

PUC DOCKET NO. \_\_\_\_\_

PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF  
AEP TEXAS NORTH COMPANY  
TO ADJUST  
ENERGY EFFICIENCY COST RECOVERY FACTOR AND RELATED RELIEF

DIRECT TESTIMONY OF  
BILLY G. BERNY  
FOR  
AEP TEXAS NORTH COMPANY

APRIL 29, 2011

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1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.

3 A. My name is Billy G. Berny. I am Manager of Energy Efficiency/Demand Response  
4 Programs for American Electric Power Service Corporation (AEPSC), the service  
5 company affiliate of AEP Texas North Company (TNC). My business address is  
6 910 Energy Drive, Abilene, Texas 79602.

7 Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

8 A. I received a Bachelor of Science degree from Texas A&M University in 1978, and  
9 have completed some post-graduate work at Abilene Christian University. I have also  
10 completed advanced business management programs at Texas A&M University  
11 (1983), Baylor University (1986) and Southern Methodist University (1995). From  
12 January 1979 until August 1992, I served in a number of capacities and at various  
13 locations in customer service, marketing, public relations, and management positions  
14 with Central Power and Light Company, the predecessor to AEP Texas Central  
15 Company (TCC). In August 1992, I was appointed Director of Marketing for West  
16 Texas Utilities Company, the predecessor to TNC, and held that position until  
17 October 1996. I have held my current responsibility for energy efficiency activities  
18 and associated regulatory compliance, first as an employee of Central and South West  
19 Services, Inc. (the corporate service affiliate of Central and South West Corporation,  
20 or CSW) since October 1996 and then, since 2000, as an employee of AEPSC  
21 (following the CSW/American Electric Power Company, Inc. merger). I hold

1 professional certifications from the Association of Energy Engineers as Certified  
2 Energy Manager and as Certified DSM Professional.

3 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE ANY REGULATORY  
4 AGENCY?

5 A. Yes, I have previously filed testimony before the Public Utility Commission of Texas  
6 (PUC or Commission) in a number of proceedings, including:

- 7 • Docket No. 33309, TCC's Application to Change Rates;
- 8 • Docket No. 33310, TNC's Application to Change Rates;
- 9 • Docket No. 34630, Petition of Texas Legal Services Center and Texas  
10 Ratepayers' Organization to Save Energy to Modify the Commission's Final  
11 Order in Docket No. 32103 and to Reform the Agreement to Implement  
12 Weatherization Programs;
- 13 • Docket No. 35625, SWEPCO's Application for Energy Efficiency Cost  
14 Recovery Factor;
- 15 • Docket No. 35627, TCC's Application for Energy Efficiency Cost Recovery  
16 Factor;
- 17 • Docket No. 36959, TNC's Application for an Energy Efficiency Cost  
18 Recovery Factor and Related Relief;
- 19 • Docket No. 36960, TCC's Application to Adjust Energy Efficiency Cost  
20 Recovery Factor;
- 21 • Docket No. 38208, TCC's Application to Adjust Energy Efficiency Cost  
22 Recovery Factor and Related Relief; and
- 23 • Docket No. 38209, TNC's Application to Adjust Energy Efficiency Cost  
24 Recovery Factor and Related Relief.

25 In addition, I have presented prefiled testimony before two other state regulatory  
26 bodies:

- 1                   • The Arkansas Public Service Commission in Docket No. 07-082-TF, The  
2                   Application for Approval of SWEPCO's Initial Energy Efficiency Program  
3                   Plan, and
- 4                   • The Oklahoma Corporation Commission in Cause No. PUD 200700449, The  
5                   Application of Public Service Company of Oklahoma to Comply with Order  
6                   No. 545168 Issued in Cause No. PUD 200600285.

7    Q.     DO YOU SPONSOR ANY OF THE SCHEDULES THAT ACCOMPANY TNC'S  
8            FILING?

9    A.     Yes, I sponsor Schedules I, J and K. In addition, I cosponsor Schedule A with TNC  
10           witness Rhonda R. Fahrlander and Schedule B with TNC witness Jennifer L. Jackson.

11

12                   II. PURPOSE OF TESTIMONY AND SUMMARY OF TNC'S FILING

13   Q.     WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

14   A.     The purpose of my testimony is to:

- 15           •     provide a summary of the relief sought by TNC in this proceeding and of its  
16           filing;
- 17           •     lay out the policy considerations for recovery of TNC's projected costs for its  
18           2012 energy efficiency programs in its adjusted Energy Efficiency Cost  
19           Recovery Factor (EECRF) for 2012, as contemplated by the Public Utility  
20           Regulatory Act (PURA) §39.905 and PUC SUBST. R. 25.181(f);
- 21           •     provide information regarding the under-recovery of TNC's energy efficiency  
22           program revenues for its 2010 programs to be included in its adjusted EECRF  
23           in 2012; and
- 24           •     provide information regarding TNC's performance bonus achieved by its 2010  
25           energy efficiency results, as contemplated in PUC SUBST. R. 25.181(h), and to  
26           be recovered through its adjusted EECRF in 2012.

27   Q.     WHAT RELIEF DOES TNC SEEK IN THIS PROCEEDING?

28   A.     In Docket No. 38209, the Commission authorized TNC to adjust its 2011 EECRF  
29           pursuant to PURA §39.905 and PUC SUBST. R. 25.181(f)(1) to recover \$980,940 in

1       2011 for energy efficiency. This included \$705,570, the amount by which its  
2       projected energy efficiency costs for its 2011 program exceeds the amount of energy  
3       efficiency funding expressly included in its base rate order in Docket No. 33310, and  
4       \$275,370, the amount of TNC's performance bonus achieved by its 2009 energy  
5       efficiency results.

6               PUC SUBST. R. 25.181(f)(4) requires a utility with an EECRF to apply no later  
7       than May 1 of each year to adjust its EECRF in order to reflect changes in costs and  
8       performance bonus and to minimize any over- or under-collection in prior years'  
9       program costs. Accordingly, by this application TNC now requests the Commission  
10      to approve an adjustment to TNC's EECRF to increase the cost recovery factor for  
11      2012 by \$423,743. As my testimony and the testimony of TNC witnesses Fahlender  
12      and Jackson explain, the amount TNC now seeks to recover through its adjusted 2012  
13      EECRF reflects the following components:

- 14      1) recovery of \$768,593 in energy efficiency costs projected to be incurred in  
15      2012 that exceed costs for energy efficiency included in its base rate order;
- 16      2) recovery of \$188,470 representing TNC's 2010 under-recovery of its  
17      actual energy efficiency program expenditures for 2010; and
- 18      3) recovery of \$447,620 representing TNC's 2010 performance bonus for  
19      achieving demand savings that exceeded its minimum goal to be achieved  
20      in 2010.

21      The total amount that TNC requests be recovered through its adjusted 2012 EECRF is  
22      \$1,404,683.

23    Q.   DO TNC'S CURRENT BASE RATES INCLUDE ANY AMOUNT THAT IS  
24       EXPRESSLY SPECIFIED FOR ENERGY EFFICIENCY?

1 A. Yes, in the Commission's final order in Docket No. 33310, the amount of energy  
2 efficiency program funding expressly included in TNC's base rates is \$1,294,430.

3 Q. WHAT IS TNC'S PROJECTED 2012 ENERGY EFFICIENCY PROGRAM  
4 BUDGET?

5 A. As shown in Schedule A, TNC's projected total 2012 energy efficiency budget to  
6 achieve its energy efficiency objectives for 2012 is \$2,063,023. These 2012 projected  
7 energy efficiency program costs are the amounts reasonably necessary for TNC to  
8 achieve its energy efficiency objectives for 2012 pursuant to PUC SUBST. R.  
9 25.181(f)(1). The adjusted EECRF component equal to \$768,593 in 2012 energy  
10 efficiency program costs that TNC requests be recovered in 2012 represents the  
11 difference between TNC's projected 2012 energy efficiency program budget of  
12 \$2,063,023 and the amount the base rate order expressly included for energy  
13 efficiency funding in its base rates of \$1,294,430. These amounts are shown in more  
14 detail on Schedules A and B to TNC's filing, which I cosponsor.

15 Q. DID TNC INCUR GREATER ENERGY EFFICIENCY COSTS FOR ITS 2010  
16 ENERGY EFFICIENCY PROGRAMS THAN THE AMOUNT EXPRESSLY  
17 INCLUDED IN ITS BASE RATE ORDER?

18 A. Yes, TNC incurred greater energy efficiency costs for its 2010 energy efficiency  
19 programs than were expressly included in its base rate order. As shown on Schedule  
20 J, TNC incurred a total of \$2,238,101 in energy efficiency expenditures for its 2010  
21 programs, which was \$943,671 more than the \$1,294,430 expressly included for  
22 energy efficiency funding in its base rate order.

1 Q. DID TNC RECOVER MORE OR LESS ENERGY EFFICIENCY PROGRAM  
2 COSTS THROUGH ITS 2010 EECRF THAN WAS AUTHORIZED IN DOCKET  
3 NO. 36959?

4 A. In Docket No. 36959, TNC was authorized to recover \$705,570 in energy efficiency  
5 program costs through the 2010 EECRF. TNC collected \$755,201 of its energy  
6 efficiency program costs through its 2010 EECRF, exclusive of its 2008 performance  
7 bonus. This collected amount is \$49,631 more than the amount authorized by the  
8 Commission in Docket No. 36959.

9 Q. DID TNC SPEND MORE OR LESS THAN IT BUDGETED ON ITS 2010  
10 ENERGY EFFICIENCY PROGRAMS?

11 A. As I stated above and as shown on Schedule J, TNC incurred a total of \$2,238,101 in  
12 energy efficiency expenditures for its 2010 programs, which is \$238,101 more than its  
13 2010 budget for energy efficiency.

14 Q. DID TNC EXCEED ITS MINIMUM DEMAND REDUCTION GOAL FOR 2010?

15 A. Yes, TNC exceeded its minimum demand reduction goal for 2010, which was to be  
16 equivalent to at least 20% of historic average load growth in demand. Additionally,  
17 TNC exceeded its self-imposed demand reduction target and, consequently, qualifies  
18 for a performance bonus pursuant to PUC SUBST. R. 25.181(h). Schedule K sets forth  
19 the calculation of the \$447,620 performance bonus that TNC earned for exceeding its  
20 minimum demand reduction goal for 2010. TNC requests that this amount  
21 (\$447,620) also be included for recovery through its adjusted EECRF for 2012.



1 Q. PLEASE DESCRIBE TNC'S FILING.

2 A. TNC's filing consists of my direct testimony and the direct testimony of two other  
3 witnesses. Ms. Fahlender's direct testimony addresses the energy efficiency costs  
4 that TNC incurred for its 2010 programs, TNC's energy efficiency results from its  
5 2010 programs, the demand reduction targets used in calculating the performance  
6 bonus that TNC seeks to be awarded for its 2010 energy efficiency results, TNC's  
7 energy efficiency goals for 2012 as established by the Commission's rule, TNC's  
8 energy efficiency objectives, the energy efficiency programs that TNC will offer in  
9 2012 to meet these objectives, and the costs TNC projects to incur in 2012 in  
10 connection with these energy efficiency programs and objectives. Ms. Jackson's  
11 direct testimony describes the design of the adjusted EECRF, the energy efficiency  
12 cost assignment among the customer classes to be recovered through the adjusted  
13 EECRF, and the billing determinants used to develop the adjusted EECRF.  
14 Accompanying the direct testimony of the TNC witnesses are Schedules A through L  
15 that provide the information which the Commission has specified should be provided  
16 in support of a sufficient request for the adjusted EECRF.

17 Q. WHAT DOES TNC REQUEST TO BE THE EFFECTIVE DATE OF THE  
18 ADJUSTED EECRF?

19 A. TNC requests that the adjusted EECRF be made effective as of December 30, 2011,  
20 which is the commencement of TNC's January 2012 billing month.

1                                    III. POLICY CONSIDERATIONS FOR RECOVERY OF  
2                                    ENERGY EFFICIENCY EXPENDITURES

3                                    A. Statutory Policies

4    Q.    WHAT ARE THE POLICY CONSIDERATIONS THAT GOVERN THE  
5           RECOVERY OF ENERGY EFFICIENCY COSTS?

6    A.    In PURA §39.905, the Texas Legislature established policies that an electric utility  
7           such as TNC:

- 8           •        Must provide incentives adequate for the purpose of acquiring cost-effective  
9           energy efficiency equivalent to at least 20% of the utility's annual growth in  
10          demand of residential and commercial customers by December 31, 2009;
- 11          •        Must provide incentives through market-based standard offer programs  
12          (SOPs) or limited, targeted market transformation programs (MTPs); and
- 13          •        Must provide incentives in such a manner that retail electric providers (REPs)  
14          and competitive energy efficiency service providers install the measures that  
15          produce the required energy efficiency necessary to meet the utility's  
16          mandated annual goal.

17        The Legislature has also recognized that a utility should have access to a mechanism  
18        to enable it to fully and timely recover the costs of providing these energy efficiency  
19        incentive programs. Specifically, a utility is to recover the differential between the  
20        costs expressly included in its base rates (if such energy efficiency costs are expressly  
21        recovered in base rates) and the increased costs it must incur in order to meet the  
22        objectives of PURA §39.905, including the achievement of additional cost-effective  
23        energy efficiency in excess of the minimum goals set forth in the statute. The  
24        Legislature also recognized that utilities should be provided an incentive to exceed the  
25        goals in the statute and authorized the Commission to award performance bonuses to  
26        the utilities for exceeding their annual goals.

1                                    B. Commission Rule Pertaining to an EECRF Filing

2     Q.     WHAT ARE THE MINIMUM ANNUAL ENERGY EFFICIENCY GOALS FOR  
3             THE YEARS 2010 THROUGH 2012?

4     A.     PUC SUBST. R. 25.181(e) requires a utility to administer energy efficiency programs  
5             such that it achieves the equivalent of at least 20% reduction of the utility's annual  
6             growth in demand of residential and commercial customers for the 2010 and 2011  
7             program years, and at least 25% reduction of the utility's annual growth in demand of  
8             residential and commercial customers for the 2012 program year.

9     Q.     WHY IS TNC FILING THIS REQUEST TO ADJUST ITS EECRF FOR  
10            RECOVERY OF ITS ENERGY EFFICIENCY EXPENDITURES?

11    A.     The Commission's rule includes provisions for a utility such as TNC to request that  
12            an EECRF be established to recover all of its forecasted annual energy efficiency  
13            program costs, or to recover its forecasted annual energy efficiency program costs that  
14            are not recovered through a Commission order establishing an express amount of  
15            energy efficiency program costs to be recovered within a utility's base rates (PUC  
16            SUBST. R. 25.181(f)(1)). Also, as I stated earlier, PUC SUBST. R. 25.181(f)(4)  
17            requires a utility with an EECRF to apply no later than May 1 of each year to adjust  
18            its EECRF in order to reflect changes in costs and performance bonus and to  
19            minimize any over- or under-collection in prior year program costs. The order in  
20            Docket No. 36959 further implemented this in Ordering Paragraph 4, which requires  
21            TNC to make a filing to adjust the EECRF no later than May 1 of each year.

1 Q. WHAT ARE THE REQUIRED ELEMENTS TO BE COVERED WITHIN THE  
2 SCOPE OF THIS PROCEEDING?

3 A. As outlined in the Commission's rule for energy efficiency, an EECRF rate schedule  
4 must be included in the utility's tariff to permit the utility to timely recover the  
5 reasonable costs of providing energy efficiency programs, including prior year over-  
6 or under-collections of energy efficiency program costs and any applicable  
7 performance bonus. The EECRF is to be calculated to recover the costs associated  
8 with the programs from the customer classes that receive services under the programs  
9 TNC offers (PUC SUBST. R. 25.181(f)(3)). The Commission may approve an energy  
10 charge or a monthly customer charge for the EECRF, and the EECRF must be set at a  
11 rate that will give TNC the opportunity to earn revenues equal to the sum of TNC's  
12 forecasted energy efficiency program costs, net of energy efficiency program costs  
13 included in base rates, applicable prior years' over- or under-collection of energy  
14 efficiency program costs, and applicable performance bonus (PUC SUBST. R.  
15 25.181(f)(6)).

16 According to the Commission's rule regarding a proceeding to change an  
17 EECRF, a utility must show that the costs to be recovered through the EECRF are  
18 reasonable estimates of the costs necessary to provide energy efficiency programs and  
19 to meet the utility's goals (PUC SUBST. R. 25.181(f)(11)(A)); the costs assigned or  
20 allocated to customer classes are reasonable and consistent (PUC SUBST.  
21 R. 25.181(f)(11)(D)); the estimate of billing determinants for the period for which the  
22 EECRF is to be in effect is reasonable (PUC SUBST. R. 25.181(f)(11)(E)); and any

1 calculations or estimates of system losses and line losses used in calculating the  
2 charges are reasonable (PUC SUBST. R. 25.181(f)(11)(F)).

3 Q. WHAT ARE THE ESSENTIAL ELEMENTS CONTAINED WITHIN TNC'S  
4 APPLICATION REQUESTING EECRF RECOVERY OF ITS PROGRAM COSTS?

5 A. According to PUC SUBST. R. 25.181(f)(9), a utility's application to change an EECRF  
6 must include information and schedules otherwise required in any Commission  
7 approved EECRF filing package. The Commission has not yet adopted such a filing  
8 package. In the absence of an adopted filing package, TNC has included in its  
9 application testimony and schedules providing the information in compliance with  
10 PUC SUBST. R. 25.181(f) for approval of an adjusted EECRF. The testimony and  
11 schedules that TNC has included in this filing are comparable to the testimony and  
12 schedules that were submitted in Docket Nos. 36959 and 38209, and which formed  
13 the basis for the Commission's authorization of TNC's initial and adjusted EECRFs  
14 in those proceedings.

15 TNC's application includes testimony and schedules showing:

- 16 1. its forecasted energy efficiency program costs for 2012;
- 17 2. TNC's energy efficiency program incentive payments and administrative  
18 costs for its energy efficiency programs for 2010;
- 19 3. projected budgets for these costs for the year in which the adjusted EECRF  
20 is expected to be in effect (2012), including costs for the dissemination of  
21 information, outreach and other major administrative costs;
- 22 4. the basis for the projection of costs for 2012;
- 23 5. the amount of energy efficiency program costs expressly included for  
24 recovery in base rates;

6. the amount of TNC's 2010 actual energy efficiency program costs that exceeded the amount recovered in base rates;
7. the performance bonus TNC seeks to be awarded for its 2010 energy efficiency achievements;
8. information concerning the calculation of billing determinants;
9. information from its last base rate case concerning the allocation of energy efficiency costs to customer classes; and
10. other information that supports the determination of TNC's adjusted EECRF.

All of these elements of TNC's application for approval of its adjusted EECRF for 2012 are required by virtue of PUC SUBST. R. 25.181(f)(9).

C. Achievement of Objectives that Exceed  
the Minimum Goals of the Statute and Rule

Q. WHAT DEMAND REDUCTION AND ENERGY SAVINGS DOES TNC PROPOSE TO ACHIEVE THROUGH ITS 2012 PROGRAMS?

A. TNC's 2012 minimum residential and commercial customer energy efficiency goals are a *negative* 2.28 megawatt (MW) demand reduction, and a *negative* 3,992 megawatt-hours (MWh) reduction in energy consumption (in accordance with PUC SUBST. R. 25.181(e)(2)). The energy efficiency objectives TNC seeks to achieve through the proposed amount of 2012 energy efficiency expenditures include a demand reduction of as much as 3.94 MW of TNC's residential and commercial load growth in demand and energy savings of as much as 6,355 MWh.

1 Q. HOW HAS TNC DETERMINED ITS ENERGY EFFICIENCY OBJECTIVES FOR  
2 2012?

3 A. TNC has determined a self-imposed demand reduction target of 3.94 MW for 2012.  
4 I refer to this target as “self-imposed” because, according to the calculation  
5 methodology contained in PURA, TNC’s statutory minimum demand reduction goal  
6 otherwise mathematically equates to a *negative* number (i.e., a demand increase), as I  
7 indicated above. This is a consequence of TNC’s generally negative load growth over  
8 the most recent five-year period, which period is the basis for calculating the statutory  
9 minimum demand reduction goal. Therefore, rather than accepting the  
10 mathematically calculated goal determined in the manner required by the rule, TNC  
11 has calculated the magnitude of its demand reduction target on the basis of its  
12 projected budget spread across its portfolio of planned program offerings.

13 This approach satisfies two major objectives. First, it is consistent with my  
14 understanding of the legislative intent of PURA; that is, that utilities are encouraged  
15 to achieve as much cost-effective energy efficiency as reasonably possible. Second,  
16 under TNC’s circumstances, it produces a substantially higher demand reduction  
17 target for TNC and consequently produces an obviously conservative baseline for any  
18 performance bonus calculation. Likewise, TNC has calculated its 2012 self-imposed  
19 energy savings target using the 20% capacity factor as required by the Commission  
20 rule multiplied by its self-imposed demand reduction target of 3.94 MW for 2012.  
21 Ms. Fahrlander provides additional details regarding this matter in her testimony.

1 Q. DO YOU BELIEVE IT IS CONSISTENT WITH THE COMMISSION’S RULE TO  
2 PURSUE THE OBJECTIVES TNC HAS ESTABLISHED FOR ITS 2012  
3 PROGRAM?

4 A. Yes. I believe the intent of the 2010 amendments to the Commission’s rule is to  
5 achieve as much cost-effective energy efficiency as is reasonably possible. This  
6 intent is manifested in PURA §39.905(b)(2), wherein the Legislature authorized the  
7 Commission to provide a performance bonus to reward a utility for “administering  
8 programs under this section that exceed the *minimum* goals established by this  
9 section.”<sup>1</sup> The express characterization of the goals in PURA §39.905 as “minimum  
10 goals” clearly indicates the Legislature’s desire that utilities be encouraged to exceed  
11 these goals where additional cost-effective energy efficiency is reasonably possible.

12 D. Industrial Customers

13 Q. DOES TNC’S ENERGY EFFICIENCY PLAN INCLUDE ANY  
14 GRANDFATHERED LOAD MANAGEMENT STANDARD OFFER PROGRAMS  
15 THAT CONTINUE FOR INDUSTRIAL CUSTOMERS UNDER PUC SUBST. R.  
16 25.181(t)?

17 A. No. TNC did not offer a Load Management SOP in its 2007 portfolio of programs.  
18 However, TNC does now include a Load Management SOP in its portfolio of  
19 programs, but it is not subject to the “grandfather” clause specified in the rule. This is  
20 further detailed in Schedule I that I sponsor.

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<sup>1</sup> Emphasis added.



1 Q. WHY DOES TNC NOT PROPOSE TO INCLUDE CHARGES IN THE ADJUSTED  
2 EECRF FOR TRANSMISSION SERVICE LEVEL CUSTOMERS?

3 A. TNC does not propose to include any charges for transmission service level customers  
4 in the adjusted EECRF because it has no grandfathered programs under PUC SUBST.  
5 R. 25.181(t).

6 E. Research and Development Costs

7 Q. DID TNC'S 2010 ENERGY EFFICIENCY PROGRAM COSTS INCLUDE  
8 RESEARCH AND DEVELOPMENT EXPENDITURES?

9 A. Yes. The energy efficiency program costs for 2010 of \$2,238,101 shown on Schedule  
10 H included \$95,010 in costs for research and development programs funded by TNC.

11 These projects included:

12 1. Costs related to developing upgrades and enhancements to TNC's web-based  
13 electronic energy efficiency program tracking and reporting database. These  
14 upgrades and enhancements were necessary as a result of 2010 amendments to the  
15 Commission's rule and for expanded program reporting capabilities. These 2010  
16 costs were \$82,540.

17 2. Participation in research and development projects of the Center for the  
18 Commercialization of Electric Technologies (CCET). TNC's expenditures related  
19 to these projects in 2010 were \$12,470.

20 All of these research and development expenditures incurred in 2010 were for the  
21 purposes of fostering continuous improvement and innovation in the application of  
22 energy efficiency technology and energy efficiency program design and  
23 implementation.

24 Q. DOES TNC'S PROJECTED 2012 ENERGY EFFICIENCY PROGRAM BUDGET  
25 INCLUDE RESEARCH AND DEVELOPMENT EXPENDITURES?

1 A. Yes, it does. PURA §39.905(e) allows a utility such as TNC to use money approved  
2 by the Commission for energy efficiency programs to perform necessary energy  
3 efficiency research and development to foster continuous improvement and  
4 innovation in the application of energy efficiency technology and energy efficiency  
5 program design and implementation. The Commission's rule (PUC SUBST.  
6 R. 25.181(i)) specifies that TNC's research and development costs shall not exceed  
7 10% of its total program costs.

8 Q. WHAT IS TNC'S PROJECTED 2012 RESEARCH AND DEVELOPMENT  
9 BUDGET?

10 A. TNC has identified three known research and development projects it proposes to  
11 fund in 2012. These are:

- 12 1. \$38,000 for research and development projects of the CCET;
- 13 2. \$50,000 for research and development associated with a low-income home energy  
14 use monitors program, in conjunction with TNC's Advanced Meter System  
15 (AMS) deployment; and
- 16 3. \$50,000 for research and development associated with other in-home devices that  
17 may lead to great energy efficiency results used in conjunction with TNC's AMS  
18 deployment.

19 The total proposed budget for these known research and development projects is  
20 \$138,000.

21 Q. HAS TNC BUDGETED THE MAXIMUM AMOUNT FOR ENERGY  
22 EFFICIENCY RESEARCH AND DEVELOPMENT EXPENDITURES ALLOWED  
23 BY THE COMMISSION'S RULE?

1 A. No, the maximum amount of energy efficiency research and development costs  
2 allowed under the Commission's rule that TNC could incur is 10% of its total  
3 projected program costs, or \$206,302, in 2012. However, TNC has budgeted  
4 \$138,000, the amount it considers to be reasonable for projected research and  
5 development expenditures, considering the whole of its energy efficiency program  
6 offerings and the magnitude of its self-imposed demand reduction target to be  
7 achieved in 2012.

8 F. Over- / Under-Recovery of 2010 Costs

9 Q. IS TNC SEEKING TO RECOVER FROM CUSTOMERS THE AMOUNT OF  
10 UNDER-RECOVERED ENERGY EFFICIENCY PROGRAM REVENUES  
11 COLLECTED THROUGH ITS 2010 EECRF THAT WERE LESS THAN THE  
12 AMOUNT OF ENERGY EFFICIENCY PROGRAM COSTS ACTUALLY  
13 INCURRED IN 2010?

14 A. Yes. In addition to its projected total 2012 energy efficiency program expenditures  
15 that exceed the amount expressly recovered through its base rates, TNC is requesting  
16 to recover in its adjusted 2012 EECRF the amount of its actual 2010 EECRF energy  
17 efficiency program revenues that were less than the amount of its energy efficiency  
18 program expenditures in 2010.

19 Q. PLEASE EXPLAIN THE BASIS FOR TNC'S INCLUSION OF THE 2010 UNDER-  
20 RECOVERY AMOUNT IN ITS ADJUSTED 2012 EECRF.

21 A. PURA §39.905(b-1) provides that:

22 The energy efficiency cost recovery factor under Subsection (b)(1) may  
23 not result in an over-recovery of costs but may be adjusted each year to

1 change rates to enable utilities to match revenues against energy  
2 efficiency costs.... The factor shall be adjusted to reflect any over-  
3 collection or under-collection of energy efficiency cost recovery  
4 revenues in previous years.

5 PUC SUBST. R. 25.181(f)(4) further states that the “EECRF shall be designed to  
6 permit the utility to recover any under-recovery of energy efficiency program costs or  
7 return any over-recovery of costs.” TNC incurred total energy efficiency program  
8 costs of \$2,238,101 in good faith in 2010 to pursue the goals set forth in the  
9 Commission’s rule.

10 TNC collected \$755,201 in energy efficiency program revenues through its  
11 2010 EECRF and \$1,294,430 through base rates in 2010. This total of its 2010  
12 energy efficiency revenues was \$2,049,631, representing an under-recovery of  
13 \$188,470 (the difference between its 2010 energy efficiency program expenditures  
14 (\$2,238,101) and the total amount of its program costs recovered through base rates  
15 and its EECRF (\$2,049,631)). It, accordingly, requests an adjustment to its 2012  
16 EECRF of this under-recovered 2010 energy efficiency program cost amount as  
17 shown on Schedule J.

18 G. 2010 Performance Bonus

19 Q. HAS TNC CALCULATED THE PERFORMANCE BONUS IT SEEKS IN  
20 CONNECTION WITH ITS 2010 ENERGY EFFICIENCY PROGRAM  
21 ACHIEVEMENTS?

22 A. Please refer to Schedule K, which I sponsor. This schedule demonstrates the  
23 calculation of the performance bonus TNC seeks to be awarded based upon its 2010

1 program year energy efficiency results. Schedule K includes information from  
2 Table 12 of TNC's 2010 Energy Efficiency Plan and Report (EEPR) filed on April 1,  
3 2011 in Project No. 39105.

4 TNC achieved a peak demand reduction of 5.091 MW from its 2010 portfolio  
5 of energy efficiency programs. TNC's minimum demand reduction goal to be  
6 achieved in 2010 was *negative* 1.83 MW. TNC's self-imposed demand reduction  
7 target was 4.319 MW. Due to the nature of TNC's average negative load growth and  
8 the resulting rule-specified calculation, TNC believes a reasonable approach for  
9 determining whether it qualifies for a performance bonus is to compare actual  
10 achievement against its self-imposed demand reduction target. TNC's achievement  
11 represents 117.87% of its 2010 self-imposed demand reduction target, qualifying  
12 TNC for a performance bonus as per the Commission rule. All of the calculations  
13 and requirements for the utility performance bonus are as outlined in PUC SUBST. R.  
14 25.181(h).

#### 16 IV. CONCLUSION

17 Q. PLEASE BRIEFLY SUMMARIZE YOUR TESTIMONY.

18 A. The components TNC includes in its request to adjust its 2012 EECRF have been  
19 properly calculated in accordance with the applicable standards and criteria. The  
20 energy efficiency costs projected by TNC for its 2012 programs represent reasonable  
21 estimates of the costs necessary to provide energy efficiency programs for 2012 to  
22 meet TNC's energy efficiency objectives for 2012. The portion of those projected

1        2012 program costs that exceeds the amount of energy efficiency funding expressly  
2        included in TNC's base rate order are appropriately included in the requested  
3        adjustment to TNC's 2012 EECRF. The performance bonus which TNC earned in  
4        2010, and now requests to be included in its adjusted 2012 EECRF, comports fully  
5        with the applicable provisions of the Commission's rule. The 2010 energy efficiency  
6        program expenditures were reasonable and necessary costs to provide energy  
7        efficiency programs for 2010. It is reasonable and in accordance with the applicable  
8        Commission rule to include in the adjusted 2012 EECRF the portion of those costs  
9        that exceeds the amount of energy efficiency funding expressly included in TNC's  
10       base rate order and which were under-recovered in its 2010 EECRF.

11    Q.    DOES TNC'S APPLICATION MEET ALL OF THE REQUIREMENTS FOR  
12        ADJUSTMENT TO A UTILITY'S EECRF AS SET FORTH IN PUC SUBST.  
13        R. 25.181(f)?

14    A.    Yes, TNC's application meets all of the requirements for approval of the requested  
15        adjustment to its EECRF to recover the components described in my direct testimony  
16        and supported by TNC's other witnesses.

17    Q.    DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

18    A.    Yes, it does.