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GULF POWER
A SOUTHERN COMPANY

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July 30, 2009

Ms. Ann Cole, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0850

Dear Ms. Cole:

RE: Docket No. 080410-EG

Enclosed for official filing in the above referenced docket are an original and fifteen (15) copies of the following:

1. Prepared rebuttal testimony of John N. Floyd.

Sincerely,

Susan D. Ritenour

mv

Enclosures

cc: Beggs and Lane
J. A. Stone, Esq.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: **Commission Review of Numeric Conservation Goals for Gulf Power Company**

Docket No.: **080410-EG**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing was furnished by U. S. mail this 30th day of July, 2009, on the following:

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

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

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

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

A. Yes.

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

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

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

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

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

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

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

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

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

A. Mr. Spellman proposes goals that, like those of SACE/NRDC, do not comply with Commission rules. Mr. Spellman's proposed goals are not consistent with Rule 25-17.0021(1) as they are clearly identified as "maximum achievable" values. As mentioned earlier, Rule 25-17.0021(1) plainly states that goals must be based on an estimate of savings which are "reasonably achievable" through demand side management in each utility's service area; not "maximum achievable" savings. As a proposed portfolio, this would represent maximum adoption of all measures resulting from unlimited incentive levels. As a practical matter, this target for a utility-sponsored goal portfolio is extreme and not reasonably achievable.

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

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

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

A. No. As was true of the goals proposed by SACE/NRDC, one of the most disturbing aspects of Mr. Spellman's recommendation is the failure to provide any kind of cost estimate associated with achieving such a monumental level of energy and demand savings. Mr. Spellman's own testimony acknowledges that this proposal will result in rate increases, but that is dismissed as being "within a range that is acceptable to the Commission". On top of this, Mr. Spellman also proposes an additional 10 percent increase in Gulf's historic ECCR spending to promote admittedly non cost-effective demand-side renewables. This proposal is not based on any cost/benefit analysis, but is merely an arbitrary additional expenditure to be shared by all of Gulf's customers to promote the most expensive technologies available. This proposal is directly contrary to the requirement of Rule 25-17.0021 that goals be cost-effective and serves to further underscore Mr. Spellman's indifference to the impact that his recommendations will have on utility customers throughout Florida.

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

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

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

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

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

A. No, I do not. Gulf's conservation plans appropriately emphasize both the demand and energy reductions associated with energy efficiency programs that are included in the resource planning process as described in Gulf's Ten Year Site Plan (TYSP). This process is consistent with FEECA requirements to reduce growth of weather-sensitive peak demand in addition to the growth rate of energy consumption as described in Section 366.82 (2), Florida Statutes.

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

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

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

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

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

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

A. As explained by Mr. Dean in his rebuttal testimony, the two-year payback criterion has been used in previous goal setting proceedings and was initially accepted by this Commission in Order No. 94-1313-FOF-EG approving FP&L's DSM goals for the period 1994 through 2003 as a means of reducing free-riders. Further, In accordance with the Collaborative agreement on screening criteria to be used in this study, Gulf removed measures that had less than a two-year payback with no incentive applied. This step of the screening process occurred after measures failing the RIM or TRC test were removed. This criterion was utilized to reduce free-riders by removing the measures with the highest incidence of naturally occurring adoption. Rule 25-17.0021(3) requires utilities to consider free-riders in the goal setting process in order to prevent overstating goals based on the fact that some customers would adopt measures without utility program intervention.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. *Does this conclude your testimony?*

A. Yes.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 080410-EG

Before me the undersigned authority, personally appeared John N. Floyd, Economic Evaluation and Market Reporting Team Leader of Gulf Power Company, and who on behalf of said corporation, being first duly sworn, deposes and says that, pursuant to Rule 1.340(a), Florida Rules of Civil Procedure, the foregoing is true and correct to the best of her knowledge, information and belief. He is personally known to me.

John n Floyd

John N. Floyd
Economic Evaluation & Market Reporting Team Leader

Sworn to and subscribed before me this 30th day of July, 2009.

Linda C. Webb

Notary Public, State of Florida at Large

LINDA C. WEBB
Notary Public-State of Florida
Comm. Exp. May 31, 2010
Comm. No. DD 541216