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June 10, 2014

-VIA ELECTRONIC FILING-

Carlotta Stauffer, Director
Division of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 130199-EI; Florida Power & Light Company's Petition for Approval of Numeric Conservation Goals

Dear Ms. Stauffer:

Please find enclosed for filing in the above referenced docket the rebuttal testimony and exhibits of three witnesses on behalf of Florida Power & Light Company ("FPL").

This filing is being made via the Florida Public Service Commission's Web Based Electronic Filing portal and consists of three submittals: (1) this letter and the rebuttal testimony and exhibit of T. Deason; (2) the rebuttal testimony of T. Koch; and (3) the rebuttal testimony and exhibits of S. Sim. Each submittal is accompanied by a certificate of service.

Please contact me if there are any questions regarding this filing.

Sincerely,

s/ John T. Butler
John T. Butler
Fla. Bar No. 283479

Enclosures
cc: Counsel for Parties of Record (w/encl.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF J. TERRY DEASON

DOCKET NO. 130199-EI

JUNE 10, 2014

Q. Please state your name and business address.

A. My name is Terry Deason. My business address is 301 S. Bronough Street, Suite 200, Tallahassee, FL 32301.

Q. Have you previously submitted direct testimony in this proceeding?

A. Yes.

Q. Are you sponsoring any rebuttal exhibits?

A. Yes. I am sponsoring Exhibit JTD-3: Residential Retail Rate Comparison.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to many of the positions and recommendations contained in the testimony of Southern Alliance for Clean Energy (SACE) witness Natalie A. Mims and the testimony of Sierra Club witness Tim Woolf. Both of these witnesses liberally criticize a number of precedents and policies that have been traditionally and successfully used in Florida to set appropriate Demand Side Management (DSM) goals in compliance with the Florida Energy Efficiency and Conservation Act (FEECA), Rule 25-17.0021, F.A.C., and decisions of the Florida Supreme Court. Their criticisms are unfounded and their recommendations are inappropriate, unnecessary, contrary to Florida statutes and rules, and not adequately substantiated by the evidence presented. In essence, their mission is to pressure the Commission into embarking on a never before taken path

to inappropriately and arbitrarily increase DSM goals.

Q. How is your rebuttal testimony organized?

A: My rebuttal testimony is organized into eight sections. Section I addresses cost-effectiveness and the intervenor witnesses' ill-advised suggestion to use the Total Resource Cost (TRC) test to the exclusion of the Rate Impact Measure (RIM) test and its role of minimizing rate impacts and cross-subsidies. Section II addresses cross-subsidizations and the intervenor witnesses' unfounded assertions that cross-subsidies can and should be disregarded when setting conservation goals. Section III addresses the intervenor witnesses' incorrect assertion that bill impacts must take precedence over rate impacts. Section IV addresses free-riders and the intervenor witnesses' recommendation to abandon the Commission's two-year payback screening criterion. Section V addresses the concept of external costs and benefits and the intervenor witnesses' attempt to use them to inappropriately increase DSM goals. Section VI addresses the intervenor witnesses' overarching and misapplied contention that other states' DSM approaches prove that Florida's policies and approaches are inappropriate or somehow do not protect the customers' best interests. Section VII addresses goals for demand-side renewable energy systems. Section VIII is my conclusion.

I. COST-EFFECTIVENESS

Q. What has been the Commission's policy regarding cost-effectiveness determinations within FEECA?

A. The Commission has had a long history of implementing FEECA in a manner that works to minimize rate impacts on all customers and prevent cross-subsidizations

among customers. The Commission has relied primarily on the RIM test in order to help ensure these results. This approach has served FPL's customers well for decades -- FPL has achieved significant cumulative DSM savings while keeping customer electric rates low.

In 2009, the Commission tested another approach by using the TRC test to set FPL's goals. When the electric rate impacts to customers of this approach (and other modifications to Commission policy) were recognized in the course of reviewing FPL's DSM Plan for implementation, the Commission ultimately decided the rate impacts resulting from the TRC test were too high. Rather than continuing down the path set by the 2009 DSM goals docket, the Commission required FPL to implement DSM programs that had been determined to be cost-effective under the RIM test in a previous DSM proceeding.

Q. Do witnesses Mims and Woolf believe that the Commission has discretion to use the RIM test to set goals?

A. Apparently, no. Despite the Commission's historical use of RIM and the plain language of Rule 25-17.008, F.A.C., which references the Florida Public Service Commission Cost Effectiveness Manual, witness Mims states that FEECA mandates that utilities use the TRC test. In addition, she states that the issue of RIM vs. TRC is a moot issue: "The Commission already determined what test to rely on in the last energy efficiency goals proceeding, and it is the Total Resource Cost test." Witness Woolf does not directly state that FEECA mandates the use of the TRC test. However, he strongly implies such when he criticizes the RIM test as not meeting the statutory requirements of Section 366.82(3), F.S. By his testimony, he would apparently remove the Commission's discretion to use the RIM test to set

goals.

Q. Did the Commission's decision in 2009 DSM goals proceeding make the issue of which cost-effectiveness test to use moot?

A. No. While the Commission did vote to use the TRC test in the last goal setting proceeding, it ultimately decided to not approve programs for FPL based on TRC, choosing instead to continue programs that were previously approved based on the RIM test. And before the Commission's use of TRC in the last goal setting proceeding, the Commission consistently used the RIM test in every goal setting proceeding since 1994 and likewise approved programs that passed the RIM test. Furthermore, the Commission's rules require the filing of cost-effectiveness data on all the tests contained in its Cost Effectiveness Manual and do not declare the use of one test to the exclusion of another.

Q. Does the Commission have the discretion to use the RIM test to set goals?

A. Yes, absolutely. In their narrowly focused zeal to have the Commission summarily reject the RIM test and instead use the TRC test, Witnesses Mims and Woolf misinterpret Section 366.82(3) and ignore, or at least minimize, another important statutory requirement.

Q. Please explain.

A. Both witnesses Mims and Woolf emphasize the provision in Section 366.82(3) to consider "The costs and benefits to the general body of ratepayers as a whole" to incorrectly conclude that this requires the use of the TRC test. However, a close examination of the regulatory meaning of this phrase reveals that this statutory provision is actually more supportive of using the RIM test rather than the TRC test.

Q. What is the regulatory meaning of this phrase which leads you to conclude that it supports the use of the RIM test?

A. In Florida, the phrase "costs and benefits to the general body of ratepayers as a whole" has its roots in determining rates that are fair and which do not pit the interests of one group of customers against those of another, which in turn could result in cross-subsidies. Its application results in the protection of all customers as a whole.

A good example of this is Florida's policy concerning customer deposits. This policy helps protect customers as a whole from the costs and risks imposed by those customers who have not established a good pattern of consistent on-time payments. These customers are required to pay a deposit. To protect those customers who must pay a deposit and to avoid an unfair benefit to the general body of customers, interest is required to be paid on the deposits. Thus, both groups of customers (i.e., those who must post deposits and those who do not) are treated fairly because they do not have to subsidize each other. Another example is that those customers which choose underground service are required to pay the incremental costs of providing that service. This protects the general body of customers from having their rates increased to cover the costs of those choosing underground service. In the context of DSM goals, it is only the RIM test which protects the general body of customers by not having rates increased for all customers. The RIM test does this by recognizing lost revenues and the cost of incentives. The TRC test ignores both the impact on rates of lost revenues and the impact on rates of incentives. Therefore, the TRC test is ill equipped to consider the impacts on the general body of customers as a whole, as the statute requires.

Q. Did the Commission consider this statutory provision in the last goal setting proceeding?

A. Yes. This provision, on which witnesses Mims and Woolf so steadfastly rely in maintaining that TRC should be used to the exclusion of RIM, was added to FEECA in 2008. Since this provision was new at the time of the last goal setting proceeding, the Commission addressed whether it fundamentally changed matters which it had historically considered and whether it required the use of the TRC test, as a witness for SACE was then contending.

Q. What did the Commission decide?

A. The Commission rejected SACE's position and in its Order No. PSC-09-0855-FOF-EG stated: "We would note that the language added in 2008 did not explicitly identify a particular test that must be used to set goals."

Q. Do you agree with the Commission's determination?

A. Yes, I definitely do. I would also add that while the specific statutory language at issue is relatively new, the standard it clearly establishes is not new for the Commission. The Commission's historical use of the RIM test (coupled with the Participant Test) has been firmly rooted in its concern for the general body of customers. This is evidenced by the fact that the RIM test is best suited to account for the cost of incentives, to minimize rate impacts, and to avoid subsidies between participating and non-participating customers.

Q. In response to a previous question, you stated that witnesses Mims and Woolf do not adequately consider another important statutory provision. To what statutory provision do you refer?

A. I am referring to Section 366.81, F.S. which gives direction to the Commission in setting conservation goals and the utilization of the most efficient and cost-effective

demand-side renewable energy systems and conservation systems. This statutory provision goes on to give specific instruction to the Commission on the rate impacts of its decisions: "Accordingly, in exercising its jurisdiction, the Commission shall not approve any rate or rate structure which discriminates against any class of customers on the account of the use of such facilities, systems, or devices."

Q. How has the Commission applied this statutory requirement?

A. The Commission has historically set conservation goals with the objective of protecting all customers from higher rates and minimizing cross-subsidies between participants and non-participants in approved conservation programs. This was accomplished by primary reliance on the RIM test. The Commission also recognized that the use of the TRC test could result in cross-subsidies between customers and could disproportionately impact low-income customers. In its Order No. PSC-94-1313-FOF-EG, the Commission stated:

> We will set overall conservation goals for each utility based on measures that pass both the Participant and RIM tests.... We find that goals based on measures that pass TRC but not RIM would result in increased rates and would cause customers who do not participate in a utility DSM measure to subsidize customers who do participate.
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> ***
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> All customers, including low-income customers, should benefit from RIM-based DSM programs. This is because RIM-based programs ensure that both participating and non-participating customers benefit from utility-sponsored conservation programs. Additional generating capacity is deferred and the rates paid by

low-income customers are less than they otherwise would be.

Q. You just quoted a 1994 Commission order. Has the Commission more recently addressed the need to minimize cross-subsidies between participants and non-participants?

A. Yes, in its Order No. PSC-09-0855-FOF-EG, the Commission acknowledged that FEECA requires consideration of impacts on participants and non-participants: "FEECA makes it clear that we must consider the economic impact to all, both participants and non-participants." In this same Order, the Commission went on to recognize that the TRC test could negatively impact non-participants: "Those who do not or cannot participate in an incentive program will not see their monthly utility bill go down unless they directly decrease their consumption of electricity. If that is not possible, non-participants could actually see an increase in their monthly utility bill."

Q. Has the Florida Supreme Court addressed the need to consider cross-subsidies in setting conservation goals?

A. Yes. In an appeal by the Legal Environmental Assistance Foundation (LEAF) of a Commission order setting goals using the RIM test, the Court rejected LEAF's arguments that the TRC test should have been used. The Court stated:

> In instructing the Commission to set conservation goals for increasing energy efficiency and conservation, the legislature directed the Commission to not approve any rate or rate structure which discriminates against any class of customers. See § 366.81, Fla. Stat. (1993). The Commission was therefore compelled to determine the overall effect on rates, generation expansion, and

revenue requirements. Based on our review of the record, we find ample support for the Commission's determination to set conservation goals using RIM measures. Accordingly, we affirm the orders of the Commission.

Legal Environmental Assistance Foundation Inc. v. Clark, 668 So.2d 982 (Fla. 1996).

II. CROSS-SUBSIDIZATIONS

Q. Do witnesses Mims and Woolf address the issue of cross-subsidization?

A. Yes, and to their credit they generally acknowledge that cross-subsidies should be avoided where possible. However, beyond that mere acknowledgement, they are dismissive of cross-subsidization concerns when it comes to setting conservation goals. In fact, it is witness Mims' contention that the discussion of cross-subsidization with respect to the setting of DSM goals is moot and/or irrelevant.

Q. In what way does witness Mims declare cross-subsidies to be moot or irrelevant?

A. She theorizes that if sales were to decline significantly as a result of energy efficiency, there would have to be a large number of participants and fewer non-participants, making cross-subsidization irrelevant.

Q. Do you agree with her theory?

A. I do not agree for several reasons. First, she once again ignores the clear language of Section 366.81, F.S., as cited by the Florida Supreme Court in the LEAF appeal I just referenced. The Commission does not have the option to simply declare this statutory requirement to be irrelevant. Second, her contention is not factually

supported. At best, it is at some level intuitively appealing. However, it is not factually true that a high level of energy efficiency means that the vast majority of customers are participants as opposed to being non-participants. Such an outcome would be dependent on the amount of savings achieved by what mix of customers. It is equally plausible that larger users which would be eligible for a higher number of programs could cause the bulk of the costs and the incurrence of most of the lost revenue. Third, and most importantly, the issue of cross-subsidization is not as simple as taking a census of the number of participants versus non-participants. This would be tantamount to saying that it is okay to discriminate against the minority because the majority is receiving the benefits. In fact, as the proportion of non-participants declines, the burden of cross-subsidization falls more and more heavily on those who remain.

Q. Are there other ways in which witnesses Mims and Woolf attempt to marginalize concerns over cross-subsidies?

A. Yes, both witnesses Mims and Woolf state that cross-subsidies are endemic to regulated electric utilities, implying that it is okay to promote cross-subsidies when setting conservation goals. This is merely a thinly veiled excuse to engage in an activity that has negative consequences for customers.

Q. Are cross-subsidies endemic to regulated electric utilities?

A. No, "endemic" connotes a certain degree of pervasiveness and inevitability, which is simply inaccurate. Regulation in Florida goes to great lengths to set rates which are fair, just, and reasonable and which do not foster cross-subsidies between customers. This is apparent in both the nature of and the extent to which costs are recognized in rates, as well as in the structure of the rates themselves. The Commission has rules dealing with cost of service studies and many years of

precedent to ensure that rates are set equitably and on a non-discriminatory basis. The Commission also has a policy of having cost causers pay their fair share of the costs they place on the system, especially when they engage in actions or chose options which, if not specifically recognized, would cause rates for the general body of customers to increase. All of this is done to minimize cross-subsidies to the greatest extent possible.

Q. Doesn't witness Woolf give a series of examples of what he claims are endemic cross-subsidies?

A. He provides a series of examples which he claims show that cross-subsidies are endemic. However, I disagree that his examples stand for that proposition. He presents hypothetical cases in which increased investments in generating, transmission, or distribution facilities are designed to benefit only a few customers. This is not consistent with the way that Florida plans and approves investments as part of a coordinated grid, subject to the Commission's Grid Bill authority. It is generally understood that increased investment in the grid as a whole benefits all customers, who then must pay for them according to the cost of service studies and cost allocations consistent with the rate class in which they take service. I do agree that there is a necessary level of averaging between customers of the same class and that someone could argue, at some esoteric theoretical level, that there is some cross-subsidization that remains at a very granular level. But this simply attempts to confuse the practical with the perfect.

This is the important point: it is not the goal of regulation to intentionally make policy decisions that knowingly will result in cross-subsidies or increase some theoretical level of innate subsidies that could be argued to exist. To the contrary, it

is the goal of regulation to prevent cross-subsidies whenever possible and the Florida Commission makes every reasonable effort to do so. It would be bad public policy to intentionally engage in an action that knowingly results in cross-subsidies. However, this is exactly what witnesses Mims and Woolf would have the Commission do. They would have the Commission adopt a cost-effectiveness test and DSM goals resulting from its application that will knowingly result in cross-subsidies between participants and non-participants.

Q. Has the Commission recognized that increased rates and cross-subsidies could result from use of the TRC test?

A. Yes, in addition to the language in Order No. PSC-09-0855-FOF-EG which I earlier referenced, the Commission also specifically recognized that the TRC test does not account for lost revenues: "Because the TRC Test excludes lost revenues, a measure that is cost-effective under the TRC Test would be less revenue intensive than a utility's next planned supply-side resource addition. However, the rate impact may be greater due to reduced sales."

Q. Doesn't witness Woolf criticize the manner in which the utilities calculate the amount of lost revenues under the RIM test?

A. Yes, he states that the estimation of bill impacts from lost revenues is inconsistent with the way rates are set in Florida. He observes that base rates are only increased at the time of a rate case and asserts that any lost revenue between rate cases should be ignored.

Q. Is he correct?

A. He is correct that the impact of lost revenues is a part of base rates and would be recovered as part of a rate case. However, he is incorrect that lost revenues can be dismissed because there is a delay in the time the revenues are lost and the time that

rates can be increased to account for them. Such a phenomenon is referred to as regulatory lag.

Q. Does Florida have a policy concerning regulatory lag?

A. Yes. Both the Florida Legislature and the Florida Supreme Court have recognized regulatory lag as being counter to the goals of good regulatory policy. The Florida Legislature has given tools to the Commission to minimize regulatory lag and these tools have been sustained by the Florida Supreme Court. Floridians United for Safe Energy, Inc. v. Public Service Commission, 475 So. 2d 241 (Fla. 1985). And the Commission has used these tools to minimize the harmful effects of regulatory lag.

Q. Is this relevant to the setting of conservation goals?

A. Yes, it is very relevant. It would be counter-intuitive and counter-productive to have a policy of reducing regulatory lag in the setting of base rates and a contrary policy of relying on the prospect of regulatory lag to ignore lost revenues in the setting of conservation goals. Setting conservation goals on the TRC test *will* result in a greater level of lost revenues, *will* result in a greater likelihood of a rate case (along with the increased uncertainty, increased regulatory costs, and increased workload requirements of a rate case), and *will* result in cross-subsidies between participants and non-participants. These facts cannot be summarily dismissed simply to promote the use of one cost-effectiveness test over another. Contrary to witness Woolf's contentions, it is his dismissal of these outcomes that would be inconsistent with the policies used by Florida to set rates.

III. BILL IMPACTS VERSUS RATE IMPACTS

Q. What do witnesses Mims and Woolf say about the issue of bill impacts versus rate impacts?

A. They both generally take the position that bill impacts (by which they apparently mean the average bill impact for all customers) should be the primary driver in setting conservation goals. As I have previously discussed, they are dismissive of the fact that their recommended TRC test will increase rates and result in cross-subsidies. They attempt to support their position by asserting that FEECA requires the consideration of costs as reflected in participant bills and the dismissal from consideration of the higher rates paid by both participants and non-participants. Witness Woolf goes on to state that FEECA does not even mention the minimization of rates.

Q. Are they correct in their assertions?

A. No, they are wrong. Once again, they choose to ignore statutory language that does not support their position. In addition, they try to narrowly define statutory terms to make them better fit their assertions.

Q. Please explain how they have ignored statutory language.

A. Both witnesses Mims and Woolf choose to ignore Section 366.81, F.S., which clearly uses the terminology of "rate or rate structure" in giving direction to the Commission to set conservation goals in a non-discriminatory way. This statutory provision has been relied upon by the Commission to consider rate impacts in setting goals so as to minimize cross-subsidies between participants and non-participants. As I stated earlier, this practice has been confirmed by the Florida Supreme Court.

Q. Please explain how witnesses Mims and Woolf have narrowly defined statutory language to support their position.

A. They choose to narrowly define the term "cost," as it is used in FEECA, to be devoid of concerns for higher rates, asserting that FEECA is only concerned with bill impacts and not rate impacts. A good example of this narrowly-focused definition of cost is found in witness Woolf's testimony. He references Section 366.82(7), F.S., which uses the terminology "costs passed on to customers." He states that this language shows that FEECA emphasizes costs over rates.

Q. Do you agree with his conclusion?

A. No, I do not. This overly-restrictive definition could rob the Commission of much needed discretion to consider rate impacts consistent with its overarching regulatory responsibilities and is simply not consistent with the general meaning of the phrase "costs passed on to customers." Whenever the phrase "passed onto customers" is used in this context, it generally connotes rate impacts. I do not believe that the Florida Legislature intended the more restrictive definition used by witness Woolf.

Q. Has the Commission had the opportunity to interpret and implement this statutory provision?

A. Yes, at the time the Commission was considering FPL's Modified DSM Plan that was filed to meet the goals established in the last goals setting proceeding, the Commission cited Section 366.82(7), F.S. as giving it the flexibility to modify FPL's Plans and Programs.

Q. What was the nature of the modification made by the Commission pursuant to Section 366.82(7), F.S.?

A. The Commission was concerned that the rate impacts on customers of the plans to meet the goals were too high. The Commission rejected FPL's Modified Plan and

decided to continue FPL's then existing plan, specifically citing its concern on rates:

> As we noted above, the Modified Plan filed by FPL is projected to meet the goals we previously established, but at a significant increase in the rates paid by FPL customers. We find that both Plans filed by FPL (Modified and Alternative) will have an undue impact on the costs passed on to consumers, and that the public interest will be served by requiring modifications to FPL's DSM Plan.

The Commission went on to address the solution to its concern over the high rate impacts:

> The rate impacts of the existing Plan are relatively minor. We find that the Programs currently in effect, contained in FPL's existing Plan, are cost effective and accomplish the intent of the statute.

Q. What is the significance of the manner in which the Commission interpreted and implemented this statutory provision?

A. The significance is two-fold. First, the Commission interpreted Section 366.82(7), F.S. to give it the discretion to consider rate impacts when determining "undue impact on the costs passed on to customers." Second, it speaks of rate impacts and the "costs passed on to customers" in the same breath, clearly indicating that the Commission considers an increase in rates to be tantamount to increasing costs for customers. The Commission did not interpret this statutory provision to limit the Commission's discretion and to imply that rates are not relevant when setting

conservation goals, as witness Woolf would have it.

Q. Other than this most recent example, has the Commission previously dealt with the definition of the term "cost" to mean bill impacts to the exclusion of rate impacts?

A. Yes, this is not a new issue. Other parties have also tried to impose a narrow definition of "cost" that would preclude consideration of rate impacts and the RIM test. The Commission was faced with this very issue in a motion for reconsideration of Order No. PSC-94-1313-FOF-EG filed by LEAF. In its Order No. PSC-95-0075-FOF-EG, the Commission denied LEAF's motion and reaffirmed its use of the RIM test, stating:

> LEAF's argument that Rule 25-17.001(7), Florida Administrative Code, uses the term "cost" in a fashion that mandates the use of the TRC test to the exclusion of the Participant and RIM tests in setting goals is at odds with the flexibility given under FEECA and preserved in our conservation goals and conservation cost-effectiveness rules. LEAF construes the term "cost" as meaning "bills" when the more plausible contextual interpretation is that "cost" means "rates". There has been no Commission failure to consider bill impact. We have chosen to keep rates lower for all customers, lowering bills for non-participants and participants.

It was this decision that was upheld by the Florida Supreme Court in the case I earlier cited.

Q. What does witness Mims say in regard to this issue?

A. She is dismissive of the use of rates when determining conservation goals. She said

it would be illogical to do so because customers care about their bills, not their rates.

Q. Is her assertion correct?

A. No, her position is myopic. I agree that customers are truly concerned about their bills. However, customers are also truly concerned about their rates. To suggest that rates are irrelevant to customers is simply not reality.

Q. Please explain why customers are concerned about their rates.

A. Rates send important pricing information to customers. Because bills are a function of rates and consumption, rates are an important part of the equation. Moreover, the pricing information sent to customers through rates is used to make decisions about consumption. It is the level and structure of rates that are used by customers to make simple decisions such as where to set their thermostats or the preferred time of day to wash their clothes, to more involved decisions such as installing new more efficient air conditioning or expanding a business in an economical manner. Proponents of energy conservation should be the first to recognize that rates send the necessary pricing information to make informed decisions on the merits of pursuing energy efficiency measures.

Q. Are there other ways in which rates are important to customers?

A. Yes. Customers expect and deserve rates that are fair, equitable, and nondiscriminatory. They want to know that the rates they pay are the same as the rates paid by all other similarly situated customers on the system. They also do not expect their rates to be higher because of the actions of others or benefits given to other customers for which they do not qualify. It is this last customer expectation which makes it so important that the rate impacts of participants versus non-participants be recognized. Rates are established in Florida with the goal of

protecting the general body of customers. This same standard is equally applicable to both base rates and rates that are passed through to customers through the Energy Conservation Cost Recovery clause.

IV. TWO-YEAR PAYBACK SCREENING CRITERION

Q. Has the Commission consistently used a two-year payback criterion to account for free riders?

A. Yes, the two-year payback criterion was first used by the Commission in the 1994 goals setting proceeding. It was adopted as a means to account for free riders, as required by Rule 25-17.0021, F.A.C. It has been consistently used since 1994, with the exception of the last goal setting proceeding. In that case, the Commission used a modified two-year payback criterion, in which a selected number of measures that were traditionally screened were nevertheless allowed to be recognized for goal setting. This had the impact of setting goals higher than they otherwise would have been set.

Q. Do witnesses Mims and Woolf agree with the use of the two-year payback criterion to account for free riders?

A. No. They do acknowledge that the effect of free riders should be recognized, but they disagree with the two-year payback method of doing so. Witness Mims even describes the two-year payback criterion as "archaic." Instead, they propose the use of a totally different approach based on customer surveys. Such an approach has never been used before in Florida.

Q. Do you agree that a different free rider screen should be used?

A. No. Instead of being "archaic," I believe the two-year payback criterion is more

aptly described as "having withstood the test of time" and that it should again be used in this goal-setting proceeding to account for free riders.

Q. Why is that your position?

A. I believe the two year payback criterion should be used for two reasons. First, the intervenor witnesses' suggestion to use customer surveys is untried and unproven in Florida. Further, their suggestions appear more theoretical than substantive. Neither witness has presented any verifiable evidence as to how their customer surveys, which have not yet even been conducted, would be applied in the current goal-setting proceeding. To my knowledge, they have not presented any actual calculations or mechanics to apply their theoretical approach to adequately screen for free riders as contemplated and required by Rule 25-17.0021, F.A.C. And second, their criticisms of the tried and proven two-year payback criterion are unfounded.

Q. What are their criticisms to which you refer?

A. Witness Mims essentially states that the two-year payback criterion is either inaccurate, because it is a blanket approach that uses the same free ridership rate for every measure, or it is incorrect, because it assumes there is a 100% penetration for all measures with a payback of two years or less. Witness Woolf criticizes the two-year payback because he says that it mistakenly assumes that customers know and understand the economic concept of payback periods.

Q. Does the two-year payback criterion assume there is a 100% penetration for all measures with a payback of two years or less?

A. No, it does not. To better explain this, it is necessary to understand what the two-year payback criterion is and what it is designed to do. First, the two-year payback criterion is a tool to be used by the Commission to recognize that there are free

riders and to set goals appropriately. It is not and was never intended to be a bright-line, 100% accurate predictor of customer actions and choices under all circumstances. It does correctly assume, for those customers who are willing to consider an energy efficiency measure, that they will make decisions in their own economic interest. The two-year payback criterion further assumes that years to payback is an objective measure, the calculation of which can be verified, to use to differentiate those customers who would make the investment without an incentive and those who would need an additional incentive to make the investment. If customers who would have adopted the measure without an additional incentive nevertheless receive an incentive, they become a free rider and impose additional and unnecessary costs on the general body of customers.

The two-year payback criterion does not, nor should it, assume that 100% of all customers will adopt a measure if its payback is two years or less. It does assume that two years is a reasonable point of differentiation to predict where customers are more likely to adopt a measure, based on its own inherent economic attractiveness, without additional incentives and costs on the general body of customers. In reality, some customers will not adopt a measure regardless of its payback, while others will adopt measures with paybacks greater than two years. Two years has been used as a reasonable point to make that differentiation.

Q. Why should those customers who are motivated by their own economic interests be the focus of the debate?

A. We need to remember that the purpose of this proceeding is to set conservation goals and then subsequently to adopt programs that will incent customers to implement cost-effective conservation measures to achieve those goals. Therefore,

it is only those customers who are willing to act in their economic interests by availing themselves of the programs and incentives that should be targeted. For those customers who are not motivated by economics or chose not to participate for other more basic reasons, it is unlikely that offering incentives is going to change their views. As such, it is only those customers who are motivated for economic reasons that should be subject to the free rider screens and have goals set and programs offered for them to act consistent with their economic interests. Stated differently, for those customers who are not motivated by the economics of the offering, no level of goals or incentives are likely to have an impact and have them adopt conservation measures. Therefore, the two-year payback criterion does not assume a 100% penetration for measures with a payback of two years or less and it would be foolish to suggest otherwise.

Q. Can you point to an example of this?

A. Yes, a good example can be found in the testimony of witness Mims. She states that Compact Fluorescent Lights (CFLs) have only an 18% penetration in South Carolina and this is after years of offering additional financial incentives. She concludes there must be non-financial reasons for such a low penetration level. I agree and this begs the question: Would it be reasonable to assume that the 18% CFL penetration could have been achieved, because of the inherent cost-effectiveness of CFLs, without burdening the general body of customers with the costs of the incentives? If the payback on CFLs in South Carolina is two years or less, application of the two-year payback criterion would answer that question in the affirmative.

Q. Is there any other indication that rebates on CFLs may suffer from free rider impacts?

A. Yes. Home Depot, which claims to be the world's largest seller of light bulbs, tracked sales of energy efficient bulbs across the entire country. The Home Depot ranking has the Miami/Ft. Lauderdale/West Palm Beach market and the Orlando market in the top ten nationally in energy efficient bulb consumption per capita. These high rankings were accomplished without utility sponsored incentives and are even more impressive when you consider that FPL's rates are below the national average. This indicates that incentives are not needed to get customers to adopt energy efficient bulbs, presumably due to the bulb's inherent economic attractiveness. It further indicates that when incentives are offered for measures with paybacks of two years or less there could be material free rider impacts. Interestingly, no South Carolina market was even in the top fifty nationally in spite of the incentives that are offered there. The strong implication is that there is a certain portion of the customer population that make decisions on the basis of economic considerations and do not need an incentive to implement measures that have a short payback, while there is another portion that make decisions for non-economic reasons, unaffected by the availability of incentives.

Q. Is witness Mims correct in her assertion that the two-year payback criterion is a blanket approach that applies the same free-ridership rate to every measure?

A. No. The two-year payback criterion is a pass/fail screen, but it is applied to each applicable measure based on the economics of that measure. A review of the Commission's rationale when the two-year payback criterion was first approved illustrates this point. During the initial goal setting proceeding in 1994, two investor-owned utilities proposed a blanket percentage reduction to their goals to

account for free riders. The Commission rejected the blanket approach as being arbitrary and unsupported by competent and substantial evidence and further noted that different demand-side measures have different free rider impacts. FPL took a different approach and proposed a two-year payback criterion to screen specific DSM measures. Because it was not a blanket approach, the Commission did not take exception to FPL's proposal to account for free riders and set FPL's goals accordingly.

Q. While criticizing the two-year payback criterion, which she mischaracterizes as being a blanket approach, does witness Mims endorse a blanket approach elsewhere in her testimony?

A. Paradoxically, yes. Her bottom-line recommendation is to set energy efficiency goals for all of Florida's investor-owned utilities at 0.75% of retail sales and ramping up to 1.0% a year later. This is the ultimate blanket approach. Her blanket goal recommendation ignores the unique nature of each utility and the varying cost-effectiveness of the programs for each individual utility system.

Q. Do you agree with witness Woolf's assertion that the two-year payback criterion should be rejected because it mistakenly assumes that customers know and understand paybacks?

A. No, for three reasons. First, the issue is not whether customers know and understand paybacks, the issue is whether the two-year payback criterion is a reasonable tool for the Commission to use to differentiate customers between those that will likely take action on their own and those that may need additional economic incentives to take action. Second, witness Woolf does not give Florida customers the credit they deserve. As I explained earlier, the focus should be on those customers who are willing to have their decisions impacted for economic

reasons. These customers are capable of understanding whether an investment should be made, regardless of whether they actually do the math to quantify it in terms of a payback. There is a wealth of information available to those customers who are motivated to act in their own economic interests. For example, manufacturers of certain appliances are required to disclose many of their appliances' energy costs and efficiency information based on Department of Energy test procedures. This information is typically shown on bright yellow "EnergyGuide" labels attached to the appliances. In addition, the Commission has an assortment of information on its website to help customers save energy, including its Conservation House, an interactive graphic which provides informative "point and click" conservation tips for customers. In short, customers who are willing to have their decisions impacted for economic reasons should be able to readily obtain pertinent cost information and should be sophisticated enough to judge for themselves whether it is in their best economic interest to take action. Conversely, following witness Woolf's logic would mean that these same customers would be unsophisticated enough to judge whether a utility offered conservation measure and any incentives that may go along with it are in their best economic interest. If witness Woolf's assertion were true, the fundamental basis for setting conservation goals and offering conservation programs that motivate customers to make cost-effective decisions to conserve energy would disappear! And lastly, even witness Woolf acknowledges that the concept of paybacks has a useful role. Witness Woolf states:

> As explained in DEF and FPL's testimony, the number of payback years influence consumer decisions for adopting energy efficiency measures, and customer payback should influence customers'

decisions whether to purchase solar PV and Solar Hot Water (SHW) systems. Thus, if the Utilities were to provide some kind of financial support such as rebates or low-interest loans to their customers, such support should increase the number of customers adopting solar systems.

Q. Do the intervenor witnesses offer a workable alternative to the two-year payback criterion?

A. No, they only offer vague references to customer surveys and assert without support that the surveys would be more accurate. They offer no workable alternative with the requisite program-specific evaluations and quantifications necessary to set goals as required by FEECA and Rule 25-17.0021, F.A.C.

V. INCLUDING "NON-ENERGY BENEFITS" IN DETERMINING COST-EFFECTIVENESS

Q. What are "non-energy benefits"?

A. Both witness Mims and witness Woolf introduce the terminology "non-energy benefits." Witness Mims describes non-energy benefits as the benefits that are not currently captured by the avoided cost or the energy efficiency savings. The concept seeks to increase the quantification of benefits in the TRC test so that more programs would be found to be cost-effective.

Q. Is this concept a new one?

A. The terminology may be new, but the concept is not. The same concept can be or has been generally described as "externalities," "non-quantifiable benefits," and "non-jurisdictional benefits." Regardless of the terminology, the concept seeks to

add benefits that are external to the traditional bounds of ratemaking and beyond the way Florida has interpreted its regulatory jurisdiction. As a general rule, these external benefits are difficult to quantify and their quantification requires the liberal use of assumptions and often the use of blanket adjustment factors.

Q. Has the Commission previously addressed this concept in the context of setting conservation goals?

A. Yes, the concept was raised by several intervenors in the 1994 goal setting proceeding. In rejecting use of the concept, the Commission noted that the benefits were either non-quantifiable or else were not quantified in the record. The Commission further observed that adding these external benefits to the TRC test would essentially convert it to a societal test.

Q. Does witness Mims give examples of the non-energy benefits she believes should be added to the TRC test in this proceeding?

A. Yes, the examples she gives are: (1) improved health and safety; (2) increased comfort and aesthetics; and (3) reduced maintenance costs for participants. All of these perceived benefits are external to the traditional ratemaking and jurisdictional bounds. She offers a fourth example that could be considered as an internal benefit: reduced customer arrearages and reduced bad debt write-offs.

Q. Are the non-energy benefits she cites appropriate for determining cost-effectiveness?

A. No. The first three benefits are either non-quantifiable or difficult to quantify and are beyond the traditional bounds of ratemaking. The last perceived benefit is theoretical and could actually be a cost instead of a benefit under the TRC test. This is because the TRC test is unconcerned with rate impacts and is unconcerned with cross-subsidies between participants and non-participants. As such, non-

participants would see higher rates and the possibility of increased arrearages and write-offs. These might or might not be offset by reduced arrearages for participants. Like all of the other example benefits, this too would be difficult to quantify.

Q. Does witness Mims or witness Woolf attempt to quantify their non-energy benefits?

A. Not really. They do not identify and quantify their perceived non-energy benefits with any level of specificity. Witness Woolf recommends blanket adders ranging from 10% to 50%, but offers no quantification or justification for those adders. Witness Mims references various states that have considered non-energy benefits, but offers no explanation of how those states' decisions would or could apply in Florida.

Q. Witness Mims' first example is improved health and safety. Should this benefit be included in determining cost-effectiveness because it is a worthwhile societal benefit?

A. No. The issue in determining cost-effectiveness is not whether the benefits are worthwhile from a societal perspective. Rather, the issue is whether the costs of obtaining the benefits have been internalized. For example, regulations to improve health by reducing mercury emissions have been internalized. If conservation measures can avoid or defer the need for a new generating plant and its internalized cost of complying with mercury emission regulations, those benefits should be recognized – and they are, consistent with established Commission practice and Rule 25-17.0021 F.A.C. The same is true for safety, as long as the costs of complying with OSHA regulations and applicable electrical safety codes have been internalized.

Q. Could adopting the use of non-energy benefits in setting conservation goals have other, perhaps unintended, consequences?

A. Yes, doing so would put the Commission on the edge of the proverbial "slippery slope."

Q. Please explain.

A. First, the Commission would have to identify the perceived benefits and then attempt to quantify them. Given that the benefits are often nebulous and non-internalized, they would be open to much subjective reasoning. Depending on the results of the exercise of such subjective decision making, the impacts on customer rates could be substantial. Second, including non-internalized costs and benefits in the setting of conservation goals would be inconsistent with the way the Commission sets rates for supply-side options. Consistent with sound regulatory principles, Florida has a long history of setting rates on the actual cost of providing service, based on determinations of reasonableness and prudency of those costs. By definition, this includes only internalized costs and not the costs associated with achieving some theoretical benefit. Therefore, there would be a disruptive inconsistency between demand-side and supply-side options. It could also mean that costs and rates to consumers would be higher. The issue succinctly stated would be: Is it appropriate to have all customers pay higher rates to choose an option that does not add to the quality of service provided, but does provide some nebulous benefit such as aesthetics beyond what is already required by local zoning ordinances or other applicable standards of construction? My answer is no.

VI. INTERVENORS' PROPOSED DSM GOALS

Q. What DSM goals do witnesses Mims and Woolf recommend to the Commission?

A. Both witness Mims and witness Woolf recommend blanket goals expressed as a percentages of utility retail sales. Witness Mims recommendation is 0.75% increasing to 1.0%. Witness Woolf recommends 1.0% by 2019, along with capacity savings based on a ratio of recent experience and use of his 1.0% energy goal.

Q. Would this blanket approach be appropriate?

A. No. Their proposed goals are not consistent with the requirements of FEECA and Commission rules. Mr. Woolf spends much time and dozens of pages trying to argue that the Utilities' proposed goals do not comply with FEECA, only then to offer a proposal that is completely disconnected from any of the FEECA requirements. Indeed, the basis of his proposed goals is that, to paraphrase, "other states are doing this, so should Florida" – making clear that FEECA and this Commission's applicable rules are of little concern to him. He states that his proposed goals are based on "extensive knowledge of DSM opportunities, achievements, and plans in other states." Likewise, witness Mims' recommended blanket percentage goal is significantly based on her reasoning that five other states have been able to achieve her recommended level of savings and that Florida should be able to do the same. She specifically references the five "leading" states in The 2011 State Energy Efficiency Scorecard.

Q. How would their recommended goals be inconsistent with FEECA and Commission rules?

A. To name just a few inconsistencies, their goals do not:

- Rely on a cost-effectiveness test.
- Address system reliability.
- Place demand-side and supply-side resources on a level playing field.
- Keep rates low and minimize cross-subsidies.
- Address free riders.

Q. Is it appropriate to make comparisons between Florida's DSM goals and those in other states?

A. It is not unusual to make state comparisons and such comparisons can sometimes provide information to aid in making regulatory policy decisions. However, just as when making comparisons between regulated utility companies, there are important limitations and considerations which should be made before drawing conclusions from such comparisons. First, it is imperative to recognize that there can be inherent and sometimes significant differences in the costs and rates for providing service. These differences could be due to numerous factors such as size, age of the system, customer mix and density, geographical and climate differences, fuel mix, and access to fuel sources, to name just a few. Therefore, such comparisons can be used to identify areas that could call for more investigation and scrutiny, but rarely if ever should comparisons be used to draw a conclusion on their face. In making state comparisons, it is also imperative to recognize that each state has its own body of enabling statutes which sets forth their respective jurisdictions and establish a framework, and sometimes explicit direction, in making policy decisions. Each state regulatory agency is then expected to make decisions consistent with its

specific statutory framework and Florida is certainly no exception.

Q. Have witnesses Mims and Woolf used state comparisons in an appropriate manner?

A. No, they both have essentially concluded because other "leading" states are doing certain things that Florida should do the same. They make overly generalized assumptions and ignore substantive differences that may exist between Florida and their so called "leading" states. Witness Woolf even makes the overly generalized assumption and strikingly offensive implication that Florida does not recognize what is good for its customers: "...one of the biggest differences between Florida's regulatory environment and those of other states is that many regulators and other stakeholders, especially those in the leading states, recognize that well-designed, cost-effective DSM is good for customers."

Q. What are the areas where there may be substantive differences between Florida and the intervenor witnesses' "leading" states?

A. Such a comprehensive analysis is well beyond the scope of my rebuttal testimony. However, two areas come to mind: rate (and presumably cost) level differences; and differences in statutory framework and guidance.

Q. Why are differences in rate levels important?

A. First, setting conservation goals without regard to rate impacts could put upward pressure on rates. Second, and perhaps more importantly, higher rates can show that a higher level of conservation may be warranted. As a general proposition, the higher the costs that are being avoided by conservation, the higher the amount of conservation that is cost-effective. Therefore, if a state has higher rates, it may be appropriate for them to have higher conservation goals. That may be good policy for that state, but it cannot be automatically inferred that it is good policy for

Florida.

Q. What are the rate levels in the intervenor witnesses' "leading" states?

A. My Exhibit JTD-3 shows that most of the "leading" states have electric rates higher than the national average, and much higher than Florida in general and FPL in particular. Given that their rates are higher, a higher amount of DSM may be appropriate for them. It may also be true that their desire to set higher goals, without primary reliance on the RIM test, is contributing to their higher rates. Regardless, what is clear is that the "leading" states' conservation goals cannot be assumed to be appropriate for Florida, nor should Florida seek to emulate their electric rates.

Q. Witnesses Mims and Woolf repeatedly state that Florida and Virginia are the only states that use the RIM test, implying that Florida is not conforming to accepted practice. Should this be a basis to conclude that the RIM test is inappropriate for Florida?

A. No. Once again the intervenor witnesses draw inappropriate inferences to conclude that Florida should rely exclusively on the TRC test. Further, many other states continue to use the RIM test in conjunction with the TRC test. And other states impose rate impact limitations on the amount of conservation they approve for their regulated utilities. This, to an extent, is relying on the RIM test to set conservation goals. And most importantly, Florida's historical reliance on the RIM test has proven both appropriate and beneficial for Florida customers.

Q. Has Florida's historical reliance on the RIM test been proven to be appropriate and beneficial?

A. Yes. Florida's historical reliance on the RIM test has resulted in a significant amount of conservation achievements. This is shown by the following excerpt from

the Commission's February 2014 Annual Report on FEECA:

> Over the last thirty-three years, the FEECA utilities' DSM programs in total have reduced winter peak demand by an estimated 6,465 megawatts (MW) and summer peak demand by an estimated 6,737 MW. The demand savings from these programs have resulted in the deferral or avoidance of a substantial fleet of baseload, intermediate, and peaking power plants. These programs have also reduced total electric energy consumption by an estimated 8,937 gigawatt-hours (GWh).

These accomplishments were achieved by devoting substantial resources ($5.7 billion since 1981) in a cost-effective manner that has helped maintain reliability *and* minimize rate impacts. As my Exhibit JTD-3 shows, Florida's rates are below the national average, even though Florida has unique challenges presented by its geographical location, its climate, its customer mix, and its lack of indigenous fuel sources.

Q. Why did you include Virginia on your Exhibit JTD-3?

A. Witness Mims states that Virginia is the only other state that primarily uses the RIM test. I included Virginia to compare its rates with those of the so called "leading" states. As my exhibit shows, Virginia has rates well below the national average. Perhaps a coincidence, but certainly a fact that should caution against departing from the RIM test here in Florida.

Q. Why is it important to consider potential differences in statutory framework before making inferences about the appropriateness of conservation goals?

A. Each state must follow its specific statutory framework. To automatically infer that

the goals established in another state under a different statutory framework are what's best for Florida, is at best flawed and at worst a potentially ill-advised way to circumvent Florida's statutes and rules.

Q. Do you have any examples of how the intervenor witnesses' "leading" states have different statutory frameworks?

A. Yes, I do. But let me be clear, I have not done an exhaustive analysis of all the differences that may exist. The following examples are sufficient to make the point that using these states to infer goals for Florida would be inappropriate:

- In June 2006, the Hawaii State Legislature enacted legislation to create a public benefits fund (PBF) for energy efficiency and demand side management. The PBF is funded by a surcharge on utility bills that is based on a percentage of total utility revenue. For 2011 and 2012, the PBF has a target budget of 1.5% of total projected revenue. From 2013 onwards, the PBF will have a projected target budget of 2% of total projected revenue.
- In Minnesota, each utility is required to spend 1.5% of its gross operating revenue (2.0% if it has nuclear generation) on energy conservation. Each utility is also required to have an annual energy-savings goal equivalent to 1.5% of gross annual retail energy sales.
- In Nevada, the TRC test is mandated.
- A cursory review of Rhode Island's statutes did not reveal any unique prescriptive measures. However, Rhode Island's Energy Efficiency & Resource Management Council reported that in 2013 1.5 billion kWh were saved at a cost of $0.43 per kWh saved. I

note that this is substantially higher than the $0.02 to $0.04 levelized cost of electricity value often projected for DSM as discussed by Dr. Sim.

- In Vermont, cost-effectiveness is required to be measured using three tests: (1) TRC; (2) the Utility Cost test; and (3) the Vermont Societal Cost Benefit Test. The RIM test is not included.
- It should be noted that all of these states have relatively aggressive Renewable Portfolio Standard (RPS) requirements.

Q. How do these requirements and outcomes compare to Florida?

A. At the risk of stating the obvious, the Florida Legislature as seen fit to not impose a public benefits charge, to not mandate a specified level of spending on conservation, to not require goals based on a specified level of sales, to not require a specified cost-effectiveness test, to not require the consideration of societal benefits, to not impose an RPS requirement. What the Florida Legislature has done is require that conservation goals be cost-effective, require that the cost to the general body of customers be considered, and require that impacts on non-participants and cross-subsidies be considered. And the Commission, by rule, has set forth the basis on which goals will be set and that free riders must be considered.

VII. GOALS FOR DEMAND-SIDE RENEWABLE ENERGY SYSTEMS

Q. What did the Commission decide in the last goals setting proceeding in regard to demand-side renewable energy systems?

A. Despite finding that none of the demand-side renewable energy systems were cost-effective, the Commission nonetheless directed the investor-owned utilities to file

pilot programs encouraging solar water heating and solar photovoltaic (PV) technologies.

Q. Were demand-side renewable energy systems a new consideration within the last goal setting proceeding?

A. Yes. A definition of demand-side renewable energy systems and a requirement to consider them were added to Section 366.82, F.S., as part of the 2008 revisions to FEECA which I earlier described.

Q. Did the 2008 revisions make any changes or otherwise alter the existing standards and requirements in Chapter 366, F.S.?

A. No. Other than further clarifying that impacts on the general body of customers must be considered, the revisions did not change the requirements that programs and initiatives, including demand-side renewable energy systems, must be cost-effective. Likewise, there were no changes to the requirement in Section 366.81, F.S., that rate impacts should be nondiscriminatory.

Q. Do the pilot programs continue to be non-cost-effective?

A. Yes, as more fully described in the testimonies of Dr. Sim and Mr. Koch, the pilot programs continue to be non-cost-effective under both the TRC test and the RIM test. As a result, FPL is proposing a goal level of zero for demand-side renewable energy systems. FPL further concludes that resources would be better directed at research and development (R&D) to gather information on the system impacts of both DSM and non-DSM PV applications.

Q. Is FPL's proposal to set the goal for demand-side renewable energy systems at zero permissible and appropriate under FEECA?

A. It is not only permissible, but is preferred when the programs are not cost-effective. A goal level of zero would best protect the general body of customers and minimize cross-subsidies between participants and non-participants.

Q. Has the Commission previously set goal levels of zero?

A. Yes. As part of the 1999 and 2004 goals setting proceedings, the Commission set goals at zero for both JEA and the Orlando Utilities Commission. A good example of the Commission's rationale is found in Order No. PSC-00-0588-FOF-EG:

> In conclusion, because no DSM measures were found cost-effective for JEA, it is not appropriate to establish conservation goals for JEA. Accordingly, we find that JEA's proposed annual residential winter and summer kW and annual residential kWh conservation goals of zero for the period 2001 through 2010 are appropriate. Likewise, we find that JEA's proposed annual commercial/industrial winter and summer kW and annual commercial/industrial kWh conservation goals of zero for the period 2001 through 2010 are appropriate.

Q. Despite setting goals at zero, did the Commission nonetheless allow JEA to determine whether it should continue to offer some DSM programs?

A. Yes. The Commission noted that JEA is not a rate-regulated utility and does not recover the costs of DSM programs through the Commission's ECCR proceedings.

Q. Would it likewise be appropriate for FPL to continue its pilot programs even if the goal for demand-side renewable energy systems were set at zero?

A. No. As a rate-regulated utility, the costs of the pilot programs are almost immediately passed through the ECCR. This means that the general body of customers has and would continue to have higher rates with the pilot programs. And just as important, there would be continued cross-subsidies between participants and non-participants.

Q. Is the fact that the Commission approved solar pilot programs in the last goals setting proceeding a valid reason to continue them as part of the current goal setting proceeding?

A. No. The pilot programs were initially approved based on an assumption that the then new statutory revisions somehow required them. Furthermore, the Commission approved them with the possibility that unique cost-saving opportunities could be captured as part of the initial pilots. Even assuming that the 2008 statutory revisions somehow required the Commission to make an initial effort to promote non-cost-effective renewables, the pilots have been in existence long enough for the Commission to make the judgment that they remain non-cost-effective and are likely to remain so. It is the purpose of the five-year reviews in FEECA to make these appropriate informed decisions based on sound economics, to discontinue non-cost-effective programs, and explore new cost-effective programs consistent with FEECA. The 2008 revisions do not change this most basic tenet of FEECA. FPL's proposal to discontinue the current pilots, to set goals at zero, and to engage in further R&D is consistent with this basic tenet of FEECA.

This R&D will help to gather information on the system impacts of both DSM and non-DSM PV applications.

Q. If the Commission desires to exercise its discretion to pursue greater solar generation in Florida, how should the Commission proceed?

A. Solar generation that is cost-effective relative to other available resource alternatives can and should be pursued straightforwardly under Florida's existing energy policy and regulatory framework. If in exercising its discretion to regulate in the public interest the Commission decides that solar generation should be more aggressively pursued, I would encourage it to do so in a way that continues to take into account the relative cost-effectiveness of solar generation alternatives and seeks to minimize cross-subsidies among customer groups. Specifically, I would recommend that the Commission focus on those alternatives that are most economic relative to the range of available solar alternatives and that do not increase subsidies between participants and non-participants. A good example would be central station solar generation. Due to greater construction and operational efficiencies compared to demand-side and distributed solar generation, central station solar would be cost-effective relative to those solar alternatives and perhaps even moderately cost-effective relative to all other resource alternatives. Furthermore, because central station solar generation would be utility owned and operated for the benefit of all customers, it would not create subsidies between participants and non-participants.

VIII. CONCLUSION

Q. What is your conclusion?

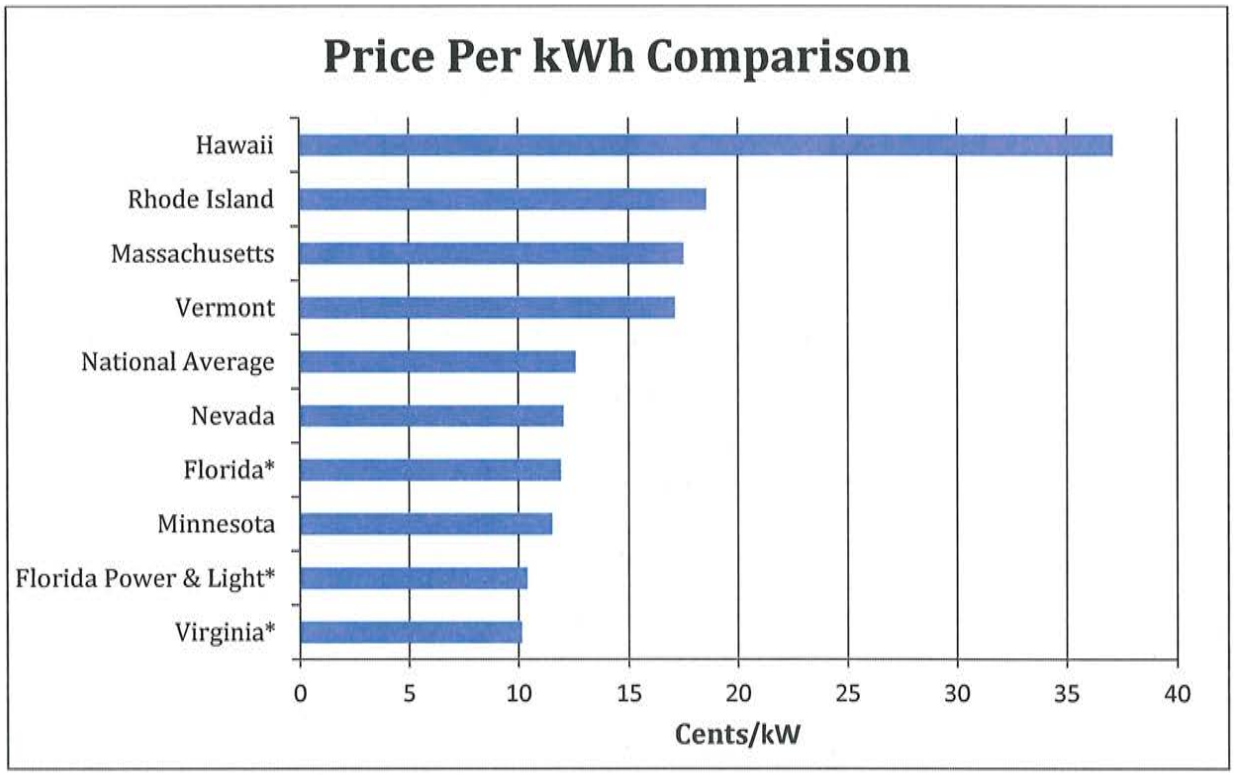
A. The goals proposed by witnesses Mims and Woolf are blanket goals based on inappropriate inferences from other states. Furthermore, their goals do not meet the requirements of FEECA and Commission rules. The intervenor witnesses' goals should be rejected. Instead, goals should be set based on the use of the RIM test, which benefits the general body of customers and minimizes cross-subsidies. The Commission should also continue to use the two-year payback criterion to account for free riders.

Q. Does this conclude your testimony?

A. Yes, it does.

Residential Retail Rate Comparison

Average Residential Retail Price of Electricity (cents/kWh)[1]	
Hawaii	37.11
Rhode Island	18.58
Massachusetts	17.54
Vermont	17.14
National Average	12.59
Nevada	12.03
Florida*	11.92
Minnesota	11.53
Florida Power & Light*	10.41
Virginia*	10.16



[1] State and national average residential retail price of electricity sourced from U.S. Energy Information Administration, *Rankings: Average Retail Price of Electricity to Residential Sector, February 2014 (cents/kWh).*

* Indicates jurisdictions that primarily rely on RIM test to determine DSM goals.

CERTIFICATE OF SERVICE
DOCKET NO. 130199-EI

I HEREBY CERTIFY that a true and correct copy of FPL's Rebuttal Testimony and Exhibits was served by electronic delivery this 10th day of June, 2014 to the following:

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