Spellman uses. Thus, any suggestion by Mr. Spellman that PEF has undervalued the potential costs of future carbon legislation is simply wrong.

Table 4:

Carbon Cost per Ton

Year	EPA	CBO
~~2014~~ 2015	22	17
~~2015~~ 2016	24	18
~~2016~~ 2017	26	19
~~2017~~ 2018	28	21
~~2018~~ 2019	30	22
~~2019~~ 2020	32	24
~~2020~~ 2021	34	26

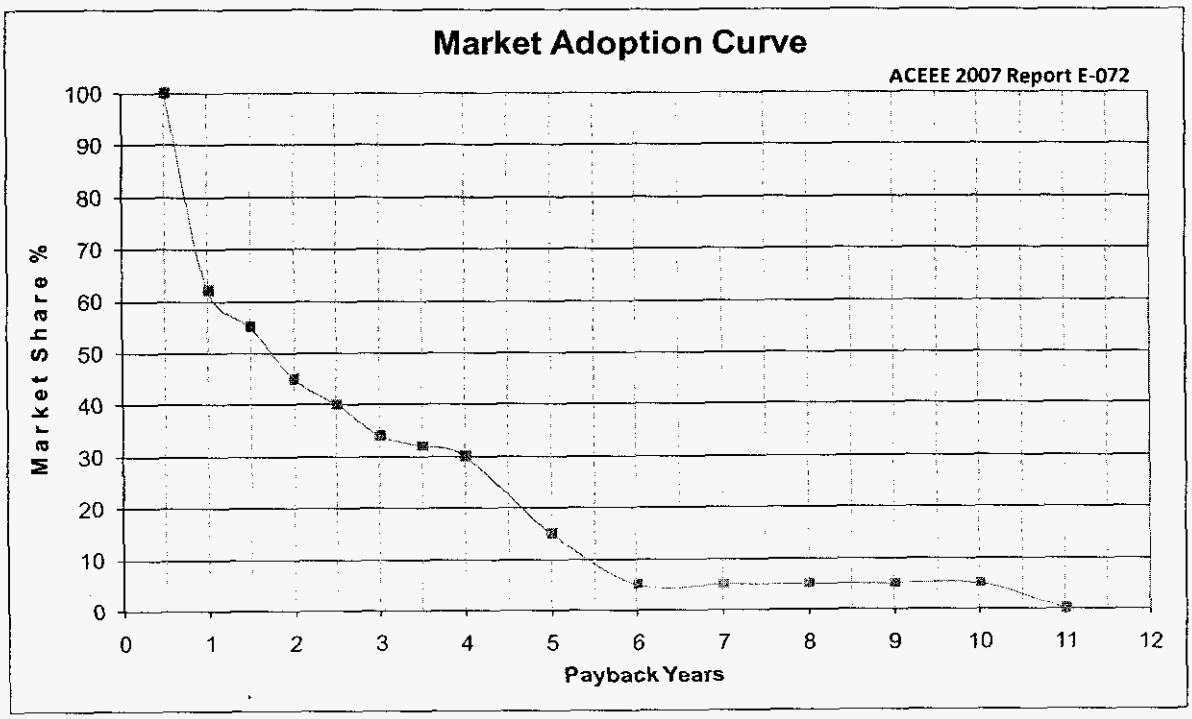
Q. What is your response to criticisms regarding the two year payback limit?

A. Since 1991, a payback of two years or less has been recognized by the Commission as an appropriate threshold to reduce free ridership and maximize cost-effectiveness in DSM program design. The goal of DSM rebates has been to help offset high capital cost measures and reduce paybacks which help to motivate customer action. Indeed, Mr. Spellman himself recognizes in his testimony that the "two year payback "makes sense for the large commercial/industrial market".

In addressing the two-year minimum payback requirement, Mr. Spellman references a portion of the FEECA statute that states "in developing the goals, the commission shall evaluate the full technical potential of all available demand-side and supply-side conservation and efficiency measures …". However, he incorrectly jumps to the conclusion that "The removal of cost effective measures for the residential and small commercial customer classes is not consistent with the requirement in the FEECA statute for the Commission to evaluate the full technical

potential of all available energy efficiency measures." He doesn't take into consideration that the evaluation of technical potential and economic potential was performed prior to the application of the two-year payback screening criterion, so it had no effect toward limiting the technical potential and is, therefore, not inconsistent with FEECA. This, of course, renders Mr. Spellman's criticisms moot. As to the remainder of the criticisms voiced against a two-year payback limitation, there are many published curves that estimate customer adoption in response to payback levels. These curves are typical of the following graph in table 5 below.

Table 5:



*Source: ACEEE – Potential for Energy Efficiency and Renewable Energy to Meet Florida's Growing Energy Demand, June 2007

Table 6:

Payback Level	Two year Payback Adoption	1.5 Yr Payback Adoption	1 Yr Payback Adoption
Free riders	45%	55%	62%

From a two year payback, as shown in Table 6 above, rebates to achieve a 1.5 year payback would result in 55% free riders and increase costs significantly. Providing an incentive to buy down a 2-year payback to 1 year creates 62% free riders and is estimated to almost double costs due to increased incentives. We believe that education is a more cost-effective solution than offering incentives for implementation of measures less than two years and our residential and commercial audits make these recommendations.

On page 6, lines 17-20 of Mr. Spellman's testimony, he indicates the utilities eliminated measures based on the two year minimum payback requirement "without considering the actual market barriers and low market saturations of many of these energy efficiency measures." However, he fails to provide any support for this conclusion and does not appear to be familiar with PEF's residential and commercial audit programs or other education and awareness efforts promoted by the company that directly address several of the market barriers which he cites on pages 28-29 of his testimony.[1]

In summary, the GDS and SACE/NRDC witnesses spend much of their testimony criticizing the two-year payback limitation, but when actual facts and

[1] For further information, please refer to page 19, lines 6-13 of the Direct Testimony of John Masiello.

actual analysis are applied; their unsupported criticisms are revealed to be without merit.

Q. What is your response to Witness Spellman/Guidry's statement made in testimony regarding market penetration estimates used by utilities as being conservative?

A. Again GDS is wrong. PEF strives to achieve maximum market penetration in all segments. An example of our success is presented in Table 7, demonstrating increasing penetration rates in our residential new construction program, Home Advantage.

Table 7:

	2005	2006	2007	2008
System Residential Meter Sets	42,161	46,160	25,845	16,557
Home Advantage Entry or Better	17,677	16,068	12,684	8,378
Home Advantage Market Penetration	42%	35%	49%	51%

We are currently reaching more than 50% of the new homes built in our service territory with energy efficiency measures. This achievement is notable in an economic downturn and with significant reductions in housing starts. Despite external influences, PEF's focus has remained on increasing the efficiency of every home built in our service territory. PEF's program offerings include incentives, education and sales training on duct seal, high efficiency equipment, increased insulation, and advanced windows among others. As another example, studies from the Florida Solar Energy Center (FSEC) indicate that a significant potential exists to save energy by reducing duct leakage. In response, PEF has designed, implemented, and aggressively marketed measures such as duct seal, thereby improving the

majority of new homes in our service territory. FSEC has recommended and the Florida Building Commission has enacted, with support from Progress Energy, codes to help move the remainder of the market. This objective data clearly shows that PEF's market penetration is by no means conservative, proving once again that the allegations made by GDS are inaccurate and misguided. Said simply, GDS and SACE/NRDC are quick to say that PEF and the other FEECA utilities are not doing a good job, but they fail miserably in proving or supporting any of their assertions.

Q. What is your response to GDS's adjustments "to allow for higher market penetrations due to implementation of more aggressive marketing and education strategies."?

A. GDS's adjustments in this regard are out of touch with reality and demonstrate a fundamental lack of sophistication and understanding of the Florida market. Our aggressive goals are achieved by our energy advisors through programs that provide education and promote many measures during our in-home audits. PEF has a long history of developing and implementing innovative and meaningful DSM programs to all segments of our service territory. PEF efficiency advisors are committed to sharing their knowledge and expertise in delivering programs that provide a great benefit to all sectors including low income customers.

One specific program for low income customers that PEF uses is the Neighborhood Energy Saver Program that was designed to deliver energy efficiency measures at no cost to the customers. The Progress Energy Florida Neighborhood Energy Saver (NES) Program assists low-income families with energy costs through energy-efficiency improvements to their homes. The program offers the installation

of a comprehensive package of energy-efficiency improvements at no cost to the customer as well as educating families on how to use energy efficiently and wisely. The combination of these components results in sustainable savings for low-income families. Items such as air conditioning filters are installed, and a one-year supply of filters is left with the customer to ensure sustainability of the energy saving measures. This nationally acclaimed, award-winning program has been recognized by various organizations such as SEE, ACEEE and Chartwell. Most recently, this program received the 2009 AESP Award for Outstanding Achievement in Program Implementation. Although the costs of the installation and all materials are provided at no charge to the customer, and the services mentioned above are delivered at the customer's convenience on the customer's schedule, the average rate of adoption in this program has been under 70%. This demonstrates that contrary to the intervener's global assertions that greater market penetration may be or could likely be achieved in Florida, actual data from actual utilities doing business in Florida with actual Florida customers presents a different story.

Another compelling point is that although the interveners and GDS are once again quick to criticize PEF's education and marketing efforts, they do not appear to even know what PEF does in this regard, nor do they offer any specifics on how PEF could do its job better. Focusing on actual facts instead of supposition, it is important to note that PEF uses a three-pronged approach to educate and inform customers about energy efficiency programs. This approach includes mass media, interactive media, and grassroots community marketing as part of the Save the Watts campaign. This three-pronged approach educates PEF customers about the various ways that they can become more energy efficient, regardless of payback period. The

savethewatts.com website is another major tool in our marketing communications elements. Customers can find "100 Energy Saving Tips" on the website, consisting of no-cost and low-cost ideas (lighting, heating and cooling, home electronics and appliances, pool pumps, windows, etc.) that customers can implement right away to save energy, as well as home improvements that customers can invest in for increased energy savings.

As part of our grassroots community efforts, PEF has also developed energy-efficiency educational materials that are provided to customers at local community events and at the time of their energy audit. PEF's external media relations team also produces monthly articles about various energy efficiency topics which are available for local Homeowners' Associations to reprint in their community newsletters.

As I stated earlier, Mr. Spellman and the interveners simply assert that more aggressive measures are needed but do nothing to address current efforts and programs, nor do they offer any specific recommendations as to how these unspecified "aggressive measures" would be implemented or how they would work. Stated simply, they assume there is a problem without showing there actually is one and then make adjustments that they pulled out of thin air without any analytical support to show how or if those adjustments could be achieved in real life. The Commission should reject such assertions out of hand.

Q. Does PEF only focus on peak demand reduction with their energy efficiency programs and not on energy savings as the GDS and SACE/NRDC witnesses suggest?

A. Not at all. PEF currently has 105 measures for customers that save energy during both on and off peak hours. These measures have some of the most substantial and aggressive energy savings a home or business may install. Lighting retrofits for example, are a part of PEF's commercial measure offerings, but only one of a large portfolio of measures. Other measures that provide significant energy savings are PEF's residential duct repair, insulation upgrade, HVAC replacement, cool roof, and motor replacement measures. Furthermore, peak demand reduction and energy efficiency are not mutually exclusive of one another as the GDS and SACE/NRDC witnesses apparently believe. Taking peak demand impacts into consideration when designing measures helps in screening those measures which are most beneficial to all customers, helps reduce the growth of weather-sensitive peak demand, and reduces rate impacts. As of June 2009, PEF customers who have implemented efficiency measures have saved over $1 billion dollars in energy costs. Based on the PEF's "high" scenario (E-RIM) filed as our goal, PEF's *second* $1 billion in energy costs savings for customers is predicted to occur by the 3rd quarter of 2018. Customers who have voluntarily participated in our demand response programs have also received an additional $1 billion. When compared to the 167 other IOU's listed in the 2007 EIA report, PEF is in the top quartile of annual energy efficiency as a percent of retail sales. Thus, the GDS and SACE/NRDC witnesses have once again made baseless and incorrect assertions that are easily dismissed when proper analysis is applied to them.

Q. What is your response to the statement made by GDS and the SACE/NRDC witnesses that technical potential studies excluded many important energy efficiency measures?

Again, they are wrong. The potential studies did not exclude important measures in the goal setting process. Instead, focus was maintained on measures that have the greatest potential impact and the possibility for realistic adoption. Comparing Florida to New Hampshire and coming to the conclusion that phantom load switches, second refrigerator and freezer turn-in, LED lighting, programmable thermostats and tree shading could represent nearly 20% of energy efficiency potential ignores the significant difference in end use loads, demographics, and climate, all which play a large role in the applicability of these measures. Importantly, some measures *are* materially affected by climate. Specifically, tree shading may be an excellent measure in New Hampshire's hurricane free environment where a predominance of trees with heavy deciduous foliage exists and are readily available in sizes that would produce significant impact in a short period. In Florida, however, palms and evergreens do not have the same load averting profile. Trees also cross over into the realm of behavior and acceptance. Behavior and acceptance also play a significant role in power strip and programmable thermostat use, thus limiting potential or worse, in the case of an improperly deployed programmable thermostat in Florida, actually could add to peak demand and overall energy use as reported in FSEC-PF-362-01, Factors Influencing Space Heat and Heat Pump Efficiency from a Large-Scale Residential Monitoring Study.

Additionally, PEF has worked with local media and other channels, including our energy advisors, to inform customers about phantom loads, and PEF addresses

second unit use and replacement through energy audits and training. These are just further examples of how GDS and SACE/NRDC incorrectly compare PEF's service territory to service territories that are over a thousand miles away and assume, without any analysis, that what works in New England will automatically work in Florida.

In addition to making "apples-to-oranges" comparisons, GDS and SACE/NRDC have also provided the Commission incorrect and incomplete information. For example, the inclusion of LEDs is premature and infeasible for the following reasons:

1) High quality, bright, uniform screw based LEDs are not yet available.

2) Given the adoption stage of CFLs, their inclusion in the study captured all of the potential LED participants.

3) The cost of changing from a CFL to an LED is significantly greater than from an incandescent to a CFL, but the kWh and kW savings are significantly less.

4) Even Mr. Wilson, on behalf of SACE/NRDC, testified that "since LED luminary lamps are primarily an opportunity for lifetime cost savings, and not additional energy savings, I do not recommend any adjustment to the technical potential study results for this measure".

5) Building envelope measures contribute to a greater part of potential savings, although their costs are considerably higher in Florida, as heating and cooling loads represent the largest end uses, not lighting and appliances. Again, even a simple analysis of GDS's and SACE/NRDC's assertions in this regard show that their conclusions are rife with misstatements and misinformation.

Q. What is your reaction to Witness Wilson's statements regarding his lack of support of the Technical Potential Study outcome and design?

A. His statements lead me to believe that he has not communicated well with his clients. NRDC/SACE were actively involved at the technical potential phase, and no one, including SACE, NRDC, Mr. Wilson, or any other witnesses objected to the process, procedure or results. Thus, it is surprising to hear SACE and NRDC state that the Technical Potential Study's outcome and/or design is flawed because they were involved in its development and accepted it during the technical potential phase. The goals collaborative for the technical development process was done with full disclosure and inclusion. The Commission should reject Mr. Wilson's statement on the basis of his client's active involvement and acceptance of the process during the study development.

Q. How would you respond to the statement made in Witness Spellman/Guidry's testimony re: "Energy efficiency programs can help reduce the demand for electricity at a levelized cost per lifetime kWh saved that is much less expensive than building and operating a new nuclear power plant or power plant fueled with clean coal."

A. Much like the balance of their testimony, the simple fact that GDS says something does not make it true. For assertions such as these to be taken seriously, they need to be objectively analyzed and factually supported. These witnesses offer no facts or analysis to support the conclusion that energy efficiency programs can help reduce the demand for electricity at a levelized cost per lifetime kWh saved that is much less expensive than building and operating a new nuclear power plant or power plant

fueled with clean coal, nor do they offer any facts or analysis as to how such statements may or may not be consistent with system planning and reserve margin needs within a given service territory. Unlike these witnesses who offer no support or analysis at all for their novel and unsubstantiated opinions, PEF and the other FEECA utilities have actually performed an analysis that considers system planning and cost effectiveness and have submitted that information to the Commission in their direct testimony. This is the only credible and supported evidence that the Commission can rely on to make decisions in this docket, and GDS's assertions of "it's true because I say so" cannot be accepted.

Q. What is your response to Witness Spellman/Guidry's methodology used to calculate their proposed ratio of summer peak kW savings to the annual kWh savings for each market sector?

A. GDS uses an overly simplistic and incorrect approach to estimate summer and winter peak demand savings by assuming peak demand savings reasonably achievable through utility DSM programs can be extrapolated based solely on kWh energy savings. Their approach ignores standard resource planning practices in that it allows peak demand savings to grow well beyond a utility's capacity needs, since it doesn't consider the utility's resource plan. The GDS ratio approach also doesn't consider the mix of demand response versus energy efficiency programs in the goals, nor the proper mix of demand-side versus supply-side resources in the projection of planning reserves. Thus, their recommended peak demand savings goals leads to an overreliance on demand response as it becomes a proportionally larger share of planning reserves in the future.

Appropriate Cost Effectiveness Test

Q. Please discuss the impacts to PEF's customers as a result of the GDS and SACE/NRDC witnesses proposing TRC as the primary cost effectiveness test.

A. Economists have developed different cost effectiveness tests in order to evaluate the benefits and costs from a variety of perspectives, including program participants (the Participant Test), program non-participants (the RIM Test), and all customers as a whole (the TRC Test). Using the TRC test to determine the cost effectiveness of a DSM portfolio affects customers negatively in several ways. First, TRC will result in higher electricity rates for the DSM portfolio resource plan than for a supply-side only resource plan without any DSM. Second, TRC allows a cross-subsidization between participants and non-participants such that program participants receive an economic benefit from the DSM portfolio while program non-participants actually suffer an economic loss. TRC allows utilities to pay higher incentives to participating customers than RIM, which, of course, drives up rates.

In contrast, PEF's proposal to use the RIM and Participant tests helps to ensure that the DSM portfolio plan will: (1) result in lower electric rates than the supply-side only plan, (2) represent a win-win scenario for all customers by providing an economic benefit to both participants and non-participants, and (3) will only allow cost-effective incentives. PEF's research and long-standing experience confirm that customers at the lower income levels have the least participation in DSM programs. Once again, GDS, SACE, and NRDC are advocating the TRC test to advance their own personal agendas without regard to the impact that this could have on those customers least able to afford it.

All customer segments support energy efficiency programs, therefore all customer segments should receive benefits from the programs they support. If this balance doesn't occur, then cross subsidy occurs. The issue of cross subsidy raises the concern that the customer who can least afford to take advantage of the energy efficiency measures offered will help pay for programs and measures that others will use.

A study of customer incomes and participation rates for various measures consistently shows that middle and higher income customers participate in energy efficiency measures at higher percentages than lower income customer segments. The three highest indexes based on customer income in our duct repair program, for example, are the $125,000-$149,999; $150,000 and over; and $100,000-$124,999 segments respectively. The three lowest indexes based on customer income participation is the $15,000-$19,999; $20,000-$29,999; and under $15,000 respectively. Additionally, these customers are not guaranteed any benefit unless measures are RIM based, which avoids having an undue impact on the costs passed on to them. While the RIM benefit cost model ensures benefits to all customer segments whether they participate or not, the TRC does not. Therefore, TRC will allow cross subsidies to occur without reward to the rate impacts on low income customers. Said simply, with TRC, the customer least capable of participating in the measures ends up paying the higher ECCR cost without getting benefits of rate savings.

In reviewing the testimony provided by SACE, NRDC and GDS it becomes obvious that their collective objective is to increase energy efficiency to a level of approximately 1 percent of total retail sales. It appears that they started with this end

result in mind and then attempted to piece together some sort of argument to support it. Thus, GDS's and SACE/NRDC's lack of consideration of the cost implications related to their proposals and their championing of the TRC test is not surprising. PEF has prepared a directional indication of customer impacts to provide incentives as high as 50% or higher of the incremental measure cost to achieve 60% penetration under the E-TRC test as suggested by Mr. Spellman in his recent deposition.

Below, Table 8 provides an estimate of the DSM cost impacts for the GDS proposed goals for PEF. As one can see, the cost impact is quite dramatic. Since GDS's proposed goals are up by a factor of 6.5 times, the estimated DSM cost would be higher by a factor of 5.6 times, and base revenues deficiencies are up by a factor of 5.1 times:

Table 8:

Plans	GWH	Estimated Cost ($000,000)	Estimated Base Revenues Deficiencies* ($000,000)
E-RIM-H	614	$1,240	$181
GDS Scenario	4,020	$6,955	$932
E-RIM to GDS Difference	3,406	$5,715	$752
* Base rate only, total over 10 year period			

Collectively, the costs for Mr. Spellman's proposed goals under the E-TRC test are estimated to be in the range of $5.7 *billion* for program costs plus incentives over the

10 years of the plan. That cost component alone would add over $570 million in costs annually and significantly increase our current ECCR annual cost of approximately $80 million.

Q. What is your response to the comments made in Spellman/Guidry's testimony stating, "Unlike the E-TRC Test, the RIM Test fails to consider the impact on participants' electric bills."

A. Florida has used the RIM test and the Participant test as criteria for our DSM programs and measures because no one test captures the total economic condition, and this is why the economists developed five different perspectives. To say that the RIM test fails to consider the impact on participants' electric bills is simply wrong. Using RIM and Participant tests help ensure that a DSM portfolio will hold rates at or below supply side costs had no DSM activity occurred. The participant's bill savings, in the Participant test, are a part of deciding what is cost effective. Every measure we have in our current DSM programs and the proposed ITRON "high" (E-RIM) case has passed the cost effectiveness test for the Participant and RIM. GDS's assertions in this regard are again simply incorrect and the Commission should flat out reject such an erroneous statement.

Q. How do you respond to the allegations that Florida utilities are falling short of national leadership status?

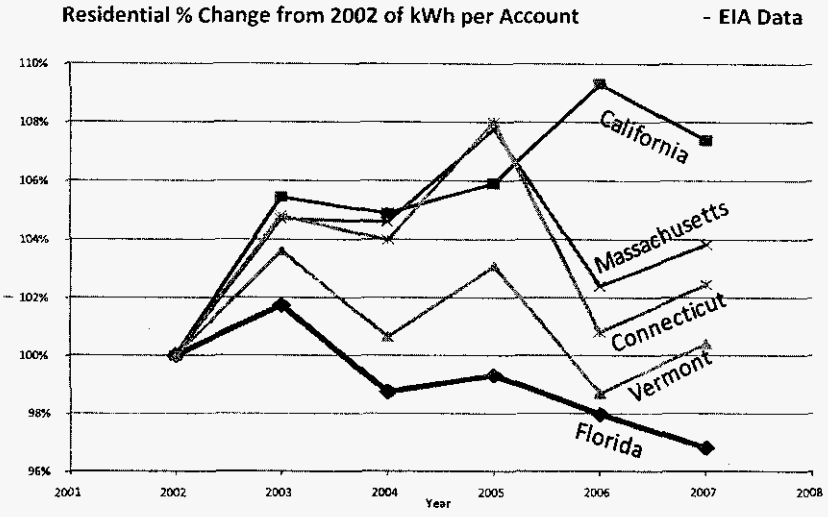
A. This is probably the most offensive and unsupported assertion that the GDS and SACE/NRDC witnesses make as it is patently false and it impugns the FEECA utilities, the Commission, and the Florida Legislature. I have spent a career that

spans 30 years actively engaged in energy conservation, designing and implementing DSM programs that have been recognized nationally for their significance. During my tenure at Progress Energy Florida, we have been fortunate to receive numerous awards and recognition for our exemplary efforts and innovation in the area of energy efficiency. We have demonstrated performance that is sustainable and achieved meaningful savings for our Florida customers. It is inappropriate to say that Florida is not a leader in energy efficiency and these allegations ignore the commendable and long-standing efforts that the FPSC and the Florida utilities have taken under FEECA by creating a legacy of programs that are recognized throughout the nation.

Additionally, Mr. Spellman cited "the leading utilities in California and New England" as performing better than Florida. However, the metrics he uses to support this assertion are energy efficiency claims as a percentage of energy sold. The only responsible and accurate way to make this comparison is to look at actual performance rather than claims. When one focuses on real, objective data, it is apparent that the FEECA utilities, under direction of the FPSC, are leading the country in actual reduction of residential energy usage on a per customer basis at lower cost when compared to the states that Mr. Spellman cites as reflected in Table 9 below:

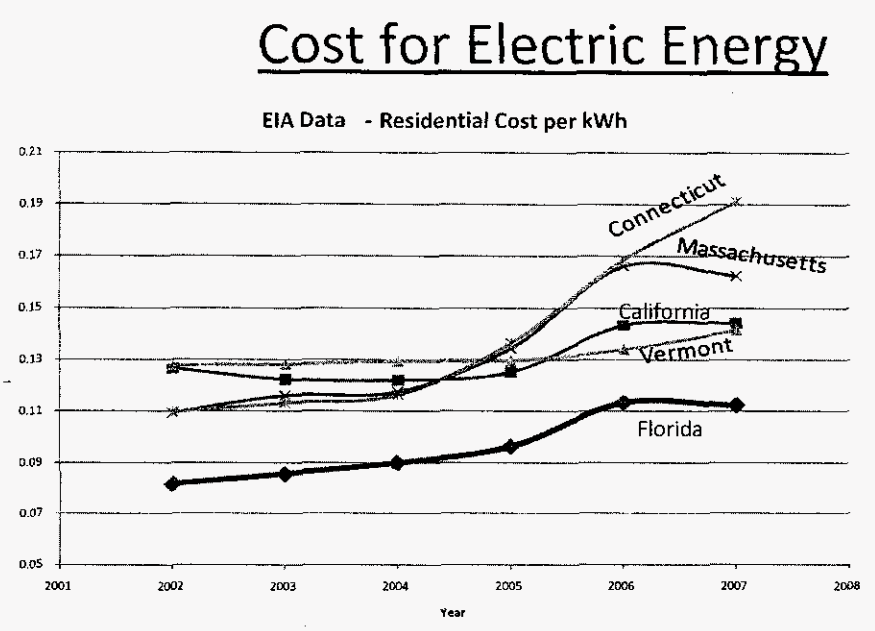
Table 9:

Per Customer Electric Energy Growth/Reduction



Using the same EIA dataset presented in GDS exhibits, PEF evaluated sales divided by number of customers. This analysis, reflected in Table 10 below, clearly shows that the FEECA utilities are leaders of the group in actual reduction of residential energy usage on a per customer basis at a lower cost than the utilities that Mr. Spellman cites.

Table 10:



Additionally, the National Action Plan for Energy Efficiency (NAPEE) report, on which GDS and SACE/NRDC rely heavily, shows a variance in the time horizons for DSM plans in many of the states that those witnesses use as comparators to PEF as reflected in Table 11 below. Components of savings claims vary by utility and although EIA provides guidelines for reporting "implementations", only by comparing each component side by side, within the same appropriate time frame, can there be confidence in the meaningfulness of the data.

Table 11:

DSM Program Cycle per NAPEE					
NY	**VT**	**MN**	**CA**	**WA**	**FL**
1 year	3 year	2 year	2/3 years	3 years	10 years

*Florida's plan is long term and provides sustainable results

Additionally, Mr. Spellman's comparisons of PEF to what he calls "the top twenty list" of high performing utilities, based on annual KWh savings are misleading and do not provide a fair comparison. Virtually all these "top twenty" utilities are considerably smaller in retail sales in comparison to PEF. Totaling the annual retail sales for the bottom 15 of the 20 utilities would not equal PEF's retail sales alone. Of the total list, less than half are investor owned utilities.

Also, the reference to Reedy Creek being in the top twenty, again used in the comparison of annual KWh savings, does not address the fact that Reedy Creek Improvement District is a public corporation of the state of Florida. The District is approximately 90% owned by the Walt Disney Company. Reedy Creek Energy Services (a part of Disney) operates the power system and the extensive EMS system that runs throughout the Disney properties. Basically, the energy supplier and customer are one in the same. Meaningful examples should be based on "apples to apples" comparisons. Once again, the fact that Mr. Spellman says something does not make it true. When actual facts and an objective analysis are applied to his assertions, a different perspective emerges. The Commission should again reject GDS's self-serving allegations.

IV. SUMMARY

Q. Can you summarize the key take aways from your rebuttal testimony?

A. Yes. The Commission, for all the reasons stated in my testimony, should approve the cumulative goals as filed by PEF on June 1, 2009. PEF's proposed high (E-RIM) goals are appropriate, properly analyzed, and meet the objectives established in FEECA.

- Goals set for each utility should be based on measures that pass both the participant test and the Rate Impact Measure (RIM) tests. The RIM test captures the costs and benefits of measures to non-participating customers while the participant test captures the costs and benefits of participating customers. Thus, the interests of both participants and non-participants are considered and DSM-related rate increases are minimized.
- PEF's goals represent the best way to adequately reflect the costs and benefits to provide equitable treatment for all ratepayers while minimizing overall rate impacts.

IV. CONCLUSION

Through the FPSC's leadership, PEF has been successfully and aggressively conducting energy efficiency and demand response programs (DSM) for 28 years. As a direct result of this effort, PEF has delivered significant savings and benefits to its customers. PEF is a national leader in DSM. Our leadership is testimony to the efforts made by the FPSC, Florida legislators, and the customers of PEF.

PEF intends to continue its success in DSM programs and has proposed goals that are aggressive and meet the requirements of FEECA. To that end, we have increased our energy goal from our 2004 ten-year goals filing by over 300%. PEF has implemented enhancements to its RIM test that created a high scenario "E-RIM". Additionally, PEF has also lowered its pass/fail ratio to 1.01 down from 1.20 allowing many more measures to pass "E-RIM". These two additions alone have dramatically increased our potential and will result in significant savings to our customers.

In summary, PEF has proposed initiatives in our filing that are innovative and would allow even greater opportunities for all segments of our population including low income residential and business customers. Our proposal will benefit both customers that can install measures and those that can least afford to participate. PEF's proposed goals are fair and equitable and should be approved.

Q. Does this conclude your testimony?

A. Yes.

BY MR. BURNETT:

Q. And, Mr. Masiello, do you have a summary of your prefiled rebuttal testimony?

A. I do.

Q. Five minutes, Mr. Masiello.

A. Okay. I'm going to talk faster.

Good morning, Chairman Carter, Commissioners. My name is John Masiello, and I am the Director of Demand-Side Management of Progress Energy Florida.

The purposes of my rebuttal is to first address the witnesses from GDS, NRDC and SACE's unsubstantiated, unsupported and unrealistic recommendations to revise goals proposed by the FEECA utilities. These witnesses offer no facts or analysis to support their conclusion, nor do they consider the rate impacts of the E-TRC Test or the requirements of the PSC, FPSC.

GDS depicts the Florida utilities as not being leaders in the energy efficiency arena. Mr. Spellman cites 20 utilities that represent a model for Florida to emulate. Looking beyond the hype, you will see that numerous examples including the total annual retail sales for the bottom 15 of the 20 utilities will not equal PEF's retail sale alone.

Two, one of the utilities cited, Reedy Creek,

has mostly one company, Disney. They are both the energy supplier and the customer.

Three, the program cycles for some of these top states is far less than Florida's ten-year plan, generally averaging no more than two and a half years, questioning sustainability.

Interesting that after reviewing the same EIA data source used by Mr. Spellman, Florida is outperforming all of the states identified as having utility leaders represented as models in their energy reduction.

Looking at the graph I provided you, and hopefully you have on top the per customer electric energy growth reduction chart, if you look at this, this is much like Gulf, you're going to want the lower line. And essentially what that is showing us is that for our residential customers this would be actual electric energy use per customer from the year 2002 through 2007, that Florida is declining far below the other states. We benchmarked and normalized all consumption at 100 percent in year 2002. And as you can see, Florida trends continually going down far below the others.

These states incidentally are the states that were represented in the top 20 list as having aggressive DSM programs. Florida is doing the job and these

numbers talk.

I turn you -- I would ask that you turn to the back side of this, and now you will see that we don't, we didn't have the motivation as well as the other states who are recognized. If you look at our costs per kilowatt hour, Florida is below the others. Here again, lacking perhaps the motivation of higher costs to make that trend down, Florida once again did the job.

Now I'm not going to pretend I can tell you what's driving that. I can tell you it's numerous things. But I can tell you I feel confident that it's partly due to the jobs that the FEECA utilities are doing here in this state.

In the absence of any concern on behalf of GDS, SACE and NRDC for the potential impact on rates, the customer would need to bear the costs associated with these proposed goals. PEF has performed a high level estimate of that additional cost above the goal submitted by PEF in its high E-RIM case. It's close to $6 billion, or seven times greater than the existing DSM expenditures. Just program and incentive costs alone would take our current recovery from $80 million to over $570 million annually, representing an increase of over 600 percent. Additionally, these costs do not include the customers' out-of-pocket costs as well.

To suggest that we can increase our energy goal by greater than six and a half times without significantly increasing rates is misleading. To suggest that program design can fix the wrongs associated with cross-subsidization winners and losers is misleading. To suggest that we can simply ignore the energy efficiency programs and savings that we have achieved for the past 28 years is misleading. To suggest that FEECA, this Commission and the Florida utilities have not led the nation in DSM is misleading.

PEF programs have served as models nationally recognized for their innovation and their positive achievable impacts on our customers.

I reiterate that PEF has complied with FEECA and House Bill 7135 by submitting realistic, ambitious and achievable goals that are based on extensive analysis to assess the full technical and achievable potential for energy and peak demand savings for DSM in Florida. Florida is the model to emulate, and it's time that we are recognized appropriately.

This concludes my summary, as you can hear. (Microphone silenced.) (Laughter.) And I am here to answer any questions that you have.

MR. BURNETT: You always have to take it to the wire, don't you? Just kidding.

We tender Mr. Masiello for cross-exam.

CHAIRMAN CARTER: Ms. Kaufman.

MS. KAUFMAN: I have no questions, Mr. Chairman. Thank you.

CHAIRMAN CARTER: Mr. Cavros.

MR. CAVROS: Thank you, Mr. Chairman. We just have a few questions.

CROSS EXAMINATION

BY MR. CAVROS:

Q. Mr. Masiello, on the graph that you present, per customer electricity, energy growth reduction, can those lines be influenced by the state economy?

A. There are numerous things these lines could be influenced by. To name a few, in 2002 we had a boom. In 2005 or '06 we had a bust. There are many things going on with these lines.

Q. Okay. So it could be influenced by weather as well?

A. It can be influenced by weather as well.

Q. And can it be influenced by the mix of industrial customers?

A. Absolutely. If you, if you were moving industrial customers -- in fact, one of the charts that we see often is the California chart that shows how they have remained stable. In the California chart that

stability was largely due to many of its industrials moving out, which brought back in a lot of stability into California's energy growth.

Q. And let me ask you about the chart on the back, on the flip side.

A. Sure.

Q. And you appropriately mentioned that Florida customers, electricity customers may not have the same incentive for energy efficiency due to the electricity rates; is that right?

A. That's correct.

Q. Wouldn't it also naturally follow then that there's more potential for energy efficiency here in Florida?

A. Interesting you say that. I would say that when I think of Vermont's programs that are primarily 80 percent lighting, which are relatively inexpensive programs, I would suggest that they would have greater potential, as many of these other states with lighting that are low cost, to save quite a bit of energy. Where generally relating to Florida, their loads are heating and cooling loads, which require thermal envelope upgrades, mechanical system efficiency upgrades, which are generally higher cost. So I don't know that that's necessarily the case.

Q. And can I have you turn to Page 9 of your testimony, please.

A. The rebuttal or --

Q. I'm sorry. Rebuttal testimony. That's correct.

A. Rebuttal. Yes.

Q. And starting at Line 11 you reference what you believe to be an incorrect value placed on your, PEF's cost for DSM programs.

A. That's correct.

Q. Is that correct?

A. Yes.

Q. And Mr. Wilson had referenced the Summit Blue report that placed your, your first year measure costs at $1.70 per kilowatt; is that correct?

A. That's correct.

Q. And on Line 16 you state that 76 percent of your DSM dollars go to load management; is that correct?

A. That's correct.

Q. Okay. And then on Line 19 you mention that you hired or used the Bridge Strategy Group to do an analysis of that and found that the $1.70 was overstated; is that correct?

A. That's correct.

Q. And they came back to you with a value of

point -- of 42 cents per kilowatt hour, the Bridge Strategy.

A. That's correct.

Q. Okay. With respect to energy savings, could you please verify for me that the first year measure costs would be calculated as the DSM costs divided by the energy savings?

A. Yes, it would be.

Q. Okay. And if Summit Blue had performed the calculation where they arrived at a 42-cent-per-kilowatt-hour result, they would have used that, they would have used that calculation as well; is that correct?

A. I don't know that I can answer that.

Q. But that 42 cents per kilowatt hour is what you deem to be appropriate as first year measure costs?

A. That's correct.

Q. Okay. And if we could turn to, on Page 26. And this is Table 8. And the purpose of this table, and I'm reading from Line 7, Table 8 provides an estimate of the DSM cost impacts for the GDS proposed goals for PEF; is that correct?

A. That's correct.

Q. And in that table for GDS's scenario you submit that the estimated cost would be $6,955 in the

middle column?

A. That would be six billion nine hundred --

Q. I'm sorry. I didn't see all the zeros at the top. Thank you. And the energy savings would be 4,020 gigawatt hours; is that correct?

A. That's correct.

Q. Okay. And I'll give you the option this time, and I have a calculator this time. Would you like to do the calculation or, subject to check, would you agree that if one performed the first year measure cost calculation based on how you described it, that the numbers that you provide on Page 26 would result in a first year measure cost of $1.73 per kilowatt hour?

A. Subject to check.

Q. Fair enough then. I'll hold on to the calculator.

Now isn't that $1.73 per kilowatt hour similar to the $1.70 per kilowatt hour on Page 9 that you described as inaccurate?

A. Yes.

MR. CAVROS: Thank you. No further questions.

CHAIRMAN CARTER: Thank you.

Ms. Brownless.

CROSS EXAMINATION

BY MS. BROWNLESS:

Q. Good morning, afternoon.

A. Good morning.

Q. Whatever it is.

A. Good afternoon.

Q. And I just want to ask a couple of questions about your chart so I understand that.

A. Sure.

Q. Residential cost per kWh --

A. Uh-huh.

Q. -- does that include total residential cost or is it just base rates?

A. I'm sorry. Say that again.

Q. Total residential cost or just base rates?

A. It would be total.

Q. Okay. So that includes all the --

A. Fuel, et cetera.

Q. -- ECCR charges, fuel charges, that whole nine yards?

A. Sure. Sure.

Q. Okay. And if I look at the difference between 2002 and 2007, that is about a 37.5 percent increase?

A. What is this again? I'm sorry.

Q. I'm just -- 2002 and 2007. The extremes of your chart.

A. So if you go from what looks like about an 8 cents to about 11 cents?

Q. Yeah. Right.

A. Okay.

Q. That's about a 37.5 percent increase?

A. 2830 would be 24.

Q. I have a calculator.

A. If you calculated it, I, I agree with you.

Q. Okay. Now if I do the same calculation for California and start in 2002 and go through 2007, it looks to me like that's about a 7.6 percent increase; is that right?

A. Subject to check.

Q. Okay. Does this reflect any funds associated with a nuclear power plant?

A. By 2007, I don't believe so.

Q. Thank you.

MS. BROWNLESS: That's all I have. Thank you.

CHAIRMAN CARTER: Thank you, Ms. Brownless.

Commissioners, I'm going to come to the bench before going to staff. Anything from the bench?

Commissioner McMurrian, you're recognized.

COMMISSIONER McMURRIAN: I'll go through my same questions I think with each of the utility witnesses.

CHAIRMAN CARTER: You're fine. You're recognized.

COMMISSIONER McMURRIAN: Mr. Masiello, I'm sure if you weren't here yesterday, you were here for Dr. Sim's questions about the at-risk programs earlier, but I -- and so I'll give you a chance to respond to that with respect to Progress Energy. But also I guess add to it, since I've had a few more minutes to collect my thoughts, if there is more that can be done that's not already being done by your company.

THE WITNESS: In what area was that again?

COMMISSIONER McMURRIAN: I'm sorry. In the area of at-risk customer programs.

THE WITNESS: Oh, sure.

COMMISSIONER McMURRIAN: I think -- were you here earlier to hear my question for Dr. Sim?

THE WITNESS: Yeah, I believe I have. I heard some parts of that. Actually I would say a couple of things. In fact, we have a program for low income families that we feel has been significant and has impacted that group. And we're going to propose that not only do we go and assist the low income families, we're even now going to assist those low income businesses in those neighborhoods.

And in that example what we do is we go into

neighborhoods of low income families and we actually go door to door installing energy efficiency measures for them at no cost. And when we do that, we also provide education. When we install an air filter, we show them how to properly install an air filter, because there is a method installing an air filter. We also give them a box of air filters. When we clean the refrigerator coil, which is a very low cost item to do but has good savings because that coil gets full of dust and doesn't dissipate heat properly, therefore allowing more energy use than it should, we give them a special brush to do that.

There's a series of things that we do for the low income families that we do not only the full cost but even the installation. And now we're going to go on to businesses and do the same in those areas.

Additionally, in fact today we have a conference that we're attending, the Florida Association of Housing and Redevelopment, which is actually going on not too far from here. We have a couple of folks on panels, and we have a table there set up -- because at this particular conference there will be a series of folks that are involved in rehabbing homes and multifamily buildings.

Our goal -- we have four full-time

consultants, our energy auditors, that work nothing other than the multifamily. Every day they're out in the field doing turnkey operations for multifamily. The way we do that, we do that primarily with -- and it's important because this particular group requires it -- is that you work with property managers. And working with the property managers, we're doing attic insulation, duct leakage repair and window replacement. Last year we did over 8,000 of these homes, these multifamilies, and we expect to do more.

We also work with condominiums and homeowners association. And there's a process that we're involved in. We have -- over the years we've been doing that program -- in fact, if I'm not mistaken, Mr. Steinhurst mentioned that as about probably a unique program for utilities. But, quite frankly, we've been doing it for ten years and have had quite a bit of success with it and will continue to do it.

You have to work with the tenant, you have to work with the property owner, who generally gives that authority over to the property manager, and you have to provide a turnkey solution -- where we provide the contractor, the contractor will do the installation, we go back and do the inspection, incentives are paid, the job is done, and everything turns out very well.

COMMISSIONER McMURRIAN: Thank you. Without judgment on whether more should be done, is there more that in your opinion can be done and also meet the RIM and/or the TRC Tests?

THE WITNESS: I think under the RIM we're capable of doing it as we are. And can we do more? I think we can. And the way we do that is by our people have sort of infiltrated themselves, if you can imagine, into those very organizations that work with those particular housing types with the people that need it the most. And as they begin to, you know, they build that infiltrated relationship with those associates, the end result has proven positive. Just this past year alone we're already seeing a significant increase in the interest, and we expect that increase to grow.

And one of the additional ways we do that now is our contractors will also be selling the program. We look at them as salespeople for us as well. So that will in turn further increase that program participation. Our contractors are good resources for us to get more work.

COMMISSIONER McMURRIAN: Thank you.

And then the other line of questioning I had, Mr. Chairman, was with respect to the differences in the Rate Impact and the Total Resource Cost Test and whether

or not the Total Resource Cost Test as Progress Energy has applied it in setting their goals includes utility incentives in the denominator, the equation for the Total Resource Cost Test.

THE WITNESS: No. Incentives are not in a TRC Test.

COMMISSIONER McMURRIAN: Okay. And I know you heard Dr. Sim's answer earlier, but let me, let me ask why, why shouldn't utility incentives be included in the denominator? I heard him talk about the cost-effectiveness manual and his opinion that the cost-effectiveness manual didn't provide for that to be included in the denominator. I believe I'm characterizing his testimony accurately. But why shouldn't utility incentives be in the denominator, or incentives paid to customers?

THE WITNESS: I think the issue is that you don't look at these tests alone. You look at them in total. It's like balancing a ledger in a, in a book. You have to make sure one offsets the other. As a result, you don't want to take one of these out versus another. That's why when we've established our goals to meet the requirements for the participant cost as well as the utility incentive, we have both the E-RIM and the Participant Test in our goals.

COMMISSIONER McMURRIAN: Okay. That was all, Mr. Chairman. Thank you.

CHAIRMAN CARTER: Thank you. Commissioners, anything further from the bench?

Staff, you're recognized.

MS. FLEMING: No questions.

CHAIRMAN CARTER: Redirect?

MR. BURNETT: No, sir. And we would move Mr. Masiello's prefiled rebuttal into evidence, and he has no exhibits, sir.

CHAIRMAN CARTER: Without -- any objections? Without objection, show it done.

Anything further for this witness, for Mr. Wizard (sic) -- I mean, for Mr. Masiello?

Thank you, sir. Have a great day.

THE WITNESS: Thank you.

CHAIRMAN CARTER: Okay. Call your next witness.

MR. BEASLEY: Mr. Chairman, I believe that the parties have agreed to the entry of Mr. Bryant's rebuttal testimony into the record without cross-examination.

CHAIRMAN CARTER: Ms. Kaufman?

MS. KAUFMAN: That's correct.

CHAIRMAN CARTER: Mr. Jacobs, is that right?

MR. JACOBS: I'm sorry. Was that Mr. Bryant?

CHAIRMAN CARTER: Mr. Bryant. Yes.

MR. JACOBS: Yes, sir.

CHAIRMAN CARTER: Okay. Ms. Brownless.

MS. BROWNLESS: We'd love to put his evidence into the record.

CHAIRMAN CARTER: Okay. Commissioners, any questions for -- have you got a question for Mr. Bryant?

COMMISSIONER McMURRIAN: I'd ask those same questions.

MR. BEASLEY: We could certainly call him for your questions. We'd be glad to.

CHAIRMAN CARTER: Okay.

COMMISSIONER McMURRIAN: And I don't think we would need to spend time on the summary of the testimony.

CHAIRMAN CARTER: If you could go forego your summary, Commissioner McMurrian has some questions.

COMMISSIONER McMURRIAN: If that's all right with the parties.

CHAIRMAN CARTER: And while he's doing it, staff, do you have any questions? You don't have any questions for this witness; right?

MS. FLEMING: No questions.

CHAIRMAN CARTER: Commissioner McMurrian,

you're recognized.

COMMISSIONER McMURRIAN: Thank you, Mr. Chairman.

MS. HELTON: Mr. Chairman, maybe we should enter his testimony into the record before we --

CHAIRMAN CARTER: Okay. Let's do that. Is it rebuttal; is that correct?

MR. BEASLEY: Yes, sir.

CHAIRMAN CARTER: The prefiled testimony of the witness will be entered into the record as though read.

MR. BEASLEY: And he has no exhibit.

CHAIRMAN CARTER: And no exhibits.

TAMPA ELECTRIC COMPANY
DOCKET NO. 0080409-EG
FILED: 7/30/2009

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 serious deficiencies and inaccuracies in the testimonies submitted on behalf of the Natural Resources Defense Council ("NRDC"), the Southern Alliance for Clean Energy ("SACE") and the Florida Public Service Commission

("Commission") Staff.

Mr. James W. Dean is also submitting rebuttal testimony on behalf of the four largest Florida investor-owned electric utilities, including Tampa Electric, describing in detail the deficiencies in the testimonies submitted by NRDC, SACE and GDS Associates, Inc. ("GDS") which is appearing on behalf of the Commission Staff. I concur with the concerns expressed in Mr. Dean's rebuttal testimony addressing the errors, inaccuracies and misinterpretations of NRDC/SACE and GDS direct testimonies and the resulting economic harm to all Floridians as well as state and local governments if the demand side management ("DSM") goals arbitrarily put forth by NRDC/SACE and GDS were to be adopted.

Given the level of detail included in Mr. Dean's rebuttal testimony on behalf of Tampa Electric and the other Florida IOUs, I am focusing my rebuttal testimony on key points I believe the Commission should consider as this proceeding moves forward.

Q. Do you have any general comments concerning the assertions of the intervenors and Staff witnesses before addressing the specific shortcomings, omissions and

errors you have found in their testimonies?

A. Yes I do. Collectively, these witnesses have formulated and put forth arbitrarily selected DSM goals for Tampa Electric that are devoid of careful analytical support, lack any association with the company's resource planning process, fail to consider any cost-effectiveness analyses, and forego adherence to Commission Rule 25-17.0021, Florida Administrative Code ("F.A.C.") for setting demand-side numeric goals for utilities. Furthermore, a detailed evaluation of the resulting rate impact to Tampa Electric customers of the proposed goals is not provided by the witnesses, thus leading to the total inability of this Commission to perform its statutory requirement of Section 366.82(7), Florida Statutes ("F.S."), which authorizes the Commission to modify or deny conservation plans or programs that would have an undue impact on costs passed on to customers. Indeed, witness Wilson for NRDC/SACE contends that the rate impact is an off limits topic of discussion in this proceeding.

The general approach of these witnesses seems to ignore the nearly 30 years of successful delivery of conservation and energy efficiency programs by Tampa

Electric to its customers. In 1981, the Florida Energy Efficiency and Conservation Act ("FEECA") was adopted requiring utilities to offer efficiency programs to customers to help utilities reduce the demand for energy. Tampa Electric was the first utility to receive Commission approval of its plans to meet the requirements of FEECA. The company has been a consistent contributor to the overall success of Florida's conservation efforts.

The Commission has consistently required aggressive goals and at the same time has strived to be mindful of the rate impact that conservation programs have on customers. The Commission has accomplished this through the use of a Rate Impact Measure ("RIM") test and Participant test to screen potential DSM measures to avoid undue high utility rate impacts and cross-subsidization of program participants by non-participants. As I later describe, NRDC/SACE and GDS would have the Commission jettison its balanced and effective approach to DSM goals setting and adopt in its place a radical pursuit of per capita reduction in energy consumption without any regard whatsoever for the rate impact on consumers of electric power in Florida. Their approach is wrong and should be rejected.

Q. Given the number of witnesses in this proceeding, please provide the overall structure of your rebuttal testimony.

A. In several instances, witnesses on behalf of NRDC/SACE and Staff (collectively, the "Witnesses") have addressed the same or similar issues; therefore, my rebuttal testimony is structured in response to specific issues regardless of the witness or organization putting forth the argument. Also, with regard to GDS, Mr. Spellman and Ms. Guidry did not file separate testimony on behalf of Staff. Hence, my expressed concerns and disagreements with GDS will not be specific to either Mr. Spellman or Ms. Guidry.

Q. All the Witnesses state that the 2008 changes to Section 366.82, F.S., require the Commission to use the Total Resource Cost ("TRC") test to determine the cost-effectiveness of conservation and energy efficiency measures when setting utility goals. Do you agree with their assessment?

A. No I do not. All the Witnesses have misread the controlling statutes and the import of HB 7135, enacted in 2008. Nowhere does Florida law (before or after the enactment of HB 7135) require the use of the TRC test to

the exclusion of the RIM and Participant tests. Witness Wilson for NRDC/SACE points to certain provisions of HB 7135 requiring the Commission to take into consideration certain factors in setting DSM goals. That is all the 2008 act does. It does not mention the TRC test, nor does it preclude continued reliance on the RIM and Participant test. Indeed, as witness Dean explains, the express terms of HB 7135 render the TRC test inconsistent with the intent of the act. Section 366.82(3), F.S., states, "In establishing the goals, the commission *shall take into consideration…*" (emphasis added) a set of parameters when developing utility goals. It does not mandate, require or direct the Commission to make any change whatsoever to its current method of determining measure cost-effectiveness.

It follows that the continued use of the RIM test in tandem with the Participant test is completely consistent with adherence to FEECA, as amended in 2008. In fact, when assessing the parameters the Commission shall consider, the RIM test and the Participant test fully accomplish the clear intent of Section 366.82(3)(a) and 3(b). I agree with the opposition Witnesses in that the Participant test gives the Commission the tool necessary to discharge its duty of consideration relative to

Section 366.82(3)(a); however, to suggest the TRC test is now the necessary tool to give consideration to Section 366.82(3)(b) is wrong. Again, the Commission's continued use of the RIM test and the Participant test accomplishes all that is to be considered in that section of the statute since the language does not state that one single measurement or cost-effectiveness test is to be used. Frankly, the Commission seems to be at liberty to use any number of measurement tools it chooses as long as it considers the required parameters.

Q. Why has the RIM test and not the TRC test been utilized by the Commission as the correct methodology to set utility goals and determine the cost-effectiveness of utility conservation programs?

A. The Commission clearly articulated the basis for its decision to employ the RIM test in setting goals in Docket No. 930551-EG, Order No. PSC-94-1313-FOF-EG, issued October 25, 1994 when it stated,

> "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."

Based on the foregoing, the Commission concluded:

> "We will set overall conservation goals for each utility based on measures that pass both the participant and RIM tests."

Simply stated, the Commission determined that if a measure only passed the TRC test, it would be unfair for customers who did not participate in adopting the measure to pay for those who did, thereby creating a subsidy which violates the fundamental principles of utility rate making. In this regard, Section 366.03, F.S., 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…."

As a result, the RIM test remains superior to the TRC test and is a good measure of fairness from the standpoint of complying with the intent of FEECA, both before and after the 2008 amendments.

Mr. Wilson, testifying on behalf of NRDC/SACE, states on page 22 of his direct testimony that the statutes relating to FEECA goals do not suggest that the Commission should focus on electric rates or impacts to non-participants. Thus, he finds nothing to suggest the Commission should employ the RIM test in the FEECA goal setting process. This is very shortsighted and overlooks a lot important considerations. First, it overlooks this Commission's consistent efforts over three decades to advance the conservation of electricity and all energy sources without causing utility customers to suffer the effects of high rates or cross-subsidization. The Commission's goal of pursuing this balance was not nullified or even affected by anything the Legislature did in 2008. Mr. Wilson and his fellow witnesses also overlook the fact that FEECA must be read alongside and harmonized with all of the other statutory requirements of the Commission. In this regard, one theme throughout Chapter 366, F.S., is the focus on having rates that are fair, just and reasonable. FEECA, itself, charges the Commission with the duty of adopting goals to "increase the conservation of expensive resources." (Section 366.82(2), F.S.). Why would the Legislature require this if it were not to reduce electric rates? Similarly, the Legislature's focus on reducing growth rates of weather

sensitive peak demand protects ratepayers from having to pay for new generation. These are provisions of FEECA that have not been amended and which clearly focus on electricity rates and impacts to all customers including participants and non-participants in any DSM program.

Q. Can you summarize your rebuttal to the Witnesses with regard to the Commission now being statutorily required to use the TRC test to determine the cost-effectiveness of conservation and energy efficiency measures when setting utility goals?

A. Yes. The statute clearly states the Commission is only to consider certain delineated parameters in developing utility goals. Therefore, specific to costs and benefits of participants and the general body of ratepayers as a whole, the Commission's longstanding practice of utilizing the RIM and Participant tests will accomplish the consideration. Furthermore, by continuing with the RIM and Participant test evaluations, the Commission will demonstrate consistency with its historical decision to prohibit subsidies and thereby adhere to its statutory requirement under Section 366.03, F.S.

Q. Mr. Wilson states that the technical potential study had

shortcomings. Do you agree?

A. No. Mr. Wilson was an active participant and indeed acknowledged his participation in the collaboration process to develop the framework of the technical potential study. The collaborative team consisted of the FEECA utilities and Mr. Wilson representing NRDC/SACE. The collaborative members contributed by providing measure identification with energy consumption characteristics, building types and construction vintage to Itron for consideration. Also, Itron's experience in the industry afforded the collaborative team an opportunity to include measures it otherwise may have overlooked. Once a measure's energy consumption characteristics were known and if it was determined to be commercially available in Florida, it was included in the technical potential study. For Mr. Wilson to have been an engaged participant in the collaborative team, to have agreed to the scope of the study, and to have agreed that there was insufficient data to analyze certain sectors he now states were omitted is not correct. I believe his characterization of a shortcoming is contrary to the spirit of the collaborative process and somewhat disingenuous.

Q. Mr. Mosenthal, appearing on behalf of NRDC/SACE, and GDS go to great lengths describing perceived flaws with the two-year payback screening tool utilized by Florida utilities to develop their respective achievable potentials. How do you respond to the accusations?

A. Mr. Mosenthal and GDS's characterizations about the flaws in the two-year payback are unfounded and demonstrate an unfamiliarity with the Commission's rule concerning conservation goals and related matters. Rule 25-17.0021, F.A.C., implements conservation goals for electric utilities. Subsection (3) of that rule requires that each utility's projection in a proceeding to establish or modify DSM goals shall reflect consideration of a number of factors including "free riders" during the goals setting process - not postponing the evaluation to the program development stage as Mr. Mosenthal argues. Free ridership occurs when a customer is provided an economic incentive to take an action that the customer likely would take on its own even without receiving the incentive. As a simple example, the average person would not need to receive a $2 incentive to bend down and pick up a stray $5 bill the person happened to spot on the sidewalk. Paying the $2 incentive would be a waste of resources because the average person would pick up the

stray $5 bill anyway.

It is reasonable to assume that most, if not all, DSM measures that pay for themselves within two years or less are sufficiently attractive from an economic perspective that the average homeowner or business manager will take advantage of the measure on their own without receiving an incentive from the utility. The two-year payback screen is a reasonable means of considering and avoiding free ridership. If Mr. Mosenthal and GDS advocate paying unnecessary DSM incentives, the witnesses are simply promoting an uneconomic result that is inconsistent with the Commission's rules.

The Commission has a long history of using the two-year payback criterion in goals setting and program participation standards. Tampa Electric first introduced the screen in 1991 as a key part of a program standard. The program standard restricted incentive payments to any measure that had less than a two-year customer payback. The Commission approved the two-year payback standard in 1991 and has subsequently approved it in every program filing since then. In 1994, Florida Power and Light introduced the two-year payback screen in their goals docket as a means of minimizing free riders and the

Commission approved FPL's goals that were based on this standard. The Commission Staff has acknowledged the use of the Participant test and the two-year payback criterion to control free ridership in recent workshops. John Laitner with the American Council for an Energy-Efficient Economy ("ACEEE") published an article identifying the two-year back as a reasonable threshold for a customer to not require any utility incentive. Similarly, the Environmental Protection Agency Energy Star program indicates that consumers desire rapid payback when incremental up-front investment is required and that period is in the range of two to three years. Based on this overwhelming support and continued utilization of the two-year payback criterion, Tampa Electric believes the Commission's continued use of the tool is the appropriate tool for minimizing free ridership.

In addition, the use of the two-year payback screen to minimize free riders was decided upon early in the collaborative process. Mr. Wilson of SACE/NRDC participated in the discussion and agreed to the decision.

Q. Mr. Mosenthal identified other flaws in the screening

process utilized by the FEECA utilities to develop their respective achievable potentials. How do you respond to his accusations concerning the Participant test usage, inclusion of administrative costs and the bundling of measures?

A. Mr. Mosenthal's characterizations about the flaws in these screening steps are unfounded. I will address each one separately. First, Mr. Mosenthal argues that the utilities improperly screened with the Participant test before any incentives were applied to determine cost-effectiveness. This is simply not true. Tampa Electric did not utilize the Participant test until incentive determination commenced in the evaluation process.

Second, Mr. Mosenthal's concern with the inclusion of administrative costs as a screening tool demonstrates he did not thoroughly review the screening process Tampa Electric followed to reach its achievable potential. Tampa Electric appropriately included administrative costs in the evaluation process but did not utilize those costs until after the economic potential was determined. Therefore, the company did include those costs as it began the evaluation process to determine its achievable potential. The first application of administrative costs

occurred after the economic potential was established in an effort to determine if any measures would fail RIM and TRC cost-effectiveness tests with just the inclusion of lost revenue and administrative costs for the RIM test and incremental measure cost and administrative cost for the TRC test. This process was used to maintain as many measures as possible for the next step, determination of the incentive.

Third, Mr. Mosenthal's general discussion of when to apply administrative costs in the evaluation process seems to suggest that any inclusion of administrative costs prior to program development is wrong. I disagree. In order to perform measure cost-effectiveness evaluations to ultimately calculate a utility's achievable potential, it is necessary to have a reasonable estimate of all costs associated with any measure under consideration, including administrative costs. Otherwise, false values of cost-effectiveness will be developed for certain measures which in turn will over-estimate goals that would otherwise be more accurate if administrative costs were actually included.

Finally, Mr. Mosenthal's concern over measure bundling is unfounded in Tampa Electric's evaluation process. The

company evaluated every measure on a standalone basis throughout the process and never employed any bundling techniques to its methodology.

Q. Mr. Steinhurst, appearing on behalf of NRDC/SACE, criticizes the manner in which the utilities evaluated the costs imposed by state and federal regulations on the emissions of greenhouse gases. He even suggests a mere sensitivity reflecting only low and high carbon costs was conducted. Are his criticisms warranted?

A. Not at all. The Florida utilities, and specifically Tampa Electric, included carbon costs from the very outset of the goals setting process and continued the usage through the completion of the achievable potential determination. Since laws for the emissions of greenhouse gases have not been enacted at the federal or state levels, Tampa Electric utilized a mid-range CO_2 value taken from proposed legislation before Congress throughout its evaluation process to establish the company's proposed RIM-based goals. To accommodate the Commission Staff's request to perform carbon sensitivities on Tampa Electric's economic potential, the company used low and high values from that same proposed legislation. Tampa Electric's specific values for low,

mid, and high levels of CO_2 costs for selected years are presented in the table below. The company's cost values appear to be comparable or higher than Mr. Steinhurst's levelized recommendations of $15, $30 and $78 per ton for low, mid and high values, respectively.

Carbon Costs ($/ton)			
Year	Low Scenario	Base Scenario	High Scenario
2014[1]	10	38	73
2020	15	51	98
2025	19	65	125
2030	25	83	160

[1] Projected legislative enactment

Q. Mr. Steinhurst suggests the adoption of an across-the-board interim DSM savings goal of 1.0 percent of annual sales per year for each utility. Likewise, GDS proposes a significant increase in DSM savings. How do you respond to these proposals?

A. Mr. Steinhurst and GDS's proposed goals appear to be arbitrarily selected values that fail to consider any Florida specific factors or the potential economic impact that pursuit of such across-the-board goals could have on this state and its residents. Further, the goals do not demonstrate any consideration or adherence to Rule 25-17.0021, F.A.C., the Commission's rule for goals setting. The FEECA utilities, in collaboration with NRDC/SACE,

followed a carefully thought out and rigorously implemented process over many months to develop reasonable, achievable potential DSM goals for each member utility. My direct testimony summarizes the vigorous collaborative process the team members pursued and the steps followed by Tampa Electric in developing its individual DSM goals. Mr. Steinhurst and GDS have failed to provide any basis for substituting their arbitrarily selected across-the-board goals in place of the goals proposed by Tampa Electric as the result of a rigorous, disciplined and Commission rule compliant goal setting process.

Q. Please describe how Mr. Steinhurst and GDS's across-the-board goals compare to the goals proposed by Tampa Electric and the effect Mr. Steinhurst and GDS's goals could have on Tampa Electric's customers.

A. The DSM goals proposed for Tampa Electric by Mr. Steinhurst and GDS are significantly higher than those proposed by the company. In fact, the magnitude of difference is six to ten times greater than the company's proposal. The proposed goals from Mr. Steinhurst and GDS are not the result of following Commission rules for goals setting and it is unknown as to the specific

measures that comprise their goals; therefore, it is difficult to determine the cost of their proposals. However, Tampa Electric has accomplished 642 GWH of energy savings from the inception of FEECA in 1981 through 2008 and has spent $430 million during that time period. If the goals proposed by Mr. Steinhurst and GDS were adopted for the company, Tampa Electric customers would bear the burden of six to ten times the expenditures the company has experienced over a 28-year period in just ten years, all in the absence of proven cost-effectiveness.

Q. Are NRDC, SACE and GDS correct in concluding that utilities in Florida have placed too much emphasis on capacity savings and not enough emphasis on energy savings?

A. No they are not. The Commission and the electric utilities in Florida are - and should be - unapologetic about their pursuit of both capacity and energy savings. In adopting FEECA, the Legislature expressly mentioned both types of savings:

> "…Reduction in, and control of, the growth rates of electric consumption and of weather sensitive

peak demand are of particular importance…" Section 366.91, F.S.

The goals the utilities have proposed and those the Commission has approved have always been couched in terms of summer and winter peak demand and energy savings. NRDC/SACE and GDS's apparent goal of overemphasizing energy savings to the exclusion of reducing the growth rate of weather sensitive peak demand would neglect one important prong of the Legislature's two-prong intent embodied in FEECA.

Q. How to you respond to Mr. Wilson's criticisms of the historic energy efficiency achievements of the FEECA utilities?

A. Mr. Wilson's conclusions are patently wrong. As the Commission has observed, Florida has been a leader over the years in developing long-term energy efficiency goals and programs. The Commission has recently observed that estimated savings from Florida utilities demand side management programs are among the highest in the nation. Below is a chart of estimated cumulative savings from utility-sponsored DSM programs since 1980.

Summer Peak Demand	5,685 MW	7,422 MW
Winter Peak Demand	6,100 MW	7,570 MW
Energy Consumption (Annual)	6,977 GWh	9,051 GWh

Source: FPSC's *Annual Report on Activities Pursuant to the Florida Energy Efficiency and Conservation Act,* February 2008

As I mentioned in my direct testimony, the Energy Information Administration ("EIA") of the Department of Energy has ranked Tampa Electric as high as the 96th percentile nationally for cumulative conservation and the 90th percentile for load management achievements. Any suggestion by Mr. Wilson or other intervenor witnesses that Florida utilities in general, and Tampa Electric specifically, are underachievers in the areas of demand side management and energy efficiency is simply wrong.

Q. GDS proposes to allocate a large annual sum of each utility's Energy Conservation Cost Recovery clause expenditures to demand-side renewable system research and development ("R&D") to satisfy Section 366.82(2), F.S. Do you agree with this approach?

A. No I do not. While GDS correctly assessed that setting demand-side renewable goals are a component of Section 366.82(2), F.S., Subsection (3) of the statute instructs the Commission to consider the cost-effectiveness of all

the goals. The FEECA utilities included six individual demand-side renewable measures in the total number of measures evaluated for potential goals and determined none of the renewable measures were cost-effective. Therefore, in consideration of Subsection (3), any demand and energy contributions from renewable measures were not included in Tampa Electric's proposed goals due to the measures' non-cost-effectiveness.

For GDS to propose any action beyond the explicit requirements of the statute would be in error, and to even suggest a financial burden on Tampa Electric customers stemming from a massive giveaway proposal of almost $8 million of non-cost-effective expenditures over a five-year period would be totally wrong. Nothing of this sort is mandated and would be unconscionable to propose.

Q. Do you have any concluding remarks regarding the testimonies by NRDC, SACE and GDS?

A. Yes, I do. I want to stress the solid efforts that have been put forth by the FEECA utilities and the Commission's Staff over nearly a year-long process to develop aggressive, yet reasonable, DSM goals consistent with the Commission's goal setting rule and the provisions of FEECA

that it implements. All participants in this effort should be proud of the results and confident that they meet all relevant legislative objectives. The counter proposals of NRDC, SACE and GDS, on the other hand, appear to be arbitrarily crafted, "made up" goals designed to pursue an overarching environmental agenda that has no concern whatsoever for electric customers in Florida or the economy of this state.

The proposed "goals" of NRDC, SACE and GDS are four to five times higher on a winter/summer peak demand basis, and approximately nine time higher on an energy basis than the utility-sponsored goals derived from a nearly year long collaborative effort with valuable Staff input. These stark differences alone make the NRDC/SACE and GDS proposals inherently suspect. Those differences, together with the deficiencies in the testimonies of the NRDC, SACE and GDS witnesses Mr. Dean and I have described, form a solid basis for rejecting the goals put forth by NRDC, SACE and GDS.

Q. Does this conclude your rebuttal testimony?

A. Yes it does.

CHAIRMAN CARTER: Commissioner McMurrian, you're recognized.

COMMISSIONER McMURRIAN: Thank you, Mr. Bryant. I'm sure you were here for the last two times I've asked these questions.

THE WITNESS: Yes, ma'am.

COMMISSIONER McMURRIAN: But with respect to the at-risk DSM programs with respect to TECO, and I'm sure your testimony includes information about any programs that you may have to address that already, but also I wanted to ask, similar to what I asked of Mr. Masiello, about whether more can be done under the RIM and/or TRC Tests.

THE WITNESS: Sure. First, I would share with you, we do have a low income program. It has been in operation, if you will, for probably about a year and a half now. And even as we're sitting here today, we have folks back in Tampa who are looking to make modifications to enhance it, to get more opportunity within a low income geographic area to in essence park a truck, if you will, and have more participation in that given community. So ways of doing that, contractors to be used, manners of facilitation, that's being explored right now.

I think your other question, if I understood

correctly, or another component of it was perhaps on the renter side of our businesses are a way -- or what are we doing there and are we finding penetrations actually occurring there? And the answer to that question is yes. And we are very specific in terms of ceiling insulation and duct repair. We have done tens of thousands of those types of installations.

We began our duct repair program in 1991. It was cost-effective under the RIM and continues to be so. But through our efforts as well as through efforts of the contractors, similar to what Mr. Masiello shared, where you actually have a contractor now that's a partner with you, both the electric company and the contractors looking for those opportunities in the management of complexes, multifamily condominium type complexes, looking for those opportunities to maximize setting up shop at one point in place, having all of your material there, beginning to insulate or having the opportunity to insulate every second, third or fourth story, whatever the top story is, but being able to insulate those facilities, as well as doing the duct repairs for all of the HVAC equipment that you can reach, we do that. Yes, we do.

COMMISSIONER McMURRIAN: Thank you. And then I guess my other question would be with respect to how

TECO has calculated the Total Resource Cost Test with respect to the denominator and whether or not TECO includes utility incentives as a part of the denominator with respect to calculating that test.

THE WITNESS: Yes. And having heard Dr. Sim and Mr. Masiello, we are very consistent in that manner.

COMMISSIONER McMURRIAN: Okay. And similar to the question I asked Mr. Masiello and did not ask Dr. Sim, why shouldn't those incentives be included in your opinion?

THE WITNESS: The -- I have followed the 1991 manual of the Commission and it has been defined as such from that point in time. I think if you look across the country, the definition of the TRC Test has not explicitly included the incentive in the TRC Test, yet across the country the incentive is explicitly included in the RIM Test and was adopted starting actually in Florida with a manual. That work actually began in 1989. We examined the California practice at that time and, and in essence brought that California practice into rule adoption, and that's simply how it has been.

So the RIM Test simply wants to know what are all the components that would have an impact on rate, and the TRC Test has simply said what are all the costs that are associated there. But it did not explicitly

ask for the incentive to be identified in the TRC Test.

COMMISSIONER McMURRIAN: Okay. Thank you.

THE WITNESS: Sure.

COMMISSIONER McMURRIAN: Thank you, Mr. Chairman.

CHAIRMAN CARTER: Thank you.

No redirect; correct?

MR. BEASLEY: No. We'd ask Mr. Bryant be excused unless there are any other questions from the bench.

CHAIRMAN CARTER: Anything further for Mr. Bryant?

Thank you, Mr. Bryant. Have a great day.

THE WITNESS: Thank you.

CHAIRMAN CARTER: Okay. Okay. Next we have Mr. Floyd; is that correct?

MR. GRIFFIN: Mr. Floyd. That's correct.

JOHN FLOYD

was called as a witness on behalf of Gulf Power Company and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. GRIFFIN:

Q. Mr. Floyd, you were sworn in on Monday; is that correct?

A. Yes.

Q. And you are the same John Floyd who submitted prefiled rebuttal testimony in this proceeding?

A. Yes.

Q. Do you have any changes or corrections to that testimony?

A. No.

Q. And I if were to ask you the same questions today, would your answers be the same?

A. Yes, they would.

MR. GRIFFIN: Mr. Chair, we would ask that Mr. Floyd's prefiled rebuttal testimony be inserted into the record as though read.

CHAIRMAN CARTER: The prefiled testimony of the witness will be inserted into the record as though read.

BY MR. GRIFFIN:

Q. Mr. Floyd, you don't have any exhibits to this testimony; is that correct?

A. Yes, that's correct.

Gulf Power Company

Before the Florida Public Service Commission
Prepared Rebuttal Testimony of
John N. Floyd
Docket No. 080410-EG
Commission Review of Numeric Conservation Goals
July 30, 2009

Q. Will you please state your name, business address, employer and position?

A. My name is John N. Floyd, and my business address is One Energy Place, Pensacola, Florida 32520. I am employed by Gulf Power Company as the Economic Evaluation and Market Reporting Team Leader.

Q. Are you the same John N. Floyd that provided direct testimony on Gulf Power's behalf in this docket?

A. Yes.

Q. Mr. Floyd, what is the purpose of your testimony?

A. My testimony is in rebuttal to the testimony of SACE/NRDC and GDS witnesses previously filed in this docket.

Q. What is your response to SACE/NRDC's claim that the Commission should establish interim conservation goals for Gulf Power Company of one percent of annual energy sales?

A. I do not believe Witness Steinhurst's recommended goals meet the requirements of Section 366.82, Florida Statutes and Rule 25-17.0021, Florida Administrative Code, for developing goals. Specifically, Section

366.82(3) requires evaluation of the full technical potential of available energy efficiency and demand-side renewable measures and consideration of four criteria in establishing goals. Rule 25-17.0021(1), in turn, requires that goals be "based on an estimate of the total cost-effective kilowatt and kilowatt-hour savings reasonably achievable through demand-side management in each utility's service area." This rule also requires consideration of building codes, which are specific to Florida, free-riders, and specific market segments and end-use categories.

Dr. Steinhurst's recommended goals do not appear to be based on the criteria set forth in 366.82(3) Florida Statutes, or the Commission's rules, but rather on a generic application of a percentage multiplier to the Company's forecasted energy and seasonal peak demand projections as reflected in its Ten Year Site Plan. Further, the goals recommended by Dr. Steinhurst are not reflective of a thorough, deliberate process like the one used by the Collaborative to develop Gulf's proposed goals.

Dr. Steinhurst's proposed goals do not reflect Gulf Power's planning process, including the nature and timing of the avoided unit being used in the evaluation of energy efficiency measures associated with development of the Company's proposed goals. In essence, Dr. Steinhurst's recommendation rests on the bare assumption that because other "leading" electric utilities in the country run DSM programs that save the equivalent of approximately 1.0 percent of electricity sales each year, then a similar goal must necessarily be appropriate for Florida. In his rebuttal testimony, Mr. Dean also discusses other reasons this approach to goal setting is not appropriate in Florida.

Analytical deficiencies aside, the most astonishing aspect of SACE/NRDC's proposed goals is the sheer magnitude of cost that would be required to achieve this extreme level of energy savings. While Dr. Steinhurst calculates a numeric goal for Gulf Power, he offers no insight into the associated cost. Perhaps this is a reflection of SACE's stated and narrowly focused objective in this proceeding as "an advocate for the reduction of greenhouse gas emissions" as established by Mr. Wilson. Unlike SACE's purpose, Florida utilities and the Commission have the interests of customers to consider as well. Dr. Steinhurt's goal proposal is certain to have cost impacts far beyond anything Florida utility customers have ever experienced. Since 1981, Gulf Power has spent in excess of $113 million on approved conservation programs that have achieved 538 GWh cumulative annual energy savings for its customers. SACE/NRDC's proposed goals for the next ten year period are more than double the level of energy savings Gulf's customers have realized over twenty-eight years. The cost associated with achieving the goals proposed by SACE/NRDC would surely be well beyond anything Gulf Power's customers have experienced to date.

Q. GDS witness Spellman has recommended goals for Gulf Power which are similar in magnitude to those recommended by SACE/NRDC. What is your assessment of this recommendation?

A. Mr. Spellman proposes goals that, like those of SACE/NRDC, do not comply with Commission rules. Mr. Spellman's proposed goals are not consistent with Rule 25-17.0021(1) as they are clearly identified as

"maximum achievable" values. As mentioned earlier, Rule 25-17.0021(1) plainly states that goals must be based on an estimate of savings which are "reasonably achievable" through demand side management in each utility's service area; not "maximum achievable" savings. As a proposed portfolio, this would represent maximum adoption of all measures resulting from unlimited incentive levels. As a practical matter, this target for a utility-sponsored goal portfolio is extreme and not reasonably achievable.

Mr. Spellman begins the development of his proposed goals with the results of the E-TRC achievable potential results produced by Itron and filed in Schedule 9 of Exhibit JNF-1 to my direct testimony. He then includes sweeping adjustments for various exclusions and perceived understatements in the Itron-developed achievable potential study. These adjustments did not utilize the same DSM ASSYST model; rather, it appears that Mr. Spellman is taking the results of one study and adding additional potential based on some other unexplained analysis. In my opinion, it is important to the integrity of the proposed goals that they are derived from a common framework used for all phases of the analysis from technical to achievable potential. Mr. Spellman also makes another arbitrary adjustment in his recommendation of "transition period" goals by reducing the calculated goal by 50 percent during the first five years of the 2010 through 2019 period. While this adjustment is intended to recognize the "significant cultural and economic change" associated with Mr. Spellman's proposed goals, the basis is again not consistent with any provisions of the Commission's rules.

The most significant adjustment made by Mr. Spellman is the added achievable potential of measures that have less than a two-year payback. The level of energy savings Mr. Spellman associates with the two-year payback measures represents 100 percent of the technical potential for measures applicable to the residential sector and 60 percent of the technical potential for measures applicable to the commercial/industrial sector. Achieving a level of 100 percent penetration of the residential measures is not feasible even by giving away the measures to every single customer. This is an extreme scenario, especially since this group of measures has the highest incidence of naturally occurring adoption of all measures in the portfolio.

Q. Does Witness Spellman provide any meaningful analysis of the costs or rate impacts which would be associated with achieving his proposed goals?

A. No. As was true of the goals proposed by SACE/NRDC, one of the most disturbing aspects of Mr. Spellman's recommendation is the failure to provide any kind of cost estimate associated with achieving such a monumental level of energy and demand savings. Mr. Spellman's own testimony acknowledges that this proposal will result in rate increases, but that is dismissed as being "within a range that is acceptable to the Commission". On top of this, Mr. Spellman also proposes an additional 10 percent increase in Gulf's historic ECCR spending to promote admittedly non cost-effective demand-side renewables. This proposal is not based on any cost/benefit analysis, but is merely an arbitrary additional

expenditure to be shared by all of Gulf's customers to promote the most expensive technologies available. This proposal is directly contrary to the requirement of Rule 25-17.0021 that goals be cost-effective and serves to further underscore Mr. Spellman's indifference to the impact that his recommendations will have on utility customers throughout Florida.

To be sure, unlike the RIM based proposal by Gulf, Mr. Spellman's proposal will certainly result in increased rates.

Q. Witnesses for SACE/NRDC and GDS contend that Itron's Technical Potential Study improperly excluded important measures and sectors from consideration. Do you agree with this contention?

A. No. I do not agree with this contention. I am particularly disappointed in how Mr. Wilson has characterized the Technical Potential Study given that he was an active and very engaged member of the Collaborative during the measure selection and identification phase of the project. During a November 3, 2008, presentation before the Commission, Mr. Wilson characterized this study in favorable terms, stating that "[t]his is going to be, quite simply, the finest study of its caliber in the southeast and probably one of the finest in the nation in the past few years." (November 3, 2008 Commission Workshop Transcript p. 45, lines 17-19) As discussed in my direct testimony on page 11, the criteria utilized to determine which measures and sectors were ultimately studied are reasonable and lend credibility to the resulting potential forecasts. Mr. Rufo also addresses the measure selection criteria in his pre-filed direct testimony. Ultimately, the Collaborative agreed to the final

measures list to be evaluated and it is my opinion that the resulting measures are robust and appropriate.

Mr. Spellman also identifies several measures that he claims were omitted from the study. Itron provides a detailed explanation as to their rationale for not including the subject measures in Gulf's response to staff's fourth set of interrogatories, questions 20 and 21. Mr. Spellman appropriately points out that the source and validity of the measure data used in a study like this is as important as the data itself and that "it is necessary to use Florida-specific data wherever possible so that the estimates reflect actual potential for service areas in Florida". This is, in fact, one of the reasons the measures cited by Mr. Spellman were not included in the final measure list to be evaluated for technical potential. In his rebuttal testimony, Mr. Rufo also addresses the assertions made by GDS and SACE/NRDC witnesses related to exclusion of measures in the technical potential study.

Q. SACE/NRDC and GDS witnesses have claimed that the Florida utilities' demand side conservation plans place too much emphasis on peak demand reduction and too little emphasis on annual energy savings. Do you consider this to be the case for Gulf Power Company?

A. No, I do not. Gulf's conservation plans appropriately emphasize both the demand and energy reductions associated with energy efficiency programs that are included in the resource planning process as described in Gulf's Ten Year Site Plan (TYSP). This process is consistent with FEECA requirements to reduce growth of weather-sensitive peak demand

in addition to the growth rate of energy consumption as described in Section 366.82 (2), Florida Statutes.

It should be noted that, in establishing its proposed goals, Gulf has for the first time included benefits of carbon emissions reductions in the evaluation of energy efficiency measures based on projections of potential greenhouse gas emissions regulations. These benefits, in part, have resulted in Gulf increasing its proposed goal for annual energy reduction by 184 percent as compared to its current Commission-approved goal. The proposed goals appropriately value both the demand and energy benefits associated with energy efficiency in the resource planning process.

Q. SACE/NRDC and GDS suggest that public policy favors use of the TRC test. Please comment on this subject.

A. In this goals development process Gulf has proposed goals that provide for a 184 percent increase in energy savings over currently approved goals. Gulf recognizes that achievement of these significantly higher goals will require the promotion of additional energy efficiency programs within our customer base. I consider it to be favorable public policy to be able to accomplish this objective in a manner that places downward pressure on overall rates while not burdening the general body of customers to pay for programs that only benefit a portion of the customer base. Use of the TRC test, on the other hand, cannot ensure that achievement of any level of energy efficiency savings can be accomplished while also placing downward pressure on rates.

Q. In his direct testimony, SACE/NRDC witness Mosenthal testifies that the Participant test should only be considered at the program level and that the FEECA utilities have inappropriately screened out measures that do not pass the Participant test without any incentive. Do you agree with Mr. Mosenthal's testimony in this regard?

A. No. Mr. Mosenthal has reached an overly broad and unfounded conclusion. In fact, his conclusion is directly contrary to my direct testimony on page 15, lines 6-15. Gulf did not screen out any measures based on the Participant test without any incentive. Gulf only applied the Participant test criteria required by 366.82 (3)(a) once the maximum incentive levels were established for both the RIM and TRC portfolios. If, at these incentive levels, a measure did not pass the Participant test then it was removed from the portfolio. This ensures Gulf is only including measures in proposed goals that make economic sense to participating customers.

Q. It has been argued by GDS and a number of SACE/NRDC witnesses that the FEECA utilities' use of a two-year payback criterion to screen measures was improper. How do you respond to this contention?

A. As explained by Mr. Dean in his rebuttal testimony, the two-year payback criterion has been used in previous goal setting proceedings and was initially accepted by this Commission in Order No. 94-1313-FOF-EG approving FP&L's DSM goals for the period 1994 through 2003 as a means of reducing free-riders. Further, In accordance with the Collaborative agreement on screening criteria to be used in this study,

Gulf removed measures that had less than a two-year payback with no incentive applied. This step of the screening process occurred after measures failing the RIM or TRC test were removed. This criterion was utilized to reduce free-riders by removing the measures with the highest incidence of naturally occurring adoption. Rule 25-17.0021(3) requires utilities to consider free-riders in the goal setting process in order to prevent overstating goals based on the fact that some customers would adopt measures without utility program intervention.

This criterion is implicitly used in Gulf's Commission-approved Commercial Energy Services program in which customized incentives are offered for energy efficiency projects up to a level that results in a two-year payback. GDS witness Spellman recognizes the validity of this criterion in some market segments, but argues that it should not be used in the residential and small commercial sectors because "customers are typically not energy efficiency or financial experts". On the contrary, this is exactly why the criterion of two years was used. That is, a customer should not have to be an energy efficiency expert to recognize that adoption of a measure with less than a two-year payback is a sound financial decision. One other interesting point is that Mr. Spellman did not take issue with the criterion to limit customer incentives in the achievable study to produce a payback of two years, implicitly acknowledging that this is a reasonable criterion for establishing an economic threshold for the customer. Overall, the two-year payback threshold is a reasonable means to reduce the impact of free-riders in the goal-setting process.

Q. Mr. Mosenthal also makes a point that some effective DSM strategies are non-financial ones. Do you agree with this statement?

A. In general, yes. Many of the measures having a customer payback of two years or less are highlighted in various consumer energy savings guides including the FPSC Energy conservation house, DOE website www.energysavers.gov, utility brochures and audit programs, and many other sources. In fact, Gulf addresses a number of energy efficient measures and practices, including some with less than two-year payback, in its educational and audit programs. Gulf conducts technical analyses for customers, trains builders and other trade allies, and works with architects and engineers to ensure energy efficiency opportunities are effectively considered and incorporated in building designs. While Gulf does not capture and associate savings with many of these activities, they clearly are beneficial to achieving an objective of increasing the efficient use of energy.

Q. As an alternative to the two-year payback criterion, SACE/NRDC recommends that free ridership should be addressed through good program design rather than during the goal-setting process. Is this a viable alternative, in your opinion?

A. No. Rule 25-17.0021(3) expressly requires that free ridership be considered during the goal-setting phase. SACE/NRDC's position is directly contrary to the Commission's rule.

Q. In his direct testimony SACE/NRDC Witness Steinhurst takes issue with the carbon cost assumptions used by utilities in establishing their proposed goals and recommends that the Commission require use of a low-cost carbon price of $15 per ton, a base-case allowance price of $30 per ton and a high-case allowance price of $78 per ton. Mr. Floyd, do you agree with Dr. Steinhurst's recommendation?

A. No, I do not. Gulf Power has considered a range of potential carbon cost impacts to represent the possible outcome of carbon legislation. Gulf utilized the mid-range of these projections in the evaluation of energy efficiency measures for development of the Company's proposed goals. As stated previously, this has contributed to a 184 percent increase in Gulf Power's annual energy reduction goal. Also, I would note that Gulf's projected carbon costs are generally consistent with the Congressional Budget Office (CBO) analysis of HR 2454 as referenced by Mr. Spellman.

Q. SACE/NRDC Witness Wilson testifies that a 2007 study performed by Summit Blue Consulting LLC identifies Gulf Power as a "high-cost outlier" in terms of costs of conserved energy. Is Mr. Wilson's testimony accurate in this regard?

A. No. Based on my research into the source data utilized in the Summit Blue Study, Gulf is mis-characterized in the report as having a commercial cost of energy saved of approximately $0.50 per kWh when the actual data reported to the FPSC for 2005 is $0.05 per kWh.

Q. Are there any corrections needed in Mr. Spellman's testimony related to assertions about Gulf Power?

A. Yes. In his testimony, Mr. Spellman states that some utilities limited the application of energy efficiency measures to incremental new loads and did not allow energy efficiency measures to displace current electric loads. This was not the case for Gulf Power. Gulf's achievable potential results include both the impacts of replace-on-burnout efficiency gains and retrofit measure gains depending on the particular measure.

Also, Mr. Spellman states in his testimony that some utilities used a linear programming model to determine the optimal level of energy efficiency investment. Gulf Power has not proposed a level of energy efficiency investment below what is shown to be cost-effective.

Q. Mr. Floyd, FIPUG Witness Pollock has testified that some controversy has arisen over the application of the RIM test because it is unclear that each utility is applying the RIM test in the same way, especially regarding what is included in the category of "lost revenues." (p. 4, lines 4-10). What is your response to this testimony?

A. It is my understanding that the Investor Owned Utilities are calculating change in electric revenues consistently. This calculation appropriately includes clause revenues in the calculation.

Q. Mr. Floyd, do you have any other observations regarding the positions advocated by SACE/NRDC and GDS in this docket?

A. Yes. While the SACE/NRDC and GDS witnesses may be experienced in theoretical studies and policy debate, they have not adequately addressed the impact of their positions on Gulf Power's customers. None of the SACE/NRDC and GDS witnesses even speak to the cost or rate impacts associated with the admittedly aggressive goals they propose. Particularly in light of the order of magnitude difference in their goal proposal as compared to the goals thoughtfully and thoroughly developed by the utilities, some mention of cost would be expected. The fact is that a DSM portfolio based on the TRC test will cause upward pressure on rates. Any upward pressure on rates should be avoided when the opportunity exists both to increase the level of energy efficiency goals for Gulf Power and ensure that the costs of these actions will result in downward pressure on rates. In this way, whether a customer participates in a Company sponsored energy efficiency program or not, they will share in the benefits of the program. Using RIM and the Participant's test to evaluate energy efficiency programs ensures that both rates and customer bills go down. The TRC test cannot ensure this will happen. Mr. Spellman cites NAPEE in his testimony in estimating that "bills, on average, will be reduced". While <u>average</u> bills may go down, non-participants' bills will go up. This is the essence of the cross-subsidy outcome of utilizing TRC as a criterion to judge DSM programs. One general assumption that appears throughout the SACE/NRDC and GDS testimony is that TRC supports much more energy efficiency than RIM. In fact, Gulf's proposed goals, which are based on the RIM-high incentive scenario, produce a higher energy and demand savings goal than the TRC-low incentive and TRC-mid incentive

scenarios. Only the TRC-high incentive level scenario produces a higher goal, but at more than double the cost.

GDS and SACE/NRDC's witnesses also ignore the fact that electricity costs have a significant impact on the ability to attract and maintain economic development in our service area. As recognized by FIPUG witness Pollock, industrial and commercial enterprises are particularly reliant on a reliable, low cost supply of electricity to power their operations. Rule 25-17.001(7) recognizes this fact and states that "Rules 25-17.001 through 25-17.005 F.A.C. shall not be construed to restrict growth in the supply of electric power or natural gas necessary to support economic development by industrial or commercial enterprises. Rather, these rules should be construed so as to enhance job-producing economic growth by lowering energy costs from what they otherwise would be if these goals were not achieved." I do not believe that the positions advocated by GDS and SACE/NRDC in this docket are consistent with the directives of Rule 25-17.001 or with the best interests of Gulf Power's customers.

Q. Does this conclude your testimony?

A. Yes.

BY MR. GRIFFIN:

Q. Okay. At this point I'd ask that you just summarize your rebuttal testimony, please.

A. Thank you. Good afternoon, Commissioners.

In my rebuttal testimony I address the goals proposed by GDS and SACE witnesses and other clarifications to intervenor witness testimony.

Both SACE and GDS witnesses proposed goals that do not meet the requirements of Commission rules. The goals proposed by SACE do not even meet the requirements of the revised FEECA statute, 366.82.

In neither case do these witnesses offer any cost estimate or rate impact in their proposals, although both acknowledge that rates will increase. The cost to achieve these goals would be sure to be well beyond anything Gulf Power customers have ever experienced.

SACE proposes goals based merely on a percentage of load projections from the Ten-Year Site Plan. These goals are not developed based on any Florida technical or achievable potential study, do not reflect Gulf's most recent planning process, and do not reflect the evaluation of end-use categories in customer segments as required by Commission rule.

The GDS proposed goals include extreme

assumptions for adoption of measures, sweeping adjustments for various exclusions and perceived understatements in the Itron developed achievable potential study. These proposed goals are clearly not reasonably achievable and should not be considered by the Commission.

The goals proposed by GDS and SACE are based on a TRC criteria that allows cross-subsidization between participating and nonparticipating customers as well as no consideration of utility fixed cost recovery. In addition, GDS proposes that Gulf spend almost a million dollars a year solely to provide incentives for non-cost-effective demand-side renewables.

In summary, the Commission should approve the goals proposed by Gulf in this proceeding. These goals are based on a thorough, methodical process, meet the requirements of the revised FEECA statute and Commission rules, and provide a 184 percent increase in energy goals over Gulf's currently approved goals, in part due to including projections of carbon costs and evaluation of measures, all while providing downward pressure on electric rates and no cross-subsidies between participating and nonparticipating customers.

MR. GRIFFIN: We would tender Mr. Floyd for cross-examination.

CHAIRMAN CARTER: Thank you.

Ms. Kaufman.

MS. KAUFMAN: I have no questions, Mr. Chairman. Thank you.

CHAIRMAN CARTER: Mr. Jacobs.

MR. JACOBS: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. JACOBS:

Q. Good afternoon, Mr. Floyd.

A. Good afternoon.

Q. Mr. Floyd, I think you reiterated that in your capacity at Gulf you are the Team Leader for the Economic Evaluation and Marketing Reporting Team?

A. Yes. That's correct.

Q. How long have you held that title again?

A. Since October of 2007.

Q. In your rebuttal testimony you offer analysis and critique of potential analysis of witnesses in this proceeding, do you not?

A. Yes.

Q. On what basis of technical training and experience do you base your critique and analysis of these witnesses?

A. On my analysis of their proposed goals based on the experience that I've had throughout this process

in developing and evaluating the, the measures that Gulf has considered in preparation of our proposed goals.

Q. Just in this process or --

A. Yes. That's correct.

Q. So on Page 2 your rebuttal testimony, beginning at Line 12 through 23, do you have that?

A. Yes.

Q. You opine that the analysis of Dr. Steinhurst does not reflect the planning process of Gulf Power and you take issue with his assessment of what leading utilities do with regard to DSM; is that correct?

A. I'm not -- I don't see your reference here. Could you cite the line, please?

Q. Line, on Page 2, beginning at Line -- let me make sure myself. I'm sorry. It begins on Line 13, the sentence beginning "Further."

A. Okay.

Q. Going down to Line 23.

A. Okay. I see that.

Q. How did you, how did you conduct this comparison? First of all, how did you identify what the leading utilities are, and then how did you conduct the comparison between what those utilities do and what the proposals are for Dr. Steinhurst?

MR. GRIFFIN: Objection. Mr. Floyd did not

draw a comparison between Gulf Power and other leading utilities. He simply characterized Mr. Steinhurst's testimony.

CHAIRMAN CARTER: Rephrase. Rephrase.

MR. JACOBS: Sure. I'd be happy to.

BY MR. JACOBS:

Q. How did you first of all identify what leading utilities would be the basis of your comparison in this statement?

A. I did not evaluate any leading utilities in this. I merely cited Dr. Steinhurst's reference to that.

Q. I see. And so you relied on Dr. Steinhurst's references to leading utilities?

A. Yes. That's correct.

Q. Okay. And then based on that identification, how did you conduct an analysis of what those utilities do versus what Dr. Steinhurst's recommendations are?

A. I don't believe I, I discussed providing an analysis of what those utilities did compared to what Dr. Steinhurst recommended.

Q. I'll move on. In your rebuttal testimony on Page 3, beginning at Line 17 -- strike that. Beginning on Line 16.

A. Yes.

Q. The sentence beginning "The cost," going to Line 18. Did you do some specific or empirical analysis to determine what the costs would be associated with the goals?

A. Yes. I have done an estimate of, of a cost projection given the proposed goals that these witnesses suggested in this proceeding, and based on, on an evaluation of the information I had available have estimated that it would cost about a little over $600 million over the ten-year horizon of this goal proceeding. And my characterization of well beyond anything Gulf Power customers have experienced to date is based on the fact that currently Gulf Power recovers approximately $10 million per year through the Energy Conservation Cost Recovery Clause; whereas, just simple math, you know, from the estimate of their proposed goals would suggest that that would require approximately $60 million to be recovered per year.

Q. And how did you define those costs?

A. I'm sorry?

Q. You say the costs associated, and you just indicated in your testimony that you did an analysis of what those costs were. What were the makeup of those costs?

A. Those costs would include additional incentive

costs associated with, with including the measures and the achievement levels that were included in, in the witness's proposed goals.

Q. Thank you. And did you likewise do any analysis or assessment of systemwide benefits as a result of, that would have resulted from these goals?

A. No, I did not.

Q. Let's go up to page -- I'm sorry, to Line 11, same page, sentence beginning "Since 1981."

A. Yes.

Q. You indicate here that since 1981 Gulf has spent in excess of $113 million and you've achieved 538 gigawatt hours of energy savings.

A. Yes. That's correct. So each year Gulf Power customers are recognizing the benefit of 538 gigawatt hours of annual energy savings that occur year after year after year.

Q. Have you done any analysis of any systemwide benefits that have accrued to Gulf as a result of these, these energy savings?

A. No, not specifically.

Q. And so the $113 million figure has no adjustment that would reflect such systemwide benefits?

A. That's correct. That's only costs that have been recovered through the ECCR clause.

Q. And, likewise, as we stated just a moment, moments ago, your estimate of costs that will result from the proposal by NRDC and SACE has no adjustments for any systemwide benefits over those ten years; correct?

A. That's correct.

Q. Okay. In your testimony, in your rebuttal testimony, I think in that same place you -- give me just a moment, please.

On Page 3 also of your rebuttal testimony, and I need to locate the exact place where I need to point you to, if you'll give me just a moment.

I'll move on. I can't find that one.

So are you aware if Gulf or Southern Company would have done any, any analysis, outside of your awareness, would have done any analysis of systemwide benefits that would result from the investments for DSM over the ten years?

MR. GRIFFIN: Objection. Asked and answered, and also outside the scope of Mr. Floyd's rebuttal testimony.

CHAIRMAN CARTER: Mr. Jacobs?

MR. JACOBS: If I may, Mr. Chairman.

CHAIRMAN CARTER: Respond.

MR. JACOBS: I asked outside of his awareness.

He indicated he hadn't done it. Second of all, it's directly in his testimony what Gulf has spent.

MR. GRIFFIN: I believe he asked whether, whether Gulf had done an analysis of any benefits associated with those expenditures, and he indicated that they had not. The reference to Southern Company would be outside the scope of his testimony.

CHAIRMAN CARTER: Ms. Helton?

MS. HELTON: Mr. Chairman, I know that Gulf Power is part of the Southern Company, but I think what we're, what's at issue today is the goals that you set for Gulf Power Company, which is the entity that you regulate in Florida. So I think we have to take Mr. Griffin -- I'm taking Mr. Griffin at his word that this witness did not testify as to the Southern Company.

CHAIRMAN CARTER: Sustained. Move on, Mr. Jacobs.

BY MR. JACOBS:

Q. Mr. Floyd, in your analyses regarding demand-side management goals for Gulf Power, did you undertake any information or expertise or input from Southern Company?

A. In the evaluation of the DSM measures that were, were a part of preparing our proposed goals, we take the inputs from our Ten-Year Site Plan, which would

include the avoided cost data associated with Gulf's participation in the Southern Company electric system integrated resource planning process. But I cannot speak to aspects of that process that are beyond the specific inputs that we used in preparation of our, or conducting of our evaluation of measures in preparation of our proposed goals.

Q. Thank you. In your assessment of the costs to implement DSM programs, do you -- are you allocated or do you participate in any marketing or advertising programs that come from, from Southern Company in costs allocated to you?

MR. GRIFFIN: And again I would just object. This is, this is far outside the scope of Mr. Floyd's rebuttal testimony.

CHAIRMAN CARTER: Mr. Jacobs, let's move on. Let's move on.

MR. JACOBS: If I may respond.

CHAIRMAN CARTER: He's already said, he's already said that he doesn't do it for that. He's said that twice. I think we've already heard. So let's move on, Mr. Jacobs.

MR. JACOBS: If I may respond, with all due respect, Mr. Chairman --

CHAIRMAN CARTER: Which means with no respect,

but go ahead.

MR. JACOBS: He just responded that he does use Southern Company inputs.

CHAIRMAN CARTER: I'd hate to have the court reporter go back and read, read that, Mr. Jacobs, but that's not what was said.

Linda, would you read his last two responses, please, the last two questions and his last two responses, please? Yes, ma'am.

We were beginning to make progress.

(Foregoing questions and answer read by the court reporter.)

MR. JACOBS: Mr. Chairman, I'll move on.

CHAIRMAN CARTER: Thank you, Mr. Jacobs.

BY MR. JACOBS:

Q. Mr. Floyd, in addition to the -- strike that.

Your analyses of the, that you state in your rebuttal testimony here was based largely on the Itron -- your critique, let me put it that way, as expressed in your rebuttal was based largely on results that were obtained through the Itron process and study; is that correct? The baseline.

A. Could you please ask the question again? I'm not sure I followed that.

Q. In your critique of the potential analysis and

goals that were proposed by the witnesses in this proceeding, you based your -- your baseline was essentially outputs and results of the Itron analysis; is that a fair statement?

A. No, I would not say that. For the rebuttal of the SACE proposed goals, there was no reference to a baseline of the Itron study in that. That was merely an application of a 1 percent multiplier towards Gulf's projected loads in its Ten-Year Site Plan.

Q. And that's a great point. If you would, in your testimony, let's go to that, on Page 2. We've already covered this. I just want to make sure this is the reference that you're making to, on Page 2 of your testimony where you say -- beginning at Line 19 through 23, I think it is; right? That's the same reference that you're speaking about; right?

CHAIRMAN CARTER: Commissioners, while he's getting ready to answer, let me give you a little heads up for planning purposes. We have to change out court reporters at 1:00. So rather than going through that, what we'll do is -- that may be a good breaking point for us to do lunch. And we'll probably do that rather than just change out court reporters, and that will allow you to take care of some other things as well as give the parties an opportunity for lunch and get their

review of the documents and things of that nature. So we'll proceed further on for this afternoon.

You may proceed.

THE WITNESS: Thank you.

I believe my reference that you're suggesting there actually begins on Line 9, where I say, "Dr. Steinhurst's recommended goals do not appear to be based on the criteria set forth in 366.82(3), *Florida Statutes*, or the Commission's rules, but rather on a generic application of a percentage multiplier to the company's forecasted energy and seasonal peak demand projections as reflected in its Ten-Year Site Plan."

BY MR. JACOBS:

Q. Fair enough. In your responsibilities with Gulf, and as you just indicated in this sphere of information, inputs that you got to conduct your goals analysis, are you aware of any other studies that have been released or participated in by Gulf or Southern Company relating to the capture of achievable potential for energy efficiency?

MR. GRIFFIN: And again objection. Outside the scope of his rebuttal testimony. He's not talking about studies by Gulf Power or Southern Company.

CHAIRMAN CARTER: Mr. Jacobs.

MR. JACOBS: Mr. Chairman, I asked

specifically what was the basis of his training and evaluation of, of the -- used to make this critique. And I think -- I don't want to go through that again, but I thought his answer was it was based on his experiences and his company's, in Gulf's background. That's the only essence of my question is is he aware of anything else that his company may have been involved in with regard to these issues outside of the scope, the study that's in this case? It goes to his credibility as to his basis of his opinion.

CHAIRMAN CARTER: That sounded different from the question. Let's try the question again. That sounded different from what I, what I heard from the question. Let's try the question again.

BY MR. JACOBS:

Q. Your critique --

MR. JACOBS: I'm sorry. I didn't mean to speak over you, Mr. Chairman.

CHAIRMAN CARTER: Good. Just -- I mean -- your response didn't match the question that I heard, so I'm giving you an opportunity to rephrase the question. Let's try it. Let's see.

MR. JACOBS: I'll try, I'll try and do it very precisely.

CHAIRMAN CARTER: Okay.

BY MR. JACOBS:

Q. Mr. Floyd, I think earlier you indicated that your critique of the, of the positions of witnesses in this case was based on your background and experiences with your company; correct? Your technical training and knowledge in order to do that critique was based on, is that --

A. I don't recall saying that.

Q. Let me ask you then, what --

CHAIRMAN CARTER: You know what? This would be a good chance to do it. That way you guys can get some nutrition and we can kind of start anew and maybe give you an opportunity to look over your notes as well.

MR. JACOBS: Thank you, sir.

CHAIRMAN CARTER: Commissioners, we'll come back at 2:15.

(Recess taken.)

(Transcript continues in sequence Volume 10.)

STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, LINDA BOLES, RPR, CRR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 18th day of August, 2009.

Linda Boles

LINDA BOLES, RPR, CRR
FPSC Official Commission Reporter
(850) 413-6734