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STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. E-7, SUB 831

FILED
AUG 18 2009
Clerk's Office
N.C. Utilities Commission

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of

Application of Duke Energy Carolinas, LLC) PUBLIC STAFF'S RESPONSES TO
for Approval of Save-a-Watt Approach,) SECOND PRE-HEARING ORDER
Energy Efficiency Rider and Portfolio of) REQUIRING VERIFIED
Energy Efficiency Programs) INFORMATION

NOW COMES THE PUBLIC STAFF – North Carolina Utilities Commission (Public Staff), by and through its Executive Director, Robert P. Gruber, and pursuant to the Commission's August 14, 2009, *Second Pre-Hearing Order Requiring Verified Information*, submits the following in response to the Commission's request that the Southern Alliance for Clean Energy, Environmental Defense Fund, Natural Resources Defense Council, and the Southern Environmental Law Center (the Environmental Intervenors) and the Public Staff file verified statements indicating whether they each agree with the information contained in the August 10, 2009 filing made by Duke Energy Carolinas, LLC (Duke or the Company), and identifying areas of disagreement, if any. The Public Staff has identified the following items from the Commission's *Pre-Hearing Order Requiring Verified Information* as areas of disagreement between Duke and it, with respect to the information provided in the August 10, 2009 filing.

Areas of Disagreement

Item 7. *With respect to the total revenue requirements provided in Exhibit B of the Settlement Agreement, in Paragraph No. H.3. of the Settlement Terms, please provide a detailed listing by year and by program of the various components which comprise the estimated revenues at 85% and 100% achievement (i.e. the amount related to the recovery of program costs, the amount related to the recovery of incentive compensation, the amount related to net lost revenues, etc.).*

The proposed allocation factors are not settled in this proceeding. Therefore, the Public Staff has attached to this response Maness Exhibits 5 and 6, which are schedules detailing revenue recovery, by component, at 85% and 100% achievement, respectively, reflecting the Public Staff's proposed allocation factors.¹

¹ Public Staff witness Maness has previously filed Exhibit 1, which was admitted to the record in this proceeding on August 1, 2008, and Exhibits 2, 3, and 4, which were pre-filed with his testimony in support of the Settlement Agreement on July 2, 2009. If appropriate, witness Maness will sponsor admission of Maness Exhibits 5 and 6 to the record at the hearing in this proceeding commencing on August 19, 2009.

Item 20. *Consistent with Commission Rule R8-68(b)(5), the following sentence appears in Exhibit B of the Settlement Agreement, in Paragraph No. G.-1. of the Settlement Terms:*

Net lost revenues shall also be net of any increases in revenues resulting from any activity by the Company's public utility operations that cause a customer to increase demand or energy consumption, whether or not that activity has been approved pursuant to R8-68.

Please provide examples of activities that could cause revenue increases and result in reductions to net lost revenues? If revenues increase as a result of wholesale sales, would net lost revenues be reduced? What procedures will the Company utilize to identify and record any such revenue increases?

The Public Staff generally agrees with Duke that the types of demand-side management (DSM) and energy efficiency programs it describes as potentially resulting in "found revenues" would fall under Paragraph No. G.-1.; however, Duke's restriction on the types of programs that would be covered by Paragraph No. G.-1. is too narrow. The terms of the Settlement Agreement reflect the Public Staff's position on the recovery of net lost revenues, and the Stipulating Parties have agreed that those terms govern Duke's recovery of net lost revenues throughout the Settlement Agreement's duration.

The Public Staff believes that Duke should be allowed to recover measured and verified net lost revenues resulting from its energy efficiency programs, essentially as provided by Commission Rule R8-68.² The Public Staff believes that an electric public utility will lose revenue (net of related fuel and variable operations and maintenance expenses) when implementing an energy efficiency program, which could discourage it from implementing such programs. Therefore, the Public Staff generally believes that a company should be able to recover its net lost revenues to encourage it to adopt energy efficiency programs. The Public Staff does not believe, however, that revenues that are "lost" due to an energy efficiency measure continue in perpetuity, nor do they exist in a vacuum. Instead, they are offset by gains in revenues that occur for various reasons so that the negative impact of the measure on the utility's reasonable return on rate base is eliminated. Duke's response discusses two types of changes in revenues – those that occur as a result of changes in the economy or actions of consumers, which are not counted as "found" revenues, and those that occur as a result of the Company's energy efficiency and DSM programs, which are counted. The first type of "naturally occurring" change described by Duke is generally accounted for, in the Public Staff's opinion, by the 36-month limitation on the recovery of net lost revenues contained in the Settlement Agreement. With respect to the second type of change, the Company indicates that increases in revenues due to certain DSM or energy efficiency programs would be classified as "found revenues" under Paragraph No. G.-1. Additionally, however, the

² Although Commission Rule R8-68 provides for the recovery of net lost revenues resulting from energy efficiency and DSM measures, Duke has agreed that it will forego recovery of net lost revenues that result from DSM programs for purposes of this Settlement Agreement.

Public Staff's position recognizes that other activities by the Company's public utility operations, in addition to those associated with its energy efficiency and DSM programs, could cause revenue to increase and result in reductions to net lost revenues. Therefore, the revenues resulting from these activities should also be counted as "found" revenues. These "found revenues" would reduce net lost revenues in addition to the 36-month limitation contained in the Settlement Agreement. Such activities include, for example, a utility program promoting plug-in hybrid electric vehicles or a balanced bill program, because both may cause a customer to increase demand or consumption. There is no exhaustive list of such activities, but utility activities should be closely monitored to determine if they are causing a customer to increase demand or consumption.

With regard to procedures utilized to identify and record "found revenues," the Public Staff believes that the Company should be expected to identify and keep track of all of its activities that cause customers to increase demand or consumption, whether or not those activities are associated with energy efficiency or DSM programs, as provided in the Settlement Agreement, so that they may be evaluated by the parties and the Commission for possible confirmation as "found revenues."

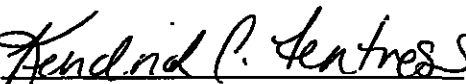
Conclusion

To the best of its information and belief, the Public Staff does not disagree with the information submitted in the remainder of Duke's August 10, 2009 filing. Public Staff witness Michael C. Maness will be available to address questions with respect to the Public Staff's position on the items referenced in this filing, as well as the remaining items in Duke's August 10, 2009 filing, at the August 19, 2009 hearing.

Respectfully submitted, this the 18th day of August, 2009.

PUBLIC STAFF
Robert P. Gruber
Executive Director

Antoinette R. Wike
Chief Counsel


Kendrick C. Fentress
Staff Attorney

430 North Salisbury Street
4326 Mail Service Center
Raleigh, North Carolina 27699-4326
Telephone: (919) 733-6110

DUKE ENERGY CAROLINAS, LLC

Docket No. E-7, Sub 831

RESPONSE TO PRE-HEARING ORDER REQUIRING VERIFIED INFORMATION, ITEM 7
85% LEVEL OF ACHIEVEMENT - PUBLIC STAFF RECOMMENDED N. C. RETAIL ALLOCATION FACTORS
(000s OMITTED)

Line No.	Item	Public Staff Calculated N.C. Retail Component Revenues by Program					
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
1.	<u>RESIDENTIAL PROGRAMS</u>						
2.	Residential Energy Assessments						
3.	Avoided Cost Based Revenues	\$ 1,659	\$ 1,832	\$ 3,898	\$ 6,189	\$ -	\$ -
4.	Net Lost Revenues	\$ 790	\$ 1,698	\$ 3,575	\$ 5,629	\$ 4,808	\$ 2,950
5.	Residential Smart Saver® Energy Efficiency						
6.	Avoided Cost Based Revenues	\$ 5,146	\$ 5,605	\$ 4,823	\$ 7,502	\$ -	\$ -
7.	Net Lost Revenues	\$ 2,541	\$ 5,415	\$ 7,514	\$ 7,845	\$ 5,013	\$ 3,016
8.	Low Income EE and Weatherization Assistance						
9.	Avoided Cost Based Revenues	\$ 2,168	\$ 2,262	\$ 3,808	\$ 5,999	\$ -	\$ -
10.	Net Lost Revenues	\$ 1,127	\$ 2,325	\$ 4,197	\$ 5,708	\$ 4,586	\$ 2,745
11.	Energy Efficiency Education Program for Schools						
12.	Avoided Cost Based Revenues	\$ 3,398	\$ 4,321	\$ 10,098	\$ 17,025	\$ -	\$ -
13.	Net Lost Revenues	\$ 1,613	\$ 3,570	\$ 7,765	\$ 12,657	\$ 10,895	\$ 6,743
14.	Power Manager						
15.	Avoided Cost Based Revenues	\$ 7,789	\$ 7,984	\$ 8,183	\$ 8,388	\$ -	\$ -
16.	Net Lost Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17.	Total Residential						
18.	Avoided Cost Based Revenues	\$ 20,160	\$ 22,004	\$ 30,810	\$ 45,102	\$ -	\$ -
19.	Net Lost Revenues	\$ 6,071	\$ 13,008	\$ 23,051	\$ 31,839	\$ 25,301	\$ 15,454
20.	<u>NON-RESIDENTIAL PROGRAMS</u>						
21.	Smart Saver® for Non-Residential Customers						
22.	Avoided Cost Based Revenues	\$ 5,802	\$ 6,624	\$ 14,046	\$ 22,002	\$ -	\$ -
23.	Net Lost Revenues	\$ 991	\$ 2,131	\$ 4,380	\$ 6,937	\$ 5,780	\$ 3,324
24.	Non-Residential Energy Assessments						
25.	Avoided Cost Based Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26.	Net Lost Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
27.	Power Share®						
28.	Avoided Cost Based Revenues	\$ 2,743	\$ 7,275	\$ 11,404	\$ 11,689	\$ -	\$ -
29.	Net Lost Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
30.	Total Non-Residential						
31.	Avoided Cost Based Revenues	\$ 8,546	\$ 13,899	\$ 25,450	\$ 33,691	\$ -	\$ -
32.	Net Lost Revenues	\$ 991	\$ 2,131	\$ 4,380	\$ 6,937	\$ 5,780	\$ 3,324
33.	Total Residential and Non-Residential						
34.	Avoided Cost Based Revenues	\$ 28,705	\$ 35,903	\$ 56,260	\$ 78,793	\$ -	\$ -
35.	Net Lost Revenues	\$ 7,063	\$ 15,139	\$ 27,431	\$ 38,776	\$ 31,081	\$ 18,778

Notes:

1. Does not include Gross Receipts Tax or Regulatory Fee.
2. Revenues are North Carolina retail only.
3. Under the Public Staff's recommended allocation methodology, the revenues associated with each type of program are not assigned to the group of customers (residential or non-residential) for purposes of rider calculation. Instead, total EE revenues are allocated on the basis of customer group energy sales, and total DSM revenues are allocated on the basis of contribution to peak load. Please see Maness Exhibit 2 for the Public Staff's calculation of estimated annual riders.

DUKE ENERGY CAROLINAS, LLC

Docket No. E-7, Sub 831

RESPONSE TO PRE-HEARING ORDER REQUIRING VERIFIED INFORMATION, ITEM 7
100% LEVEL OF ACHIEVEMENT - PUBLIC STAFF RECOMMENDED N. C. RETAIL ALLOCATION FACTORS
(000s OMITTED)

Line No.	Item	Public Staff Calculated N.C. Retail Component Revenues by Program					
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
1.	<u>RESIDENTIAL PROGRAMS</u>						
2.	Residential Energy Assessments						
3.	Avoided Cost Based Revenues	\$ 1,952	\$ 2,156	\$ 4,586	\$ 7,281	\$ -	\$ -
4.	Net Lost Revenues	\$ 930	\$ 1,997	\$ 4,206	\$ 6,622	\$ 5,656	\$ 3,471
5.	Residential Smart Saver® Energy Efficiency						
6.	Avoided Cost Based Revenues	\$ 6,054	\$ 6,594	\$ 5,674	\$ 8,826	\$ -	\$ -
7.	Net Lost Revenues	\$ 2,990	\$ 6,370	\$ 8,840	\$ 9,230	\$ 5,897	\$ 3,548
8.	Low Income EE and Weatherization Assistance						
9.	Avoided Cost Based Revenues	\$ 2,550	\$ 2,662	\$ 4,480	\$ 7,057	\$ -	\$ -
10.	Net Lost Revenues	\$ 1,326	\$ 2,735	\$ 4,937	\$ 6,716	\$ 5,395	\$ 3,230
11.	Energy Efficiency Education Program for Schools						
12.	Avoided Cost Based Revenues	\$ 3,998	\$ 5,083	\$ 11,880	\$ 20,029	\$ -	\$ -
13.	Net Lost Revenues	\$ 1,897	\$ 4,200	\$ 9,136	\$ 14,891	\$ 12,818	\$ 7,933
14.	Power Manager						
15.	Avoided Cost Based Revenues	\$ 9,164	\$ 9,393	\$ 9,628	\$ 9,868	\$ -	\$ -
16.	Net Lost Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17.	Total Residential						
18.	Avoided Cost Based Revenues	\$ 23,717	\$ 25,887	\$ 36,247	\$ 53,061	\$ -	\$ -
19.	Net Lost Revenues	\$ 7,143	\$ 15,303	\$ 27,119	\$ 37,458	\$ 29,766	\$ 18,181
20.	<u>NON-RESIDENTIAL PROGRAMS</u>						
21.	Smart Saver® for Non-Residential Customers						
22.	Avoided Cost Based Revenues	\$ 6,826	\$ 7,793	\$ 16,525	\$ 25,885	\$ -	\$ -
23.	Net Lost Revenues	\$ 1,166	\$ 2,507	\$ 5,153	\$ 8,161	\$ 6,800	\$ 3,910
24.	Non-Residential Energy Assessments						
25.	Avoided Cost Based Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26.	Net Lost Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
27.	Power Share®						
28.	Avoided Cost Based Revenues	\$ 3,228	\$ 8,558	\$ 13,416	\$ 13,752	\$ -	\$ -
29.	Net Lost Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
30.	Total Non-Residential						
31.	Avoided Cost Based Revenues	\$ 10,054	\$ 16,352	\$ 29,941	\$ 39,636	\$ -	\$ -
32.	Net Lost Revenues	\$ 1,166	\$ 2,507	\$ 5,153	\$ 8,161	\$ 6,800	\$ 3,910
33.	Total Residential and Non-Residential						
34.	Avoided Cost Based Revenues	\$ 33,771	\$ 42,239	\$ 66,188	\$ 92,698	\$ -	\$ -
35.	Net Lost Revenues	\$ 8,309	\$ 17,810	\$ 32,272	\$ 45,619	\$ 36,566	\$ 22,091

Notes:

- Does not include Gross Receipts Tax or Regulatory Fee.
- Revenues are North Carolina retail only.
- Under the Public Staff's recommended allocation methodology, the revenues associated with each type of program are not assigned to the group of customers (residential or non-residential) for purposes of rider calculation. Instead, total EE revenues are allocated on the basis of customer group energy sales, and total DSM revenues are allocated on the basis of contribution to peak load. Please see Maness Exhibit 2 for the Public Staff's calculation of estimated annual riders.

VERIFICATION

STATE OF NORTH CAROLINA)
)
COUNTY OF WAKE)

MICHAEL C. MANESS, first being duly sworn, deposes and says:

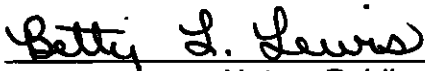
That he is Assistant Director of the Accounting Division of the Public Staff of the North Carolina Utilities Commission (Public Staff); that he has read the foregoing Responses of the Public Staff to the North Carolina Utilities Commission's August 14, 2009, Second Pre-Hearing Order Requiring Verified Information (the "Responses") in Docket No. E-7, Sub 831, and knows the contents of Responses for which he is the Responding Witness; that the same are true as to matters stated therein on information and belief, and as to those matters he believes them to be true.



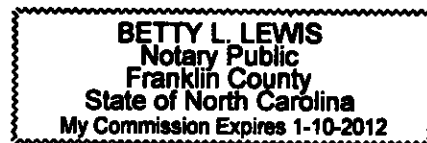
Michael C. Maness

Sworn to and subscribed before me

This 18 th of August, 2009.



Notary Public

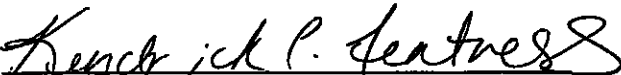


My Commission Expires: 1-10-2012

CERTIFICATE OF SERVICE

I do hereby certify I have this day served a copy of the foregoing Public Staff's Response on each of the parties of record in this proceeding, or their attorneys of record, in accordance with NCUC Rule R1-39, by United States mail, first class or better; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This the 18th day of August, 2009.


Kendrick C. Fentress