

**OFFICIAL COPY**

STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH

DOCKET NO. E-2, SUB 1002

**FILED**

**SEP 09 2011**

Clerk's Office  
N.C. Utilities Commission

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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

**NOTICE OF AFFIDAVITS**

NOW COMES THE PUBLIC STAFF - North Carolina Utilities Commission, by and through its Executive Director, Robert P. Gruber, as constituted by G.S. 62-15, and gives notice that the Affidavits of:

Jack L. Floyd, Electric Engineer, Electric Division  
Michael C. Maness, Assistant Director, Accounting Division  
Public Staff - North Carolina Utilities Commission  
430 North Salisbury Street - Dobbs Building  
4326 Mail Service Center  
Raleigh, North Carolina 27699-4326

will be used in evidence at the hearing in this docket scheduled for the 27th day of September, 2011, pursuant to G.S. 62-68. The affiants will not be called to testify orally and will not be subject to cross-examination unless an opposing party or the Commission demands the right of cross-examination pursuant to G.S. 62-68.

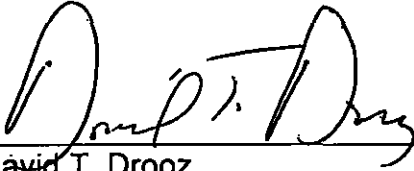
THEREFORE, the Public Staff moves that the Affidavits of Jack L. Floyd and Michael C. Maness be admitted into evidence in the absence of notice from any opposing party pursuant to G.S. 62-68.

(25)  
ad.  
7 Comm.  
Watson  
Greer  
Hoskins  
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Kite  
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Evison  
Jones  
Hodge

Respectfully submitted this the 9th day of September, 2011.

PUBLIC STAFF  
Robert P. Gruber  
Executive Director

Antoinette R. Wike  
Chief Counsel

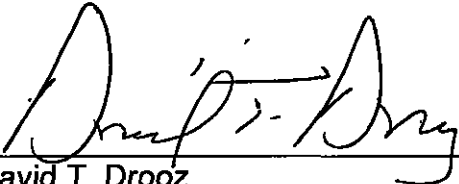
  
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David T. Drooz  
Staff Attorney

430 North Salisbury Street - Dobbs Building  
4326 Mail Service Center  
Raleigh, North Carolina 27699-4326  
Telephone: (919) 733-6110  
Email: david.drooz@psncuc.nc.gov

CERTIFICATE OF SERVICE

I certify I have this day served a copy of the foregoing Notice of Affidavits and Affidavits on each of the parties of record in this proceeding or their attorneys of record by causing a copy to be deposited in the United States Mail, postage prepaid, properly addressed to each or by electronic delivery upon agreement from the parties.

This the 9th day of September, 2011.

  
\_\_\_\_\_  
David T. Drooz

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**DOCKET NO. E-2, SUB 1002**

**BEFORE THE NORTH CAROLINA UTILITIES COMMISSION**

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

**AFFIDAVIT OF  
JACK L. FLOYD**

**STATE OF NORTH CAROLINA**

**COUNTY OF WAKE**

I, Jack L. Floyd, being first duly sworn, do depose and say:

I am an Engineer in the Electric Division of the Public Staff – North Carolina Utilities Commission representing the using and consuming public.

I have attached, as Appendix A, a summary of my education and experience.

In preparing this affidavit, I reviewed the application, testimony, and exhibits filed by Progress Energy Carolinas, Inc. (Progress) on June 3, 2011, pursuant to G.S. 62-133.9 and Commission Rule R8-69, as well as Progress' supplemental testimony filed on August 23, 2011, and responses to Public Staff data requests in developing my recommendations. In addition, I have reviewed previous Commission orders related to Progress' Demand Side Management (DSM) and Energy Efficiency (EE) programs and cost recovery rider proceedings. I also assisted Public Staff witness Maness with his review of the rider calculations and inputs.

The purpose of my affidavit is to present the Public Staff's analysis and recommendations with respect to: (1) the portfolio of EE and DSM programs included in the application of Progress for approval of its annual DSM/EE Cost Recovery Riders (DSM/EE Riders); (2) the cost effectiveness of each DSM and EE program; (3) the evaluation, measurement, and verification (EM&V) report filed by Progress for the Residential Home Energy Improvement Program (RHEIP) that is incorporated into calculations of its DSM/EE riders in this proceeding; and (4) the administrative and general (A&G) expenses associated with the DSM and EE programs, and in particular the A&G costs related to Progress' general education and awareness (GEA) initiatives.

### **DSM and EE Programs**

Progress included the following programs in this proceeding:

- Residential EnergyWise Program
- Residential Home Advantage Program
- RHEIP
- Neighborhood Energy Saver (Low Income) Program;
- Commercial, Industrial, and Governmental (CIG) Energy Efficiency in Business Program, also known as the Energy Efficiency in Business Program
- Residential Solar Hot Water Pilot Program
- Residential Lighting Program
- Residential Appliance Recycling Program
- Residential Energy Efficiency Benchmarking Program
- Residential Compact Fluorescent Light bulb (CFL) Pilot Program
- Distribution System Demand Response (DSDR) Program

Each of these programs has previously received Commission approval as a new DSM or EE program and is eligible for cost recovery in the proceeding under G.S. 62-133.9, subject to certain program-specific conditions imposed by the Commission regarding the recovery of net lost revenues (NLRs) and program performance incentives (PPIs).

Progress indicates that most of its programs are meeting the expectations for participation and savings as originally envisioned. However, the Residential Home Advantage, CIG EE in Business, and the Residential Solar Hot Water Pilot programs have lower than expected participation, possibly due to current economic conditions. A more robust review of program performance may be conducted once an EM&V report is filed for a program. Progress filed an EM&V report for the RHEIP on May 3, 2011, in Docket No. E-2, Sub 936 (RHEIP Report), which proposed several program modifications designed to improve the cost effectiveness of particular measures. I will discuss these proposals in more detail later in my affidavit.

### **Cost Effectiveness**

With the exception of the Neighborhood Energy Saver program, Progress included the results of its analysis for the Total Resource Cost (TRC) test and the Utility Cost Test (UCT) for each program in its filed application and workpapers, which indicate that these programs continue to be cost effective.

The result of the TRC for the RHEIP for 2010 is 1.007. Progress has discussed with the Public Staff several program adjustments to the RHEIP to improve its

participation and cost-effectiveness.<sup>1</sup> These adjustments include possible changes to the incentives, delivery of incentives, as well as elimination of specific measures from the program based on the RHEIP Report. I will discuss this report and its findings in more detail later.

It is a general industry practice that the cost effectiveness tests for specific programs include only direct costs associated with the particular programs. In Docket No. E-2, Sub 977, I testified that Progress should consider how common GEA and other A&G costs not directly associated with a specific DSM/EE program might be incorporated into the calculations of cost effectiveness. In its November 17, 2010, Order in that docket, the Commission required Progress to address the inclusion of GEA costs and other indirect A&G costs in the cost effectiveness tests and evaluations in its next DSM/EE rider filing, and required the Public Staff to evaluate this information.

In this affidavit, I use the term "indirect costs" to include any GEA or other A&G costs not specifically assignable to one of Progress' DSM or EE programs. This includes costs related to general advertising, public promotion of DSM/EE in general, efforts used to convey information about DSM/EE (energy audit reports, websites, community events, etc.), and the overhead related to these specific activities.

Progress witness Evans testifies that it would be difficult to accurately assign or allocate indirect costs to a specific program. I agree that if a portion of indirect costs were allocated to a program, those costs might have no relation to or bearing on the actual cost effectiveness of the program and yet would lower the result of the cost effectiveness calculation. Mr. Evans also indicates that it is more appropriate to include indirect costs in an evaluation of the cost effectiveness of the entire portfolio of DSM and EE programs. I concur with Mr. Evans regarding the use of indirect costs for calculation of cost-effectiveness of the entire portfolio of DSM/EE programs. Therefore, I recommend that the Commission require Progress to include in its next DSM/EE Rider application a portfolio level cost effectiveness evaluation using each of the standard cost effectiveness tests, and identify the amounts of avoided cost benefits and all direct and indirect costs included in the calculations.

I have confirmed that PEC allocated DSM- and EE-related costs to its North Carolina and South Carolina retail jurisdictions on the basis of retail peak demand and energy sales, respectively. Furthermore, PEC's calculation of its DSM/EE and DSM/EE Experience Modification Factor (EMF) riders included allocations of program costs, net lost revenues, and PPIs related to the specific customer classes that the programs were designed to serve. Costs related to the DSDR EE program have been allocated to all classes on the basis of retail energy sales. The energy sales related to customers who

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<sup>1</sup> Paragraph 31 of the Cost Recovery and Incentive Mechanism for Demand-Side Management and Energy Efficiency Programs (Mechanism), approved by the Commission on June 15, 2009, in Docket No. E-2, Sub 931 (Sub 931 Order), states that programs with a TRC less than 1.00 may not be eligible for PPIs unless Progress can show that the results are adversely impacted by weather, a decline in avoided costs, uncontrolled market forces, etc.

have opted-out of participation in PEC's DSM and EE programs pursuant to G.S. 62-133.9(f) were not included in the class allocation factor calculations. Each of these allocations is consistent with previous DSM/EE rider proceedings and Commission orders.

### **GEA Initiatives and Costs**

GEA initiatives are activities undertaken for the purpose of educating customers about DSM and EE, as well as raising customer awareness about DSM and EE programs. Progress' GEA initiatives include the Custom Home Energy Report, Energy Efficiency World, Save the Watts tips, various forms of advertising, and community events. Progress witness Hans' testimony and exhibits included a list of these initiatives and the volume of activity associated with each GEA initiative during the test year. I believe Progress' expenditures for these GEA initiatives are reasonable. I recommend that the Commission require Progress to continue providing a list of GEA initiatives and the volume of activity associated with each during the test year in future DSM/EE rider proceedings.

I have reviewed Progress' A&G costs, which include the GEA costs, in Evans Exhibit No. 1. Consistent with the last DSM/EE rider proceeding in Docket No. E-2, Sub 977, Progress allocated its A&G costs based on rate period revenue requirements, and amortized its A&G costs over a three-year period. Furthermore, in response to a Public Staff data request, Progress indicated that approximately 40% of its A&G costs are related to GEA initiatives. Progress witness Hans' testimony indicated that GEA expenditures for the test year period have decreased from \$830,811 to \$728,976 or by 12.3% since the last rider proceeding. It is appropriate for GEA expenditures to decrease as customers' awareness and education regarding EE and DSM has increased through repeated exposure to messaging from Progress and other channels.

GEA initiatives are more relevant to market transformation than to the installation of specific DSM or EE measures, and are generally a reasonable means to promote market transformation in support of specific DSM and EE programs. In addition to the metrics provided by Progress witness Hans, it may be appropriate to study the impact of these initiatives on market transformation, rather than the usual impact-oriented program evaluations performed on DSM and EE measures. It is difficult to understand the effectiveness of these initiatives simply by comparing the activities or number of "impressions" year to year. A market survey could be done to assess the number of customers who either enrolled in a Progress DSM or EE program as a result of the GEA initiatives, the types of actions customers took to implement EE outside of a Progress EE program, when they took the action, what knowledge of EE they gained from the GEA initiatives, whether contractors and trade allies observed increased business activity as a result of the GEA initiatives, and how the GEA initiatives contributed to the customer's action distinct from other causes. I do not object to the inclusion of GEA costs in this DSM and EE cost recovery rider proceeding. However, I recommend that the Commission require Progress to investigate the feasibility and cost of conducting such a market study and report its findings as soon as practicable.

## **EM&V**

PEC indicated in its filing that specific measurement units for each program except the Residential Energy Efficiency Benchmarking program were in place during the test period. These measurement units accounted for an estimated 136,920 megawatt-hours (MWhs) of energy savings and 77 megawatts (MWs) of capacity savings in the test period. Progress has recently filed EM&V reports for its RHEIP, EnergyWise, and CIG EE in Business programs in Docket Nos. E-2, Subs 936, 927, and 938, respectively. Only the RHEIP Report is incorporated in this DSM/EE rider proceeding.

Navigant Consulting, Inc., conducted the EM&V analysis for Progress, and developed a set of recommendations in its RHEIP Report related to the initial vintage year for the RHEIP. The RHEIP Report concluded that approximately 50% of the reported gross energy savings and 61% of the reported peak demand savings were verified, or 2,494 MWhs and 2.37 MWs of savings, respectively. These findings are based on the sum of the savings from all measures within the RHEIP.

Unit savings for the individual program measures were also evaluated. The specific findings related to the unit savings of each measure are listed in Table 4-5 of the RHEIP Report and serve as the basis for the adjustments made to the PPI and net lost revenues. Progress used the findings from the RHEIP Report to adjust its calculation of net lost revenues and PPI for vintage year 2009, and to adjust prospective program savings for future vintage years.

The RHEIP Report primarily estimated the gross energy and peak demand savings from the program and updated the unit savings for each measure. However, for purposes of cost recovery rider proceedings, it is important to estimate the net energy and peak demand savings from the program. Progress conducted a limited analysis of free ridership<sup>2</sup>, which is a major component for determining net savings, by using participant surveys and information from other states. No analysis of spillover<sup>3</sup> was conducted.

The limited analysis of free ridership was based on participant survey data that allowed Navigant to better understand the intentions of the participants and how the RHEIP influenced the customer's EE participation. The levels of free ridership have been increased from the 20% assumed for all measures in the original program approval filings. Table 4-10 of the RHEIP Report illustrates the updated free ridership numbers.

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<sup>2</sup> Free ridership is defined as a participant in an EE program who would have participated regardless of the program or incentive offered, and serves to reduce verified gross savings.

<sup>3</sup> Spillover assesses additional EE measures the participant would have taken due to his participation in the EE program, and increases the net savings from an EE program.

With respect to the RHEIP Report, it appears that Navigant used acceptable protocols to: (1) formulate the analysis and calibrate the findings; and (2) develop the end-use data and calibrate that data to actual use. The Public Staff will continue to review the methodology used for analysis of free ridership and the determination of net-to-gross savings for vintage year 2009 in the RHEIP Report as Progress submits future EM&V analyses.

I recommend that future EM&V analyses incorporate a more detailed analysis, as appropriate for the program or measure being analyzed, of free ridership and spillover, as well as the persistence of savings and potential snapback. For example, on page 39 of the RHEIP Report, Navigant includes a footnote indicating it rejected North Carolina participant survey results for free ridership associated with the duct sealing measure, and maintained its use of the original 20% estimate. The Public Staff expects subsequent EM&V reports on the RHEIP to include additional analysis of net-to-gross inputs to confirm the levels of free ridership and spillover, or in the alternative, a showing that the analysis is too costly or inappropriate for the savings expected from the program or specific measure. An inadequate net-to-gross analysis could lead to erroneous cost effectiveness test results, with Progress receiving PPIs and NLRs to which it is not entitled and consumers paying a DSM/EE rider higher than justified.

I also make the following recommendations:

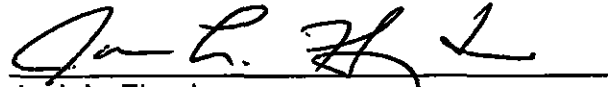
1. In developing the baseline energy and peak demand savings related to certain measures in the RHEIP, Progress used information from Florida and California to establish incremental savings projections associated with those measures. For future EE measures that are impacted by weather such as windows, insulation, and HVAC, it would seem more appropriate to use weather data from climate zones more similar to that of North Carolina. This would serve to reduce potential differences between initial estimates and actual savings from the EE measure.
2. When establishing the baseline energy and peak demand savings during development of EE measures, Progress should strive to develop baselines for EE measures that adequately represent the conditions, equipment, and installation of EE measures. For example, the RHEIP Report acknowledges shortcomings with the installation of ducts in crawlspaces and the amount of insulation serving as the baseline for energy and peak demand savings. While the RHEIP Report appropriately recognized discrepancies that increased the incremental savings associated with these two measures, a proper baseline of data would reduce the likelihood that large changes to savings estimates would be needed.
3. Future study of duct sealing and attic insulation measures in the RHEIP should include larger samples in the analyses.



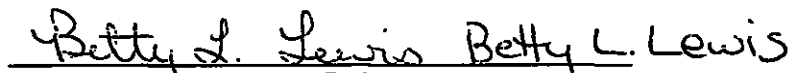
4. Progress should be required to file a schedule of all phases of EM&V activities for each program, including projected filing dates for EM&V reports.

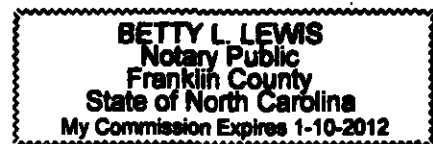
I have provided the information contained in this affidavit to Public Staff witness Maness for incorporation into his final DSM/EE rider calculation.

This completes my affidavit.

  
\_\_\_\_\_  
Jack L. Floyd

Sworn to and subscribed before me  
on this the 9th day of September 2011.

  
\_\_\_\_\_  
Notary Public



My Commission Expires: 1-10-2012

JACK L. FLOYD

I am a graduate of North Carolina State University with a Bachelor of Science Degree in Chemical Engineering. I am licensed in North Carolina as a Professional Engineer. I have more than seventeen years of experience in the water and wastewater treatment field, nine of which have been with the Public Staff's Water Division. In addition, I have been with the Electric Division for over eight years.

Prior to my employment with the Public Staff, I was employed by the North Carolina Department of Natural Resources, Division of Water Quality as an Environmental Engineer. In that capacity, I performed various tasks associated with environmental regulation of water and wastewater systems, including the drafting of regulations and general statutes.

In my capacity with the Public Staff's Water Division, I investigated the operations of regulated water and sewer utility companies and prepared testimony and reports related to those investigations.

Currently, my duties with the Public Staff include evaluating the operation of regulated electric utilities, including rate design, cost of service, and demand side management and energy efficiency resources. My duties also include assisting in the preparation of reports to the Commission; preparing testimony regarding my investigation activities; reviewing Integrated Resource Plans; and making recommendations to the Commission concerning the level of service for electric utilities.

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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 )

AFFIDAVIT  
OF  
MICHAEL C. MANESS

STATE OF NORTH CAROLINA

COUNTY OF WAKE

I, Michael C. Maness, first being duly sworn, do depose and say:

I am an Assistant Director of the Accounting Division of the Public Staff - North Carolina Utilities Commission, which is charged by statute with intervening on behalf of the using and consuming public in Commission proceedings affecting public utility rates and service. My responsibilities with the Accounting Division include matters involving electric and water/sewer utilities. I have been employed by the Public Staff since July 12, 1982. A summary of my education and experience is attached to this affidavit as Appendix A.

I am responsible for the performance, supervision, and/or management of the following activities: (1) the examination and analysis of testimony, exhibits, books and records, and other data presented by utilities and other parties involved in Commission proceedings; and (2) the preparation and presentation to the Commission of testimony, exhibits, and other documents in those proceedings.

The purpose of my affidavit is to present the Public Staff's recommendation regarding the application for approval of Demand-Side Management / Energy Efficiency (DSM/EE) riders filed by Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc. (PEC or the Company) in this docket on June 3, 2011 (Application), pursuant to G.S. 62-133.9 and Commission Rule R8-69, and as revised in the Supplemental Direct Testimony and Exhibits of Company witness Robert P. Evans, filed on August 23, 2011.

In its Application as originally filed, PEC filed for approval of DSM/EE riders that would result in a North Carolina retail revenue requirement of approximately

\$70,138,000 [including revenue adders for uncollectibles, gross receipts tax (GRT), and the North Carolina Regulatory Fee (NCRF)], an increase of approximately \$25,192,000 above the revenues produced by the riders currently in effect.

In its Application as revised by the Supplemental Direct Testimony and Exhibits of Company witness Evans, PEC is requesting approval of DSM/EE riders that would result in a North Carolina retail revenue requirement of approximately \$68,906,000 (including uncollectibles, GRT, and NCRF), an increase of approximately \$23,960,000. The specific riders being requested by the Company are as follows:

- (1) A Residential DSM/EE Rider increment, excluding GRT, NCRF, and uncollectibles, of 0.288 cents per kilowatt-hour (¢/kWh), calculated by dividing the sum of an EE cost total of \$37,921,369 and a DSM cost total of \$6,601,439 by projected rate period residential sales of 15,449,253,075 kWh. After adjustment for the revenue adders listed above, the proposed increment Rider is equal to 0.300 ¢/kWh.
- (2) A Residential DSM/EE EMF Rider increment, excluding GRT, NCRF, and uncollectibles, of 0.006 ¢/kWh, calculated by dividing the sum of an EE underrecovery total of \$784,521 and a DSM underrecovery total of \$138,034 by projected rate period residential sales of 15,449,253,075 kWh. After adjustment for the revenue adders listed above, the proposed increment Rider equals 0.006 ¢/kWh.
- (3) A General Service DSM/EE Rider increment, excluding GRT, NCRF, and uncollectibles, of 0.185 ¢/kWh, calculated by dividing the sum of an EE cost total of \$19,378,457 and a DSM cost total of \$1,033,135 by projected rate period general service sales of 11,060,984,152 kWh. After adjustment for the revenue adders listed above, the proposed increment Rider equals 0.191 ¢/kWh.
- (4) A General Service DSM/EE EMF Rider increment, excluding GRT, NCRF, and uncollectibles, of 0.001 ¢/kWh, calculated by dividing the sum of an EE underrecovery total of \$422,139 and a DSM overrecovery total of \$303,062 by projected rate period general service sales of 11,060,984,152 kWh. After adjustment for the revenue adders listed above, the proposed increment Rider equals 0.001 ¢/kWh.
- (5) A Lighting DSM/EE Rider increment, excluding GRT, NCRF, and uncollectibles, of 0.094 ¢/kWh, calculated by dividing the sum of an EE cost total of \$420,371 and a DSM cost total of \$0 by projected rate period lighting sales of 448,568,642 kWh. After adjustment for the revenue adders listed above, the proposed increment Rider equals 0.097 ¢/kWh.

- (6) A Lighting DSM/EE EMF Rider decrement, excluding GRT, NCRF, and uncollectibles, of 0.009 ¢/kWh, calculated by dividing the sum of an EE overrecovery total of \$39,957 and a DSM over/under recovery total of \$0 by projected rate period lighting sales of 448,568,642 kWh. After adjustment for the revenue adders listed above, the proposed decrement Rider equals 0.009 ¢/kWh.

These riders would be charged or credited to all participating North Carolina retail customers (those who have not opted out pursuant to G.S. 62-133.9(f)), as applicable, served during the rate period December 1, 2011, through November 30, 2012.

In his Supplemental Testimony, Company witness Evans stated that the purpose of the revisions to the proposed riders was (1) to update the original estimated values for April through July 2011 with actual values, (2) to correct certain test period net lost revenue amounts, (3) to finalize uncollectible revenue adjustments, and (4) to incorporate interest on the test and prospective period overcollections of cost for its Lighting customer class.

G.S. 62-133.9(d) allows a utility to petition the Commission for approval of an annual rider to recover (1) the reasonable and prudent costs of new DSM and EE measures and (2) other incentives to the utility for adopting and implementing new DSM and EE measures. Commission Rule R8-69, which was adopted by the Commission pursuant to G.S. 62-133.9(h), sets forth the general parameters and procedures governing approval of the annual rider, including (1) provisions for both a DSM/EE rider to recover the estimated costs and incentives applicable to the "rate period" in which that DSM/EE rider will be in effect, and a DSM/EE EMF rider to recover the difference between the DSM/EE rider in effect for a given test period and the actual recoverable amounts incurred during that test period; (2) allowance for inclusion in the DSM/EE EMF rider of the net under- or overrecovery experienced between the end of the test period and the date 30 days prior to the hearing in the annual proceeding, subject to review in the next year's proceeding; (3) consideration of the appropriateness of the recovery of net lost revenues as an incentive; (4) provision for deferral accounting for net under- and overrecoveries; and (5) provisions for interest or return on the deferral account and on refunds to customers.

The method by which PEC has calculated its proposed rates in this proceeding is the Cost Recovery and Incentive Mechanism for Demand-Side Management and Energy Efficiency Programs (Mechanism), approved by the Commission on June 15, 2009, in its Order Approving Agreement and Stipulation of Partial Settlement, Subject to Certain Commission-Required Modifications, in Docket No. E-2, Sub 931 (Sub 931 Order), and modified by the Commission's November 25, 2009, Order Granting Motions for Reconsideration in Part, in the same docket. The Mechanism includes the following components:

- (1) **Application for Approval of Programs** – This part of the Mechanism delineates certain steps and criteria PEC will follow when evaluating a potential DSM or EE program, including qualitative and cost-effectiveness screening, and sets forth requirements for continued monitoring of approved programs' cost effectiveness test results.
- (2) **Cost Recovery** – Pursuant to this portion of the Mechanism, PEC is allowed to recover reasonable and prudent DSM and EE program costs. PEC is allowed to defer incurred DSM/EE program operations and maintenance (O&M) and administrative and general (A&G) expenses, with amortization over periods of time not to exceed 10 and 3 years, respectively. Additionally, the Company is allowed to recover the capital costs of capitalized DSM and EE assets, as well as carrying costs related to deferred charges.
- (3) **Lost Revenues** - This section of the Mechanism allows PEC to recover Net Lost Revenues (NLR) as an incentive, but generally limits recovery to the first 36 months after an applicable DSM or EE measurement unit is installed. Additionally, certain general programs and measures, as well as research and development activities, are ineligible for recovery of NLR, along with pilot programs unless PEC requests and the Commission approves such recovery at the time of program approval. NLR recovery also ceases upon the implementation of new rates approved by the Commission in a general rate case or similar proceeding, and must be offset by any increase in revenue due to increased demand or energy consumption by PEC customers attributable to any activity by PEC's public utility operations.
- (4) **Program Performance Incentive (PPI)** - This section of the Mechanism provides for the recovery by PEC of a performance incentive for the implementation and operation of cost-effective new DSM and EE programs that achieve verified energy and peak demand savings. The same limitations regarding certain general programs and measures, research and development activities, and pilot programs as set forth in the Lost Revenues section are also applicable to the PPI, along with a restriction barring recovery of the PPI for programs that become non-cost-effective. The PPI is based on the net savings of each program or measure as calculated using the Utility Cost Test (UCT), and is equal to 8% of net savings for DSM programs and measures or 13% for EE programs and measures.

The Mechanism's terms and procedures are to be reviewed by PEC and other parties at least every three years to ensure that they continue to be appropriate; any changes in the terms and conditions shall only be applied prospectively.

The Public Staff's investigation of PEC's filing in this proceeding included determining whether the proposed DSM/EE riders were calculated in accordance with the Mechanism, and otherwise adhered to sound ratemaking concepts and principles. The Public Staff's investigation included a review of the Company's filing and relevant prior Commission proceedings and orders, and the selection and review of a sample of source documentation for test year costs included by the Company for recovery. Review of this sample, which is still ongoing, is intended to test whether the costs included by the Company in the Riders are valid costs of approved DSM and EE programs, or administrative costs supporting those programs. The Public Staff's investigation required the review of responses to written and verbal data requests, discussions with Company personnel, and site visits to the Company's offices to review documentation.

My investigation, including the Public Staff's sampling procedure, was concentrated primarily on costs and incentives related to the April 2010 – March 2011 test period, which are to be included in the DSM/EE EMF riders approved in this proceeding. Actual costs and incentives applicable to the rate period, as well as costs and incentives applicable to the April-July 2011 "prospective" period, which are also included in the DSM/EE EMF riders, will be subject to detailed review in future DSM/EE cost recovery proceedings. My investigation of PEC's filing indicates that the Company generally has calculated the proposed Riders in accordance with the methods set forth in the approved Mechanism for recovery of costs, Net Lost Revenues, and the PPI.

In this proceeding, PEC has adjusted its proposed PPI incentives to reflect the results of a recently completed Evaluation, Measurement, and Verification (EM&V) analysis of its Residential Home Energy Improvement Program (RHEIP) for the 2009 vintage year. Public Staff witness Floyd addresses this analysis in his affidavit filed in this proceeding. Based on the results of this analysis, PEC recalculated the PPI due on the RHEIP program for Vintage Year 2009; as recalculated, the annual levelized PPI amount related to RHEIP measures installed/implemented during the 2009 Vintage Year was reduced from \$52,551 to \$10,405. PEC is proposing to true-up the PPI previously approved in its 2010 proceeding (Docket No. E-2, Sub 977) for 2009 Vintage Year RHEIP measures to reflect this EM&V result. Based on my review, it appears that the adjustment to the PPI amount has been made in a reasonable manner. The Company has made analogous adjustments to its NLR calculations, which also appear to have been pursued in a reasonable manner; however, as discussed below, the Public Staff is still in the process of completing its review of certain information obtained very recently from the Company regarding the NLR calculation. It should also be noted that EM&V of the kW and kWh impacts and net savings associated with other vintage years and DSM/EE programs for which the Company is currently claiming NLR and PPI incentives has not yet been incorporated in a cost recovery proceeding. Thus, all of the NLR and PPI incentive amounts included in the riders approved in this proceeding (with the exception of those trued up in this proceeding related to the 2009 Vintage Year

RHEIP), including those within the EMF riders, remain subject to true-up in future proceedings.

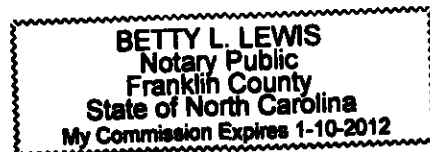
In the course of its review, the Public Staff has not to date found any material items in the Company's filing or rate calculations requiring adjustment. However, the Public Staff is continuing to review portions of the Company's calculations and responses to data requests, including support for the RHEIP EM&V impact on the NLR calculation and documentation of costs selected for review in the Public Staff's sampling. Subject to completion of this review, the Public Staff concludes that the Company has calculated its proposed riders consistent with the approved Mechanism. Should the Public Staff discover any material exceptions or necessary adjustments to the riders during the completion of its review, I will notify the Commission and the Company, and make a supplemental filing with the Commission.

This completes my affidavit.

  
Michael C. Maness

Sworn to and subscribed before me  
this the 8<sup>th</sup> day of September, 2011.

Betty L. Lewis Betty L. Lewis  
Notary Public



My Commission Expires: 1-10-2012



## **APPENDIX A**

### **MICHAEL C. MANESS**

I am a graduate of the University of North Carolina at Chapel Hill with a Bachelor of Science degree in Business Administration with Accounting. I am a Certified Public Accountant and a member of both the North Carolina Association of Certified Public Accountants and the American Institute of Certified Public Accountants.

I am responsible for analyzing testimony, exhibits, and other data presented by parties before this Commission. I have the further responsibility of performing and supervising the examinations of books and records of utilities involved in proceedings before the Commission, and summarizing the results into testimony and exhibits for presentation to the Commission.

Since joining the Public Staff in July 1982, I have filed testimony or affidavits in several general and fuel rate cases of Duke Power Company, Carolina Power & Light Company (CP&L), and Virginia Electric and Power Company (Dominion North Carolina Power), as well as in several water and sewer general rate cases. I have also filed testimony or affidavits in other proceedings, including applications for certificates of public convenience and necessity for the construction of generating facilities, applications for approval of self-generation deferral rates, and applications for approval of cost and incentive recovery for demand-side management and energy efficiency programs.

I have also been involved in several other matters that have come before this Commission, including the investigation undertaken by the Public Staff into the operations of the Brunswick Nuclear Plant as part of the 1993 CP&L fuel rate case (Docket No. E-2, Sub 644), the Public Staff's investigation of Duke Power's relationship with its affiliates (Docket No. E-7, Sub 557), and several applications for business combinations involving electric utilities regulated by this Commission. Additionally, I was responsible for performing an examination of CP&L's accounting for the cost of Harris Unit 1 in conjunction with the prudence audit performed by the Public Staff and its consultants in 1986 and 1987.