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February 5, 2009

*VIA ELECTRONIC FILING*

Mr. Charles Terreni  
Chief Clerk/Administrator  
South Carolina Public Service Commission  
101 Executive Drive  
Columbia, SC 29210

Re: Surrebuttal Testimony of Brian Henderson and Rick Hornby on behalf of Southern environmental Law Center et al in South Carolina Public Service Commission Docket No. 2008-251-E.

Dear Mr. Terreni:

Please find enclosed the surrebuttal testimony of Brian Henderson and Rick Hornby on behalf of Southern Environmental Law Center, Natural Resources Defense Council, the Southern Alliance for Clean Energy and the South Carolina Coastal Conservation League in the above-mentioned docket.

Yours truly,

Christopher K. DeScherer  
Senior Attorney

Enclosures

1  
2  
3 **I. INTRODUCTION / SUMMARY**

4 **Q. PLEASE STATE YOUR NAME, BUSINESS, AND PRESENT ADDRESS.**

5 A. My name is Brian Henderson. I am an independent energy consultant with a business  
6 address of 527 Inverrary Street, Murrells Inlet, SC 29576.

7 **Q. ARE YOU THE SAME BRIAN HENDERSON WHO SUBMITTED PRE-FILED  
8 DIRECT TESTIMONY IN THIS PROCEEDING?**

9 A. Yes.

10 **Q. WHAT IS THE PURPOSE OF YOUR SUR-REBUTTAL TESTIMONY?**

11 A. My surrebuttal testimony responds to certain points regarding my direct testimony that  
12 Mr. B. Mitchell Williams makes in his rebuttal testimony on behalf of Progress Energy  
13 Carolinas ("PEC" or "the Company") in this docket. The fact that I do not respond  
14 explicitly to other points in that rebuttal testimony does not mean I agree with those other  
15 points.

16 **Q. DID MR. WILLIAMS CHALLENGE THE CONCLUSIONS PRESENTED IN  
17 YOUR DIRECT TESTIMONY REGARDING THE NEED TO ESTABLISH  
18 ENERGY-USE REDUCTION TARGETS COMPARABLE TO THOSE BEING  
19 ACHIEVED BY OTHER UTILITIES AROUND THE COUNTRY?**

20 A. On pages 3 and 4, and again on page 10, Mr. Williams argues that other state  
21 achievements should not be used as benchmarks in South Carolina because, in his  
22 opinion, making comparisons to states like New York and California is of little value.  
23 However, Mr. Williams overlooks the references in my direct testimony to other states  
such as Arizona, which faced similar conditions to those of South Carolina and have

1 accomplished the growth in cost-effective energy efficiency that we encourage PEC to  
2 consider.

3 My direct testimony provided examples to the Commission of utilities new to the  
4 endeavor of energy efficiency programs that can ramp-up energy efficiency programs for  
5 large impacts, which should be instructive for South Carolina. Typically, these new  
6 programs call upon the expertise developed over time in the Pacific Northwest,  
7 California, Upper Midwest, and Northeast, where durable and sustainable programs are  
8 most prevalent. Taking advantage of this expertise enables utilities new to energy  
9 efficiency to ramp up more quickly and have a greater impact than the veteran programs  
10 did when they first started out ten to twenty years ago.

11 Not only do states in the Pacific Northwest, California, the Uppwer Midwest, and  
12 Northeast provide examples from which certain lessons can be borrowed, but also, we  
13 have recently seen new leaders emerge in the Southwest, Plains States, and Midwest  
14 whose experiences are even more directly applicable to South Carolina. In my direct  
15 testimony, I selected a few relevant examples to indicate what might be typically  
16 expected and recommended in an acceptable ramp-up from a comprehensive new set of  
17 energy efficiency programs.

18 Going back to these examples, I have included a table, below, that includes the  
19 Arizona Public Service ramp-up of annual energy efficiency targets, and also identifies  
20 Duke Energy's planned annual incremental energy savings for its Ohio operations. These  
21 should be instructive for South Carolina. To put the PEC program on par with those  
22 levels aimed for by Duke and other peer utilities, PEC should be required to seek to

1 achieve an incremental annual reduction of electricity use through energy efficiency of at  
2 least 0.75% of retail sales by 2013, and a cumulative reduction of at least 1.85% over a 5-  
3 year period.

4  
5 **Table 1. Incremental Annual Energy Savings**  
6 Percentage of MWh Sales

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Recommended PEC SC Program</b>	0.10	0.20	0.30	0.50	0.75
<b>Proposed Duke Energy Ohio Program</b>	0.30	0.50	0.70	0.80	0.90
<b>Arizona Public Service Program</b>	0.09	0.37	0.89	*	*

7  
8 **Q. DID MR. WILLIAMS INDICATE FACTORS THAT CAN IMPACT ANY STATE-**  
9 **TO-STATE COMPARISONS?**

10 A. Yes. Mr. Williams indicated that the utility's mix of customers must be considered, in  
11 that PEC is proposing to allow an opt-out opportunity for its industrial and large  
12 commercial customers in South Carolina. Mr. Williams states that large commercial and  
13 industrial customers are constantly evaluating and making investments in energy  
14 efficiency on their own, without the need for DSM/EE program.

15 Based on my years of experience in working with large commercial and industrial  
16 customers and administering DSM/EE programs, this is not entirely accurate. Significant  
17 untapped, cost-effective energy-efficiency opportunity remains in the industrial sector.  
18 Often, plant managers fail to recognize the potential for energy efficiency at their  
19 facilities. Even very savvy plant managers, faced with high retail electric rates, focus on  
20 plant operations ahead of energy efficiency.

21 Encouraging this sector to actively participate in a DSM/EE program, specifically  
22 designed to address their needs, should achieve substantial savings. An energy efficiency

1 program with an in-depth technical assistance component that provides industrial  
2 ratepayers with the services of experienced energy management engineers. These, in  
3 turn, can overcome barriers to energy efficiency in industry by identifying opportunities,  
4 assessing technical feasibility, commissioning equipment to correct energy-related  
5 problems and ensure system optimization, and providing necessary technical or financial  
6 justification to secure top management support for energy efficiency investments.  
7 Furthermore, utility-run industrial energy efficiency programs often offer financing to the  
8 project, not otherwise available to the plant manager, that makes the project more  
9 attractive.

10 **Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?**

11 **A. Yes.**

1  
2  
3 **I. INTRODUCTION / SUMMARY**

4 **Q. PLEASE STATE YOUR NAME, EMPLOYER, AND PRESENT POSITION.**

5 A. My name is J. Richard Hornby. I am a Senior Consultant at Synapse Energy Economics,  
6 Inc., 22 Pearl Street, Cambridge, MA 02139.

7 **Q. ARE YOU THE SAME J. RICHARD HORNBY WHO SUBMITTED PRE-FILED  
8 DIRECT TESTIMONY IN THIS PROCEEDING?**

9 A. Yes.

10 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

11 A. My surrebuttal testimony responds to certain points regarding my direct testimony that  
12 Ms. Laura Bateman makes in her rebuttal testimony on behalf of Progress Energy  
13 Carolinas ("PEC" or "the Company"). The fact that I do not respond explicitly to other  
14 points in that rebuttal testimony does not mean I agree with those other points.

15 **Q. DID MS. BATEMAN CHALLENGE THE FIRST TWO CONCLUSIONS  
16 PRESENTED IN YOUR DIRECT TESTIMONY REGARDING RECOVERY OF  
17 EFFICIENCY PROGRAM COSTS IN GENERAL?**

18 A. No. The first two conclusions in my Direct Testimony are that:

- 19
- 20 • It is reasonable for the Company to have a set of cost recovery procedures that  
21 enable it to recover the prudently incurred costs of its EE and DSM programs,  
22 plus a reasonable financial incentive and a reasonable mechanism for minimizing  
23 adverse impacts on its earnings from those programs; and
  - The Company bears the burden of proving that the specific set of cost recovery  
procedures it is proposing will result in rates that are just and reasonable.

1 Ms. Bateman did not express any disagreement with those two conclusions.

2 **Q. DID MS. BATEMAN CHALLENGE THE CONCLUSIONS IN YOUR DIRECT**  
3 **TESTIMONY REGARDING THE COMPANY'S SPECIFIC PROPOSALS FOR**  
4 **COST RECOVERY?**

5 A. Yes. Ms. Bateman challenged the conclusions in my Direct Testimony regarding the  
6 Company's specific proposals for cost recovery. Those conclusions are that the  
7 Company has failed to demonstrate that:

- 8 • The specific set of cost recovery procedures it is proposing will result in rates that  
9 are just and reasonable;
- 10 • The Program Performance Incentive ("PPI") levels that PEC is proposing,  
11 alongside the return on equity it will earn on the unamortized program cost  
12 balances, is reasonable; and
- 13 • Recovery of net lost revenues for three years is the best approach for minimizing  
14 adverse impacts on its earnings from those programs.

15 **Q. YOUR DIRECT TESTIMONY NOTES THAT THE COMPANY HAS NOT**  
16 **DEMONSTRATED THE ACTUAL OPERATION OF ITS PROPOSED COST**  
17 **RECOVERY PROCEDURES OVER THE FULL COST RECOVERY PERIOD.**  
18 **PLEASE SUMMARIZE YOUR POSITION AND DISCUSS MS. BATEMAN'S**  
19 **RESPONSE.**

20 A. As noted in my Direct Testimony, the Company is proposing a specific approach out of  
21 the range of possible approaches available for recovering its program costs, earning a  
22 performance incentive and minimizing the adverse impact on earnings from its programs.

1 From a ratemaking perspective, the Commission must determine whether the rates that  
2 will result from this specific proposed approach will be just and reasonable.

3 A numerical example can play an important role in helping the Commission make  
4 a well informed decision. Such an example provides the Company, who bears the burden  
5 of proving to this Commission that its specific approach is reasonable, the opportunity to  
6 illustrate the operation of the mechanism, as well as to quantify the implications for both  
7 ratepayers and shareholders. It provides Commission Staff, and intervenors, the ability to  
8 prepare comparative analyses of alternative approaches upon which to base their  
9 recommendations.

10 Ms. Bateman, on pages three and four of her rebuttal, indicates that there is no  
11 need for a numerical example because, under its proposal, the Company is only seeking  
12 to recover its actual program costs, its actual net lost revenues, and PPI levels that the  
13 parties to its settlement in North Carolina considered to be appropriate. From a  
14 ratemaking perspective, we would urge that the Commission find those facts necessary,  
15 but not sufficient. In other words, any approach approved by the Commission should, of  
16 course, specify the program costs, net lost revenues and incentives that the Company  
17 could recover in its rates. However, the key question for the Commission in this  
18 proceeding is whether the *specific* approach that the Company is proposing is better than  
19 other available approaches. An examination of the Company's proposal from that  
20 perspective would provide support for a determination of whether the proposal would, or  
21 would not, produce rates that are just and reasonable. But PEC has not provided this  
22 information, and is incorrect when it says it *need not* provide this information.



1           For example, Ms. Bateman states on page 11 that “there is no empirical  
2 methodology to precisely determine the appropriate incentive levels.” What Ms.  
3 Bateman does not acknowledge is that one can, and should, prepare a numerical analysis  
4 of the Company’s proposed remuneration approach that compares it to alternative  
5 approaches. The results from that type of analysis would enable all parties to compare  
6 those alternatives according to explicit criteria such as rate impacts, level of earnings  
7 achieved by the Company and sharing of net benefits between ratepayers and  
8 shareholders—not to mention the relative cost to ratepayers of each kWh of energy  
9 efficiency savings.

10 **Q. WHY ARE YOU PLACING SUCH EMPHASIS ON THE NEED TO ASSESS THE**  
11 **COMPANY’S PROPOSED COST RECOVERY APPROACH AT THIS POINT IN**  
12 **TIME?**

13 A. My goal in raising various questions regarding the Company’s proposed cost recovery  
14 approach is to contribute to the selection of an optimal rate-recovery approach—one that  
15 is fair to ratepayers *and* the Company, and one that will therefore enable PEC to sustain a  
16 major emphasis on energy efficiency over time. This is the time to raise those questions  
17 because the Company is just starting what hopefully will ultimately grow into a major  
18 initiative to meet a significant portion of its customers’ future requirements through  
19 improvements in energy efficiency. One of the factors that will determine whether the  
20 Company can achieve that objective, and sustain it over time, is whether ratepayers from  
21 all rate classes will view the resulting rates as just and reasonable. In other words, does

1 the Company's recovery of costs, net lost revenues and shareholder incentives represent a  
2 reasonable balancing of the interests of ratepayers and of shareholders?

3 **Q. THE COMPANY'S PROPOSED APPROACH IS BASED UPON A**  
4 **SETTLEMENT IT FILED IN A NORTH CAROLINA PROCEEDING. HAS THE**  
5 **NORTH CAROLINA COMMISSION APPROVED THAT SETTLEMENT?**

6 A. No. Although that settlement has been *filed*, it has not been approved. Specifically, the  
7 Company's proposal, presented in Williams Exhibit No. 1, is based upon a settlement that  
8 the Company filed in an efficiency program cost recovery proceeding in North Carolina  
9 last December. In that proceeding a Company witness, Mr. Evans, provided a numerical  
10 analysis of the costs, rates and revenues under the proposed approach in year one. The  
11 North Carolina Utilities Commission ("NCUC") has conducted a hearing but it has not  
12 approved the proposed settlement. In fact, the NCUC agreed that PEC had presented far  
13 too little numerical and other analysis to support the ratepayer recovery it sought, and has  
14 issued a post-hearing order requiring the Company to file projections of costs, rates and  
15 revenues for each of years two through ten under that proposed approach. A copy of that  
16 post-hearing order is attached as Hornby Exhibit No. 1.

17 **Q. PLEASE DISCUSS MS. BATEMAN'S POSITION THAT THE COMPANY'S**  
18 **PROPOSAL IS REMARKABLY SIMILAR TO THE COST-RECOVERY**  
19 **PROCEDURE FILED BY YOUR CLIENTS IN THE DUKE ENERGY SAVE-A-**  
20 **WATT PROCEEDING.**

1 A. Ms. Bateman maintains, on page 5 of her testimony, that the Company's proposal is  
2 remarkably similar to the cost-recovery procedure advocated by the environmental  
3 intervenors in the Duke Energy Save-A-Watt proceeding. I disagree.

4 The Company's proposal differs in two major respects from the cost-recovery  
5 procedure filed by the environmental intervenors in the Duke Energy Save-A-Watt  
6 ("SAW") proceeding. First, the cost-recovery procedure filed by the environmental  
7 intervenors in that proceeding was premised on Duke Energy treating its program costs as  
8 expenses and recovering them in the year in which they were incurred. Under that  
9 approach Duke Energy shareholders would have the opportunity to earn "a bonus  
10 incentive," comparable to the Company's proposed PPI. In contrast, under the  
11 Company's proposal, program costs will be treated comparable to capital costs and  
12 recovered over ten years. Under this approach the Company's shareholders have the  
13 opportunity to earn *two* incentives—a return on equity on the unamortized balance of  
14 program costs each year plus the PPI. Second, under the cost-recovery procedure filed by  
15 my clients in the SAW proceeding, shareholders would not be eligible to receive that one  
16 bonus incentive if Duke Energy did not meet pre-specified target levels.

17 **Q. PLEASE DISCUSS MS. BATEMAN'S POSITION THAT THE RETURN ON**  
18 **EQUITY THE COMPANY WOULD EARN UNDER ITS PROPOSAL IS NOT AN**  
19 **INCENTIVE.**

20 A. Under the Company's proposal, it would treat its program costs as being comparable to  
21 capital costs, and amortize them over a ten year period. According to provision twenty in  
22 Williams Exhibit No. 1, "PEC shall be allowed to earn a rate of return..." on the

1 unamortized balance at the overall weighted average net-of-tax rate of return approved in  
2 its most recent general rate case.

3 Ms. Bateman states that the return that the Company will earn is not an incentive,  
4 but instead is simply the cost of money or carrying cost that the Company will incur to  
5 finance that unamortized balance. I disagree. A portion of that return is a return on  
6 equity, which is an incentive. The Company's overall weighted average net-of-tax rate of  
7 return reflects the relative quantities of capital it obtains from borrowing and from  
8 shareholders, i.e. debt and equity respectively, as well as the rates it has to pay in order to  
9 obtain capital from each source, i.e. rate for debt and return on equity. The opportunity to  
10 a return on equity on capital investments is the financial incentive that drives the  
11 Company, and other utilities, to make investments in traditional forms of generation.  
12 Clearly, this has been sufficient incentive on its own to encourage utilities operating in  
13 the Carolinas to plan and build new power plants. It is hard to deny that this is an  
14 incentive, in and of itself.

15 Furthermore, in order for the Company to earn its overall weighted average net-  
16 of-tax rate of return, it must earn a higher return "pre-tax." For example, in North  
17 Carolina the Company's after tax return was 8.8063 percent. To earn that amount,  
18 however, it had to earn a return of 14.4805 percent pre-tax.<sup>1</sup> As a carrying cost, 14.5  
19 percent is substantially higher than the rate a credit-worthy borrower would pay for a ten-  
20 year loan under current market conditions.

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<sup>1</sup> North Carolina Docket E-2 Sub 931, PEC Exhibit No. 1, Workpapers, June 6, 2008, W/P C-1.

1 **Q. PLEASE DISCUSS MS. BATEMAN'S OPPOSITION TO TYING THE PPI TO**  
2 **ACHIEVEMENT OF A PERFORMANCE TARGET,**

3 A. Under the Company's proposal, it would earn the PPI on whatever level of reductions it  
4 happens to achieve. In My Direct Testimony I support tying the PPI to achievement of a  
5 performance target. Ms. Bateman states that this proposal is unfounded and impractical. I  
6 disagree.

7 It is practical to set a performance target; what is in contention is the appropriate  
8 level of that target. For example, in North Carolina, the Company has provided  
9 projections of the reductions that it expects to achieve from its initial set of efficiency  
10 programs (though it has yet to disclose any program details to the Commission in this  
11 docket). The Company could propose that those projections be the basis for its proposed  
12 performance target. My impression is that the Company wishes to avoid the possibility  
13 of performance targets being set at higher levels based upon the evidence presented by  
14 Staff and other intervenors regarding higher levels of reductions that could be achieved.

15 As noted in my Direct Testimony, in several states, the award of bonus incentives  
16 is conditional on achievement of performance targets—and unlike PEC, the utilities in  
17 those states are not *also* earning a return on unamortized program costs.

18 Performance targets are also consistent with the manner in which the Company  
19 earns a return on its investments in supply resources. On the supply-side, the Company  
20 begins by identifying and justifying the size and type of new unit to construct. It does not  
21 start earning a return on that resource until it completes construction and the investment  
22 is placed in rate base. Moreover, the Company does not have the opportunity to build

1           only a portion of the unit and start earning a return on that portion, it either builds the  
2           entire unit or it builds nothing. Similarly, the Commission should condition payment of  
3           returns to the Company on its achievement of some appropriate, quantifiable energy  
4           efficiency goal—not simply allow it to get paid for however much it does.

5   **Q.   PLEASE DISCUSS MS. BATEMAN’S OPPOSITION TO APPLYING A CAP TO**  
6   **THE PPI**

7   A.   Under the Company’s proposal, there would not be any cap on the absolute amount it  
8           could earn as a PPI. My Direct Testimony supports capping the absolute amount of PPI  
9           the Company could receive. Ms. Bateman opposes this proposal on the grounds that it  
10          will limit the Company’s incentive. While I understand her point, I consider it important  
11          to have a cap under a shared net savings PPI in order to prevent unreasonable, windfall  
12          earnings. For example, without a cap the Company’s level of PPI could increase  
13          substantially as a result of various external factors increasing its avoided costs, such as  
14          sharp increases in coal prices, natural gas prices or the costs of complying with new  
15          regulations on carbon emissions.

16 **Q.   DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?**

17 A.   Yes.

HORNBY EXHIBIT 1

STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH

DOCKET NO. E-2, SUB 926  
DOCKET NO. E-2, SUB 931

DOCKET NO. E-2, SUB 926

In the Matter of  
Petition of Carolina Power & Light Company,  
d/b/a Progress Energy Carolinas, Inc., for  
Approval of Proposed Distribution System  
Demand Response Program

and

DOCKET NO. E-2, SUB 931

In the Matter of  
Application by Carolina Power & Light  
Company, d/b/a Progress Energy Carolinas,  
Inc., for Approval of DSM and Energy  
Efficiency Cost Recovery Rider Pursuant to  
G.S. 62-133.9 and Commission Rule R8-69

POST-HEARING ORDER

BY THE CHAIRMAN: Upon review of the record in the above-referenced dockets and as a result of the questions raised by the Commission at the evidentiary hearing held on January 7 and 8, 2009 in Raleigh, North Carolina, the Commission finds good cause to request that Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc. (PEC or Company) file the following information in these dockets as verified late-filed exhibits.<sup>1</sup> All late-filed exhibits shall be filed not later than Friday, February 13, 2009, and earlier if possible.<sup>2</sup> The parties to the Stipulation that was entered and filed on December 9, 2008, shall also file responses as required by this Order. All parties to this proceeding shall be granted an extension of time until Friday, February 27, 2008, within which to file their respective briefs and proposed orders.

<sup>1</sup> The requested information may, in some instances, duplicate requests made by the Commission during the course of the hearing. Any duplicate requests are included as part of this Order to ensure that the Commission has provided a complete list of all information to be provided by PEC as late-filed exhibits.

<sup>2</sup> The requested information should be filed on a daily basis as it becomes available, beginning as soon as possible, rather than waiting to file all such information at one time on the final due date.

### Information To Be Provided by PEC

1. With regard to Evans Revised Settlement Exhibit No. 2, please provide such information on a program-by-program basis detailing the estimated total revenue requirement for each program for the 12-month billing period for each of the remaining nine years of the 10-year period. Such schedules for each annual period should include supporting calculations and explanatory footnotes; and any pertinent workpapers, if needed, showing the underlying assumptions and calculations incorporated into the schedules should be provided. In addition, provide the estimated annual DSM/EE rider, by rate class, for each of the nine years.
2. With respect to Question No. 1, above, please provide a summary schedule which sets forth on a program-by-program basis the estimated total revenue requirement for each year of the 10-year period.
3. Please provide an updated Schedule C, DSDR DSM Measure - Revenue Requirement Analysis, which provides the amounts and pertinent underlying calculations and assumptions for the DSDR program set forth in Evans Revised Settlement Exhibit No. 2. Said Schedule C was originally filed by witness Evans on June 9, 2008 and was updated on August 20, 2008.
4. With regard to "Taxes" shown in Column (6) of Evans Revised Settlement Exhibit No. 2, please provide a schedule which provides the calculation of the \$5,495 and \$1,159,093 amounts included in said column. Such schedule should include explanatory footnotes; and any pertinent workpapers, if needed, showing the Company's underlying assumptions and calculations related to such amounts should be provided.
5. With regard to "Cost of Capital" shown in Column (8) of Evans Revised Settlement Exhibit No. 2, please provide a schedule which provides the calculation of the \$12,019 and \$2,263,110 amounts included in said column. Such schedule should include explanatory footnotes; and any pertinent workpapers, if needed, which detail the Company's underlying assumptions and calculations related to such amounts should be provided.
6. With regard to "Net Lost Revenue" shown in Column (11), of Evans Revised Settlement Exhibit No. 2, for the Rate Period, please provide a schedule which provides the calculation of the amount of \$2,228, shown under Rate Period on Line No. 2, for the EnergyWise program. Such schedule should include explanatory footnotes; and any pertinent workpapers, if needed, which detail the Company's underlying assumptions and calculations related to such amounts should be provided. Please explain why this amount is different from the amount of \$11,759, for the Rate Period, shown on Line No. 2, for the EnergyWise program, provided in Evans Revised Supplemental Exhibit No. 2, Column (11).



7. With regard to "Program Performance Incentive" (PPI) amounts shown in Column (12) of Evans Revised Settlement Exhibit No. 2, and also included on Maness Supplemental Exhibit I, Schedule 7, Line 7, please provide a summary schedule which details the Company's underlying assumptions and calculations related to the Retail Utility Cost Test results – vintage year 1 for each program. Such amounts for the Retail Utility Cost Test for vintage year 1 are also included on Evans Revised Supplemental Testimony and Exhibits, WP D-1, Line 1. Such schedule should detail how the year 1 benefit for each program was derived and should include explanatory footnotes; and any pertinent workpapers, if needed, related to the underlying assumptions and calculations.
  
8. Based upon the *Agreement and Stipulation of Partial Settlement*, please provide the following information:
  - (a) A modified internal rate of return (Modified IRR) analyses showing the Modified IRR for each DSM and EE program proposed. Additionally, please show the resulting Modified IRR on a program-class-specific basis, that is, with DSM programs shown "collectively" and with EE programs shown "collectively." Also, please show the resulting overall Modified IRR. Please provide a statement of the assumptions on which the analyses are based, including the discount rate used in determining the present value of cash outflows and the earnings rate used in determining the future value of cash inflows, the number of years employed in the analysis, and workpapers showing, at a minimum, the cash outflows and inflows, by year, during the period of analysis. Further, please indicate whether the returns presented are on a net-of-tax basis.
  
  - (b) A schedule, setting forth the following information on an overall program basis:
    - (1) Modified IRR:
      - Residential
      - Nonresidential
      - Overall
      - Conservation
      - Demand Response
      - Overall
  
    - (2) Present value of cash outflows excluding net lost revenues:
      - Residential
      - Nonresidential
      - Overall
      - Conservation
      - Demand Response
      - Overall
  
    - (3) Present value of net lost revenues under three-year constraint:
      - Residential
      - Nonresidential

- Overall
  - Conservation
  - Demand Response
  - Overall
  - (4) Future value of expected cash inflows:
    - Residential
    - Nonresidential
    - Overall
    - Conservation
    - Demand Response
    - Overall
- (c) A schedule, in comparative form, setting forth the following information and data:
- (1) Projected MWh savings:
    - Residential
    - Nonresidential
    - Overall
  - (2) Projected MWh savings as a percent of 2008 MWh sales:
    - Residential
    - Nonresidential
    - Overall
  - (3) Projected MW savings:
    - Residential
    - Nonresidential
    - Overall
  - (4) Projected MW savings as a percent of 2008 summer peak demand:
    - Residential
    - Nonresidential
    - Overall
  - (5) Projected per-month cost to customers (\$):
    - Residential
    - Nonresidential (assuming no opt-outs)
  - (6) Projected per-month increase in cost to customers (%): <sup>3</sup>
    - Residential
    - Nonresidential (assuming no opt-outs)
9. With regard to PPIs and the net lost revenues that are proposed to be recovered through the DSM/EE rider, please provide a detailed narrative explanation of how PEC plans to report such earnings in its quarterly NCUC ES-1 Reports. In such narrative, please provide the applicable NCUC ES-1 schedule number and line number references. In addition, please explain why the Company's proposed reporting of its PPIs and net lost revenues is appropriate.

<sup>3</sup> This percentage increase in cost to customers is to be determined in comparison to rates currently in effect.

10. Docket No. E-2, Sub 931 relates to the recovery of costs and incentives relative to programs approved by the Commission on October 14, 2008, in Docket No. E-2, Sub 928 (as well as in Docket Nos. E-2, Sub 908, 926, and 927). On October 31, 2008, PEC filed a request in Docket No. E-2, Sub 935 to remove the solar water heating incentives that had been approved as part of the Residential Home Advantage Program in Docket No. E-2, Sub 928. (That request is pending.) Similarly, on October 31, 2008, PEC filed a request in Docket No. E-2, Sub 938 to replace the Commercial, Industrial, and Governmental (CIG) Retrofit and CIG New Construction programs approved in Docket No. E-2, Sub 928 with a new CIG Energy Efficiency Program. (That request is also pending.) To what extent, if any, are the costs for which PEC seeks recovery and incentives in Docket No. E-2, Sub 931 duplicative of costs in the Sub 935 and Sub 938 pending dockets or for program expenditures that PEC no longer plans to make?
11. In its August 25, 2008 Order in Docket No. E-2, Sub 924, the Commission granted PEC's request for deferred accounting for incremental administrative and general and other costs for DSM and EE measures, but ordered PEC to file, "in Docket No. E-2, Sub 931, detailed information presenting the amounts that have been deferred, as of September 1, 2008, and the portions of such amounts PEC is seeking to recover....Such information shall be filed on or before September 11, 2008." Has PEC filed this information? If yes, please provide the relevant citation. If no, please provide a summary schedule which sets forth a description of the various types of expenses and the corresponding amounts which are reflected in the total amounts provided on Evans Revised Settlement Exhibit No. 2, Lines 4 and 11 for the Test Period, Prospective Period, and Rate Period, respectively.
12. Per the Commission's Order in Docket No. E-2, Sub 924, it appears PEC had incurred \$2.4 million of incremental administrative and general costs as of April 2008. PEC's June 6, 2008 submittal in Docket No. E-2, Sub 931 requests recovery of \$6,648,340 in A&G expenses. Evans Revised Settlement Exhibit No. 2 indicates that PEC is requesting recovery of \$7,044,599 in A&G expenses. Please explain the difference among these three figures.
13. Please provide the results of the various cost-effectiveness tests (and supporting workpapers) if the PPI, net lost revenues, and carrying charges (per the Stipulation) that are sought to be recovered from ratepayers are included as costs.
14. Please provide a pro forma worksheet detailing how the PPI would be calculated in year 3 for a specific EE program where monitoring and verification showed that actual savings were overestimated in years one and two.
15. PEC witness Simpson testified that PEC's existing voltage reduction program was used 10 times in 2008 during emergency situations. For each such

emergency, please provide the date, the duration, and a description of the specific conditions that caused the situation to be an emergency.

16. Is the Company's Save-the-Watts ad campaign covered by the Stipulation and, if so, what amount does the Company propose to recover through the DSM/EE rider for such purpose during the first 12-month billing period and for each of the remaining nine years of the 10-year period?

**An Issue to Be Briefed By The Stipulating Parties**

1. The Stipulation, on Page 6, at Paragraph 32, provides that the Commission is required to make certain findings regarding approved incentives. In your respective briefs and proposed orders, please provide specific references to such evidence and findings contained in the record of present proceeding related to the agreed-upon incentives.

IT IS, THEREFORE, SO ORDERED.

ISSUED BY ORDER OF THE COMMISSION.

This the 30<sup>th</sup> day of January, 2009.

NORTH CAROLINA UTILITIES COMMISSION

*Gail L. Mount*

Gail L. Mount, Deputy Clerk

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