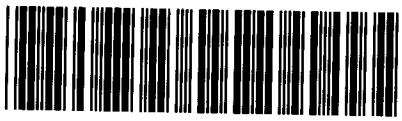

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PUC DOCKET NO. 40359

APPLICATION OF AEP TEXAS CENTRAL COMPANY TO ADJUST ENERGY EFFICIENCY COST RECOVERY FACTOR AND RELATED RELIEF	§ § § § §	**PUBLIC UTILITY COMMISSION OF TEXAS**

AEP TEXAS CENTRAL COMPANY'S APPLICATION

TO THE HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS:

AEP Texas Company (TCC or Applicant) files its Application to Adjust Energy Efficiency Cost Recovery Factor and Related Relief pursuant to PURA[1] §39.905 and PUC SUBST. R. 25.181(f). In support thereof TCC would show the following:

I. Applicant

TCC is a transmission and distribution (T&D) utility that provides T&D service in a service area comprising all or parts of 44 counties in south and central Texas. TCC's business address is 539 North Carancahua Street, Corpus Christi, Texas 78401.

II. Applicant's Authorized Representatives

TCC's authorized representative for the purpose of receiving service of documents is:

Nancy J. Napolitano
American Electric Power Service Corporation
400 West 15th Street
Suite 1520
Austin, Texas 78701
512.481.4543 (voice)
512.481.4591 (facsimile)
Email: njnapolitano@aep.com

[1] Public Utility Regulatory Act (PURA), TEX. UTIL. CODE ANN. §§ 11.001-66.016 (Vernon 2007 and Supp. 2011).

TCC's authorized legal representatives are:

Rhonda Colbert Ryan
Jerry N. Huerta
American Electric Power Service Corporation.
400 West 15th Street, Suite 1520
Austin, Texas 78701
512.481.3321 (voice)
512.481.4591 (facsimile)
Email: rcryan@aep.com
Email: jnhuerta@aep.com

III. Jurisdiction

The Commission has jurisdiction over this application pursuant to PURA §39.905 and PUC SUBST. R. 25.181.

IV. Affected Persons

TCC provides T&D service to approximately 93 retail electric provider (REP) customers, all of whom may be affected by the relief sought by TCC.

There are approximately 838,307 end users of electricity in Applicant's service territory, all of whom are customers of REPs. Those end users of electricity who take service at below 69,000 volts may be affected by the relief sought by TCC, depending on the actions taken by the REPs who provide them electricity.

V. Background

In Docket No. 39360,[2] the Commission authorized TCC to adjust its 2011 EECRF pursuant to PURA §39.905 and PUC SUBST. R. 25.181(f)(1) to recover $7,290,564 in 2012 for energy efficiency. This included $7,118,795, the amount by which its projected energy efficiency costs for its 2012 program exceed the amount of energy efficiency funding expressly included in its prior base rate order in Docket No. 33309; $2,579,657, which is the amount of TCC's performance bonus achieved by its 2010 energy efficiency results; $2,562,212, the amount of energy efficiency program costs that were over-recovered in its 2010 EECRF returned to customers; and $154,324 as identified in Finding of Fact No. 48 of the Commission's Final Order in Docket No. 39360.

[2] *Application of AEP Texas Central Company to Adjust Energy Efficiency Cost Recovery Factor and Related Relief*, Docket No. 39360 (Final Order Dec. 15, 2011).

PUC SUBST. R. 25.181(f)(4) requires a utility with an EECRF to apply no later than May 1 of each year to adjust its EECRF in order to reflect changes in costs and performance bonus and to minimize any over- or under-collection in prior year program costs.

VI. Request to Adjust the EECRF

By this application, TCC requests the authority to adjust TCC's EECRF to adjust the 2013 cost recovery factors for energy efficiency to recover $8,069,409 to reflect the following four components:

1) recovery of $7,747,505 in energy efficiency program costs projected to be incurred in 2013 that exceed the costs for energy efficiency programs included in its prior base rate order;

2) return to customers the amount of $2,788,466 representing the over-recovery of TCC's energy efficiency program costs through its 2011 EECRF revenues;

3) recovery of $2,634,727 representing TCC's 2011 performance bonus for achieving demand savings that exceeded its minimum goal to be achieved in 2011; and

4) recovery of $475,643 representing the estimated EM&V costs projected to be incurred in 2013, as contemplated by the PUC rulemaking Project No. 39674 proposed rule which was published in the Texas Register on April 27, 2012.

VII. Adjusted EECRF Cost Recovery Factors for 2012

The adjusted Rider EECRF containing the cost recovery factors requested by TCC for 2012 is attached hereto as Attachment A. TCC requests the Commission make the adjusted Rider EECRF effective as of December 31, 2012, the commencement of its January 2013 billing month. The requested adjusted EECRF cost recovery factors to recover the applicable energy efficiency costs during 2013 are as follows:

Customer Rate Class	EECRF
Residential Service	$0.000522
Secondary Service (Less than or equal to 10 kW)	$0.000213
Secondary Service (Greater than 10 kW)	$0.000472
Primary Service	$0.000000

VIII. Testimony and Schedules Supporting Application

Accompanying this application are the direct testimonies of Billy G. Berny, Pamela D. Osterloh, and Jennifer L. Jackson and Schedules A through L, which support the relief sought by Applicant. The

evidence sponsored by Mr. Berny, Ms. Osterloh, and Ms. Jackson fully supports the relief sought by TCC pursuant to PURA §39.905 and PUC SUBST. R. 25.181(f).

IX. Notice

TCC proposes to provide notice of this application: (1) by mailing by U. S. mail, postage prepaid, notice to all of the REPs certificated by the Commission as listed on the Commission website as of the date hereof; and (b) by mailing by U. S. mail, postage prepaid, a copy of this application to all parties to Docket No. 33309, TCC's last base rate case, and Docket No. 39360, TCC's last EECRF case.

X. Proposed Schedule

TCC proposes the following schedule for this proceeding:

Staff Approval of Notice	May 15, 2012
Notice Completed	May 16, 2012
Proof of Notice	May 17, 2012
Intervention Deadline	May 31, 2012
Request for a Hearing	May 31, 2012
	If No Hearing Requested
Staff Recommendation	June 25, 2012
Parties' Proposed Order	June 27, 2012
	If Hearing Requested
End of discovery on TCC Direct (if Hearing Requested)	June 1, 2012
Deadline for Intervenor Direct	June 5, 2012
Objections to TCC and Intervenor Direct	June 8, 2012
Deadline for Staff Direct	June 8, 2012
End of Discovery on Intervenor Direct	June 8, 2012
End of Discovery on Staff Direct	June 11, 2012
Replies to Objections to TCC and Intervenor Direct	June 11, 2012
Objections to Staff Direct	June 11, 2012
Discovery Responses on Intervenor Direct	June 13, 2012

Deadline for TCC Rebuttal and Cross-Rebuttal	June 15, 2012
Discovery Responses on Staff Direct Due	June 18, 2012
Hearing on the Merits	June 20, 2012

XI. Conclusion and Prayer for Relief

WHEREFORE, PREMISES CONSIDERED, TCC prays that the Commission:

(i) grant TCC's application;

(ii) approve TCC's proposed notice and method of providing notice;

(iii) approve TCC's proposed schedule;

(iv) authorize TCC to begin applying the adjusted Rider EECRF attached hereto as Attachment A as of December 31, 2012 (the commencement of TCC's January 2013 billing month); and

(v) grant such other and further relief to which TCC may show itself justly entitled.

Dated: May 1, 2012

RESPECTFULLY SUBMITTED,

American Electric Power Service Corporation
400 West 15th Street, Suite 1520
Austin, Texas 78701
Rhonda Colbert Ryan
State Bar No. 17478800
Jerry N. Huerta
State Bar. No. 24004709
Telephone: (512) 481-3321
Facsimile: (512) 481-4591

By: Rhonda Colbert Ryan
Rhonda Colbert Ryan
ATTORNEY FOR AEP TEXAS CENTRAL COMPANY

6.1.1.6.4 Rider EECRF – Energy Efficiency Cost Recovery Factors

AVAILABILITY

Rider EECRF recovers the cost of energy efficiency programs not already included in base distribution service rates and is applicable to the kWh sales of Retail Customers taking retail electric delivery service from the Company.

APPLICABILITY

The Rider EECRF is applicable to the current month's billed kWh of each Retail Customer taking electric delivery service from the Company.

MONTHLY RATE

Rate Schedule	Factor
Residential Service	$0.000522 per kWh
Secondary Service Less than or Equal to 10 kW	$0.000213 per kWh
Secondary Service Greater than 10 kW	$0.000472 per kWh
Primary service	$0.000000 per kWh

NOTICE

This Rate Schedule is subject to the Company's Tariff and Applicable Legal Authorities.

PUC DOCKET NO. _____

PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF

AEP TEXAS CENTRAL COMPANY

TO ADJUST

ENERGY EFFICIENCY COST RECOVERY FACTOR AND RELATED RELIEF

DIRECT TESTIMONY OF

BILLY G. BERNY

FOR

AEP TEXAS CENTRAL COMPANY

MAY 1, 2012

TESTIMONY INDEX

I. INTRODUCTION

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

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

Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

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

merger). I hold professional certifications from the Association of Energy Engineers as Certified Energy Manager and as Certified DSM Professional.

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

A. Yes, I have previously filed testimony before the Public Utility Commission of Texas (PUC, PUCT or Commission) in the following TCC proceedings:

- Docket No. 33309, TCC's Application to Change Rates; Docket No. 34630, Petition of Texas Legal Services Center and Texas Ratepayers' Organization to Save Energy to Modify the Commission's Final Order in Docket No. 32103 and to Reform the Agreement to Implement Weatherization Programs; Docket No. 35627, TCC's Application for Energy Efficiency Cost Recovery Factor; Docket No. 36960, TCC's Application to Adjust Energy Efficiency Cost Recovery Factor; Docket No. 38208, TCC's Application to Adjust Energy Efficiency Cost Recovery Factor and Related Relief; and Docket No. 39360, TCC's Application to Adjust Energy Efficiency Cost Recovery Factor and Related Relief.

and in the following TNC proceedings:

- Docket No. 33310, TNC's Application to Change Rates; Docket No. 34630, Petition of Texas Legal Services Center and Texas Ratepayers' Organization to Save Energy to Modify the Commission's Final Order in Docket No. 32103 and to Reform the Agreement to Implement Weatherization Programs; Docket No. 36959, TNC's Application for an Energy Efficiency Cost Recovery Factor and Related Relief; Docket No. 38209, TNC's Application to Adjust Energy Efficiency Cost Recovery Factor and Related Relief; and Docket No. 39361, TNC's Application to Adjust Energy Efficiency Cost Recovery Factor and Related Relief.

I also previously filed testimony before the Commission in Docket No. 35625, Southwestern Electric Power Company's (SWEPCO) Application for Energy Efficiency Cost Recovery Factor.

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

- The Arkansas Public Service Commission in Docket No. 07-082-TF, The Application for Approval of SWEPCO's Initial Energy Efficiency Program Plan, and

- The Oklahoma Corporation Commission in Cause No. PUD 200700449, The Application of Public Service Company of Oklahoma to Comply with Order No. 545168 Issued in Cause No. PUD 200600285.

Q. DO YOU SPONSOR ANY OF THE SCHEDULES THAT ACCOMPANY TCC'S FILING?

A. Yes, I sponsor Schedules I, J, and K. In addition, I cosponsor Schedule A with TCC witness Pamela D. Osterloh and Schedule B with TCC witness Jennifer L. Jackson.

II. PURPOSE OF TESTIMONY AND SUMMARY OF TCC'S FILING

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my testimony is to:

- provide a summary of the relief sought by TCC in this proceeding and of its filing;

- lay out the policy considerations for recovery of TCC's projected costs for its 2013 energy efficiency programs in its adjusted Energy Efficiency Cost Recovery Factor (EECRF) for 2013, as contemplated by Public Utility Regulatory Act (PURA) §39.905 and PUC SUBST. R. 25.181(f);

- provide information regarding the over-recovery of TCC's energy efficiency program revenues for its 2011 programs to be included in its adjusted EECRF in 2013;

- provide information regarding TCC's performance bonus achieved by its 2011 energy efficiency results, as contemplated in PUC SUBST. R. 25.181(h), and to be recovered through its adjusted EECRF in 2013; and

- provide information regarding TCC's projected costs for Evaluation Measurement & Verification (EM&V) activities as contemplated to be incurred in 2013 by PUCT rulemaking Project No. 39674 proposed rule which was published in the Texas Register on April 27, 2012.

Q. WHAT RELIEF DOES TCC SEEK IN THIS PROCEEDING?

A. In Docket No. 39360, the Commission authorized TCC to adjust its 2011 EECRF pursuant to PURA §39.905 and PUC SUBST. R. 25.181(f)(1) to recover $7,290,564 in 2012 for energy efficiency. This included $7,118,795, the amount by which its projected energy efficiency costs for its 2012 program exceed the amount of energy efficiency funding expressly included in its prior base rate order in Docket No. 33309; $2,579,657, which is the amount of TCC's performance bonus achieved by its 2010 energy efficiency results; $2,562,212, the amount of energy efficiency program costs that were over-recovered in its 2010 EECRF returned to customers; and $154,324 as identified in Finding of Fact No. 48 of the Commission's Final Order in Docket No. 39360.

PUC SUBST. R. 25.181(f)(4) requires a utility with an EECRF to apply no later than May 1 of each year to adjust its EECRF in order to reflect changes in costs and performance bonus and to minimize any over- or under-collection in prior years' program costs. Accordingly, by this application TCC now requests the Commission to approve an adjustment to TCC's 2012 EECRF to recover $8,069,409 in 2013. As my testimony and the testimony of TCC witnesses Osterloh and Jackson explain, the amount TCC now seeks to recover through its adjusted 2013 EECRF reflects the following components:

1) recovery of $7,747,505 in energy efficiency program costs projected to be incurred in 2013 that exceed the costs for energy efficiency programs included in its prior base rate order;

2) return to customers the amount of $2,788,466 representing the over-recovery of TCC's energy efficiency program costs through its 2011 EECRF revenues;

3) recovery of $2,634,727 representing TCC's 2011 performance bonus for achieving demand savings that exceeded its minimum goal to be achieved in 2011; and

4) recovery of $475,643 representing the estimated EM&V costs projected to be incurred in 2013, as contemplated by PUC rulemaking Project No. 39674 proposed rule which was published in the Texas Register on April 27, 2012.

The total amount of revenue that TCC requests be recovered through its adjusted 2013 EECRF is $8,069,409 in energy efficiency costs.

Q. WHAT IS TCC'S PROJECTED 2013 ENERGY EFFICIENCY BUDGET?

A. As shown in Schedule A, TCC's projected total 2013 energy efficiency budget to achieve its energy efficiency objectives for 2013 is $14,082,454 plus EM&V costs of $475,643. The 2013 projected energy efficiency costs are the amounts reasonably necessary for TCC to achieve its energy efficiency objectives for 2013 pursuant to PUC SUBST. R. 25.181(f)(1). The adjusted EECRF energy efficiency program costs component equal to $7,747,505 in 2013, plus the projected 2013 EM&V costs of $475,643, plus the amount TCC's prior base rate order expressly included for energy efficiency of $6,334,949 equal TCC's total 2013 energy efficiency budget of $14,558,097. TCC requests that its adjusted 2013 EECRF recover the difference between its total 2013 energy efficiency budget of $14,558,097 and $6,334,949, which is the amount the prior base rate order expressly included for energy efficiency funding. These amounts are shown in more detail on Schedules A and B to TCC's filing, which I cosponsor.

Q. DID TCC INCUR GREATER ENERGY EFFICIENCY COSTS FOR ITS 2011 ENERGY EFFICIENCY PROGRAMS THAN THE AMOUNT EXPRESSLY INCLUDED IN ITS PRIOR BASE RATE ORDER?

A. Yes, TCC incurred $6,838,685 more in energy efficiency costs for its 2011 energy efficiency programs than were expressly included in its prior base rate order. As shown on Schedule H, TCC incurred a total of $13,173,634 in energy efficiency expenditures for its 2011 programs, which was $6,838,685 greater than the $6,334,949 expressly included for energy efficiency funding in its prior base rate order.

Q. DID TCC SPEND MORE OR LESS THAN IT BUDGETED ON ITS 2011 ENERGY EFFICIENCY PROGRAMS?

A. As shown on Schedule H, TCC incurred a total of $13,173,634 in energy efficiency expenditures for its 2011 programs, which is $1,982,330 less than its projected 2011 budget for energy efficiency.

Q. DID TCC RECOVER MORE OR LESS ENERGY EFFICIENCY PROGRAM COSTS THROUGH ITS 2011 EECRF THAN WAS AUTHORIZED IN DOCKET NO. 38208?

A. In Docket No. 38208, TCC was authorized to recover $8,821,015 in energy efficiency program costs through the 2011 EECRF. TCC collected $9,627,151 of its energy efficiency program costs through its 2011 EECRF, exclusive of its 2009 performance bonus and the return to customers from the 2009 over-recovery. This collected amount is more than the amount TCC was authorized to collect for its 2011 programs.

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

A. Yes, in the Commission's Final Order in Docket No. 33309, the amount expressly included in TCC's base rates for energy efficiency program funding is $6,334,949.

Q. DID TCC EXCEED ITS MINIMUM DEMAND REDUCTION GOAL FOR 2011?

A. Yes, TCC exceeded its minimum demand reduction goal for 2011, which was to be the greater of at least 20% of historic average load growth in demand or its 2010 demand reduction goal and, consequently, TCC qualifies for a performance bonus pursuant to PUC SUBST. R. 25.181(h). Schedule K sets forth the calculation of the $2,634,727 performance bonus that TCC earned for exceeding its minimum demand reduction goal for 2011. TCC requests that this amount ($2,634,727) also be included for recovery through its adjusted EECRF for 2013.

Q. PLEASE DESCRIBE TCC'S FILING.

A. TCC's filing consists of my direct testimony and the direct testimony of two other witnesses. Ms. Osterloh's direct testimony addresses the energy efficiency costs that TCC incurred for its 2011 programs, TCC's energy efficiency results from its 2011 programs, TCC's energy efficiency goals for 2013 as established by the Commission's rule, the energy efficiency programs that TCC will offer in 2013 to meet these goals, the costs TCC projects to incur in 2013 in connection with these energy efficiency programs and goals, and the projected EM&V costs to be incurred in 2013. Ms. Jackson's direct testimony describes the design of the adjusted EECRF, the energy efficiency cost assignment among the EECRF rate classes to be recovered

through the adjusted EECRF, and the billing determinants used to develop the adjusted EECRF. Accompanying the direct testimony of TCC's witnesses are Schedules A through L that provide the information which the Commission has specified should be provided in support of a sufficient request for the adjusted EECRF.

Q. WHAT DOES TCC REQUEST TO BE THE EFFECTIVE DATE OF THE ADJUSTED EECRF?

A. TCC requests that the adjusted EECRF be made effective as of December 31, 2012, which is the commencement of TCC's January 2013 billing month.

III. POLICY CONSIDERATIONS FOR RECOVERY OF ENERGY EFFICIENCY EXPENDITURES

A. Statutory Policies

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

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

- Must provide incentives adequate for the purpose of acquiring cost-effective energy efficiency equivalent to not less than 30% of the utility's annual growth in demand of residential and commercial customers by December 31 of each year beginning with the 2013 calendar year.
- Must provide incentives through market-based standard offer programs (SOPs) or targeted market transformation programs.
- Must provide incentives in such a manner that retail electric providers and competitive energy efficiency service providers install the measures that

produce the required energy efficiency necessary to meet the utility's mandated annual goal.

Prior to the 81st Legislature, PURA §39.905 established that a utility such as TCC must provide incentives adequate for the purpose of acquiring cost-effective energy efficiency equivalent to at least 20% of the utility's annual growth in demand of residential and commercial customers by December 31, 2011, and at least 25% of the utility's annual growth in demand of residential and commercial customers by December 31, 2012.

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

B. Commission Rule Pertaining to an EECRF Filing

Q. WHAT ARE THE MINIMUM ANNUAL ENERGY EFFICIENCY GOALS FOR THE YEARS 2011 THROUGH 2013?

A. PUC SUBST. R. 25.181(e) requires a utility to administer energy efficiency programs such that it achieves the equivalent of at least 20% reduction of the utility's annual

growth in demand of residential and commercial customers for the 2011 program year, at least 25% reduction of the utility's annual growth in demand of residential and commercial customers for the 2012 program year, and at least 30% reduction of the utility's annual growth in demand of residential and commercial customers for the 2013 program year. Unless the Commission establishes a different goal for a utility, a utility's demand reduction goal for any year shall not be lower than its goal for the prior year.

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

A. The Commission's rule includes provisions for a utility such as TCC to request that an EECRF be adjusted to recover all of its forecasted annual energy efficiency program costs, or to recover its forecasted annual energy efficiency program costs that are not recovered through a Commission order establishing an express amount of energy efficiency program costs to be included in a utility's base rates (PUC SUBST. R. 25.181(f)(1)). Also, as I stated earlier, PUC SUBST. R. 25.181(f)(4) requires a utility with an EECRF to apply no later than May 1 of each year to adjust its EECRF in order to reflect changes in costs and performance bonus and to minimize any over- or under-collection in prior year program costs. The order in Docket No. 39360 further implemented this in Ordering Paragraph 4, which requires TCC to make a filing to adjust the EECRF no later than May 1 of each year. Finally, the proposed energy efficiency rule published in the Texas Register on April 27, 2012 contains a

significant addition requiring EM&V costs that will be incurred in 2013, and which authorizes a utility to recover EM&V costs through its EECRF.

Q. HAS TCC INCLUDED AN ESTIMATE OF 2013 EM&V COSTS IN THIS FILING?

A. Yes. TCC has included an estimate of $475,643 of EM&V costs as its share of the total of statewide EM&V costs Commission Staff has estimated to be incurred in program year 2013. The statewide EM&V cost was estimated by the Commission Staff, and the per-utility share of that statewide estimated cost was agreed upon by members of the Electric Utility Marketing Managers of Texas (EUMMOT), an organization consisting of the Texas utilities' energy efficiency managers. TCC's share of the total statewide EM&V cost is based upon TCC's total 2009, 2010, and 2011 program years' energy efficiency costs as a percentage of the total of all EUMMOT utilities' energy efficiency costs for those same program years.

Q. WHY HAS TCC INCLUDED AN ESTIMATE OF 2013 EM&V COSTS IN THIS EECRF FILING?

A. Under the current PUC rulemaking Project No. 39674, several proposed changes to Substantive Rule 25.181 will likely increase the current proposed budget estimate as referenced in the AEP Texas Central Company's *2012 Energy Efficiency Plan and Report.* One of the major changes as proposed in Project No. 39674 includes the development and implementation of an EM&V framework, the costs of which are to be assigned to each utility. Since the proposed rule contemplates that the estimated EM&V costs will be incurred in 2013, TCC has determined that including an estimate of that year's EM&V cost in the 2013 EECRF factor adjustment is appropriate.

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

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

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

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

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

A. According to PUC SUBST. R. 25.181(f)(9), a utility's application to change an EECRF must include information and schedules otherwise required in any Commission approved EECRF filing package. The Commission has not yet adopted such a filing package. In the absence of an adopted filing package, TCC has included in its application testimony and schedules providing the information in compliance with PUC SUBST. R. 25.181(f) for approval of an adjusted EECRF. The testimony and schedules that TCC has included in this filing are comparable to the testimony and schedules that were submitted in Docket Nos. 35627, 36960, 38208, and 39360, and which formed the basis for the Commission's authorization of TCC's initial and adjusted EECRF in those proceedings.

TCC's application includes testimony and schedules showing:

1. its forecasted energy efficiency program costs for 2013;

2. TCC's energy efficiency program incentive payments and administrative costs for its energy efficiency programs for 2011;

3. projected budgets for these costs for the year in which the adjusted EECRF is expected to be in effect (2013), including costs for the dissemination of information, outreach and other major administrative costs;

4. the basis for the projection of costs for 2013;

5. the amount of energy efficiency program costs expressly included for recovery in base rates;

6. the amount of TCC's 2011 actual energy efficiency program costs that exceeded the amount recovered in base rates;

7. the performance bonus TCC seeks to be awarded for its 2011 energy efficiency achievements;

8. information concerning the calculation of billing determinants;

9. information from its last base rate case concerning the allocation of energy efficiency costs to EECRF rate classes;

10. projected EM&V expenditures to be incurred in 2013; and

11. other information that supports the determination of TCC's adjusted EECRF.

All of these elements of TCC's application for approval of its adjusted EECRF for 2013 are required by virtue of PUC SUBST. R. 25.181(f)(9).

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

Q. WHAT DEMAND REDUCTION AND ENERGY SAVINGS DOES TCC PROPOSE TO ACHIEVE THROUGH ITS 2013 PROGRAMS?

A. TCC's 2013 minimum residential and commercial customer energy efficiency goals are a 12.93 megawatt (MW) demand reduction (which is the 2012 MW goal for TCC set in Docket No. 39360 pursuant to PUC SUBST. R. 25.181(e)(3)(B)), and a 22,657 megawatt-hour (MWh) reduction in energy consumption (in accordance with PUC SUBST. R. 25.181(e)(4)). The energy efficiency objectives TCC seeks to achieve through the proposed amount of 2013 energy efficiency expenditures include a demand reduction of as much as 31.41 MW of TCC's residential and commercial peak demand and energy savings of as much as 61,943 MWh.

Q. DO YOU BELIEVE IT IS CONSISTENT WITH THE COMMISSION'S RULE TO PURSUE THE OBJECTIVES TCC HAS ESTABLISHED FOR ITS 2013 PROGRAM?

A. Yes. I believe the intent of the Commission's rule is to achieve as much cost-effective energy efficiency as is reasonably possible. This intent is manifested in PURA §39.905(b)(2), wherein the Legislature authorized the Commission to provide a performance bonus to reward a utility for "administering programs under this section that exceed the minimum goals established by this section." The express characterization of the goals in PURA §39.905 as "minimum goals" clearly indicates the Legislature's desire that utilities be encouraged to exceed these goals where additional cost-effective energy efficiency is reasonably possible.

D. Industrial Customers

Q. DOES TCC'S ENERGY EFFICIENCY PLAN INCLUDE ANY GRANDFATHERED LOAD MANAGEMENT STANDARD OFFER PROGRAMS THAT CONTINUE FOR INDUSTRIAL CUSTOMERS UNDER PUC SUBST. R. 25.181(t)?

A. No. While TCC had in place a Load Management SOP in which industrial customers could participate, no such customers availed themselves of these opportunities, and none of the program expenditures incurred in 2007 were attributable to industrial customer participation. This is further detailed in Schedule I that I sponsor.

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

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

E. Research and Development (R&D) Costs

Q. DID TCC'S 2011 ENERGY EFFICIENCY PROGRAM COSTS INCLUDE RESEARCH AND DEVELOPMENT EXPENDITURES?

A. Yes. PURA §39.905(e) allows a utility such as TCC to use money approved by the Commission for energy efficiency programs to perform necessary energy efficiency research and development to foster continuous improvement and innovation in the application of energy efficiency technology and energy efficiency program design and implementation. The Commission's rule (PUC SUBST. R. 25.181(i)) specifies that TCC's research and development costs shall not exceed 10% of its total program costs. The energy efficiency program costs for 2011 of $13,173,634 shown on Schedule H included $314,082 in costs for research and development projects funded by TCC. These projects included:

1. Costs related to developing upgrades and enhancements to TCC's web-based electronic energy efficiency program tracking and reporting database. These upgrades and enhancements were necessary as a result of 2010 amendments to the Commission's rule and for expanded program reporting capabilities. These 2011 costs were $165,740.

2. Participation in research and development projects of the Center for the Commercialization of Electric Technologies (CCET). TCC's expenditures related to these projects in 2011 were $98,512.

3. Research and development costs associated with the SMART View[SM] In-home Device R&D Project of $49,830.

All of these research and development expenditures incurred in 2011 were for the purpose of fostering continuous improvement and innovation in the application of energy efficiency technology and energy efficiency program design and implementation.

Q. DOES TCC'S PROJECTED 2013 ENERGY EFFICIENCY PROGRAM BUDGET INCLUDE RESEARCH AND DEVELOPMENT EXPENDITURES?

A. Yes, it does.

Q. WHAT IS TCC'S PROJECTED 2013 RESEARCH AND DEVELOPMENT BUDGET?

A. TCC has identified three known research and development projects it proposes to fund in 2013. These are:

1. $32,000 for research and development projects of the CCET;
2. $235,000 for the research and development associated with the SMART View^{SM} In-home Device R&D Project that may lead to greater energy efficiency results used in conjunction with TCC's AMS deployment; and
3. $160,000 for developing upgrades and enhancements to TCC's web-based electronic energy efficiency program tracking and reporting database and to comply with Ordering Paragraph 3 of the Final Order in Docket No. 39360.

The total proposed budget for these known research and development projects is $427,000.

Q. HAS TCC BUDGETED THE MAXIMUM AMOUNT IN 2013 FOR ENERGY EFFICIENCY RESEARCH AND DEVELOPMENT EXPENDITURES ALLOWED BY THE COMMISSION'S RULE?

A. No, the maximum amount of energy efficiency research and development costs allowed under the Commission's rule that TCC could incur is 10 percent of its total projected program costs, or $1,408,245, in 2013. However, TCC has budgeted $427,000, the amount it considers to be reasonable for projected research and development expenditures, considering the whole of its energy efficiency program offerings and the magnitude of its required demand reduction goal to be achieved in 2013.

F. Over- / Under-Recovery of 2011 Costs

Q. IS TCC SEEKING TO RETURN TO CUSTOMERS THE AMOUNT OF OVER-RECOVERED ENERGY EFFICIENCY PROGRAM REVENUES COLLECTED THROUGH ITS 2011 EECRF IN EXCESS OF THE AMOUNT OF ENERGY EFFICIENCY PROGRAM COSTS ACTUALLY INCURRED IN 2011?

A. Yes. In addition to collecting its projected total 2013 energy efficiency program expenditures that exceed the amount expressly recovered through its base rates, TCC is requesting to return in its adjusted 2013 EECRF the amount of its actual 2011 EECRF program revenues that exceeded the amount of its energy efficiency program expenditures in 2011.

Q. PLEASE EXPLAIN THE BASIS FOR TCC'S INCLUSION OF THE 2011 OVER-RECOVERY AMOUNT IN ITS ADJUSTED 2013 EECRF.

A. PURA §39.905(b-1) provides that:

> The energy efficiency cost recovery factor under Subsection (b)(1) may not result in an over-recovery of costs but may be adjusted each year to change rates to enable utilities to match revenues against energy efficiency costs.... The factor shall be adjusted to reflect any over-

collection or under-collection of energy efficiency cost recovery revenues in previous years.

PUC SUBST. R. 25.181(f)(4) further states that the "EECRF shall be designed to permit the utility to recover any under-recovery of energy efficiency program costs or return any over-recovery of costs." TCC incurred total program costs of $13,173,634 in good faith in 2011 to pursue the goals set forth in the Commission's rule.

TCC collected $9,627,151 in energy efficiency program revenues through its 2011 EECRF and $6,334,949 through base rates in 2011. This total of its 2011 energy efficiency program revenues was $15,962,100, representing an over-recovery of $2,788,466 (the difference between the total amount of its 2011 energy efficiency program revenues recovered through base rates and its EECRF ($15,962,100) and its 2011 energy efficiency program expenditures ($13,173,634)). TCC requests an adjustment to its 2013 EECRF of this over-recovered 2011 energy efficiency program cost amount as shown on Schedule J, which I sponsor.

G. 2011 Performance Bonus

Q. HAS TCC CALCULATED THE PERFORMANCE BONUS IT SEEKS IN CONNECTION WITH ITS 2011 ENERGY EFFICIENCY PROGRAM ACHIEVEMENTS?

A. Please refer to Schedule K, which I sponsor. This schedule demonstrates the calculation of the $2,634,727 performance bonus TCC seeks to be awarded based upon its 2011 program year energy efficiency results. Schedule K includes information from Table 12 of TCC's 2012 Energy Efficiency Plan and Report filed on March 30, 2012 in Project No. 40194.

TCC achieved a peak demand reduction of 27.496 MW from its 2011 portfolio of energy efficiency programs. TCC's minimum demand reduction goal to be achieved in 2011 was 12.93 MW. TCC's achievement represents 212.7% of its 2011 goal, qualifying TCC for a performance bonus per the Commission rule. All of the calculations and requirements regarding the $2,634,727 performance bonus are as outlined in PUC SUBST. R. 25.181(h).

IV. CONCLUSION

Q. PLEASE BRIEFLY SUMMARIZE YOUR TESTIMONY.

A. The components TCC includes in its request to adjust its 2012 EECRF have been properly calculated in accordance with the applicable standards and criteria.

1. The energy efficiency costs projected by TCC for its 2013 programs represent reasonable estimates of the costs necessary to provide energy efficiency programs for 2013 to meet TCC's energy efficiency objectives for 2013.

2. The portion of those projected 2013 program costs that exceeds the amount of energy efficiency funding expressly included in TCC's prior base rate order is appropriately included in the requested adjustment to TCC's 2013 EECRF.

3. TCC's estimate of EM&V expenditures to be incurred in 2013 is reasonable.

4. The performance bonus, which TCC earned in 2011 and now requests to be included in its adjusted 2013 EECRF, comports fully with the applicable provisions of the Commission's rule.

5. The 2011 energy efficiency program expenditures were reasonable and necessary costs to provide energy efficiency programs for 2011. It is reasonable and in accordance with the applicable Commission rule to include the portion of those costs that exceeds the amount of energy efficiency funding expressly included in TCC's prior base rate order and which were over-recovered in its 2011 EECRF to be returned in the adjusted 2013 EECRF.

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

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

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

PUC DOCKET NO. _____

PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF

AEP TEXAS CENTRAL COMPANY

TO ADJUST

ENERGY EFFICIENCY COST RECOVERY FACTOR AND RELATED RELIEF

DIRECT TESTIMONY OF

PAMELA D. OSTERLOH

FOR

AEP TEXAS CENTRAL COMPANY

MAY 1, 2012

TESTIMONY INDEX

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION IN THE COMPANY, AND BUSINESS ADDRESS.

A. My name is Pamela D. Osterloh. I am Senior Energy Efficiency/Demand Response (EE/DR) Coordinator for AEP Texas Central Company (TCC). My business address is 539 N. Carancahua, Corpus Christi, Texas 78401.

Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I received a Bachelor of Science degree from Texas A&M University in 1986. I was first employed by and worked in various capacities and locations for Central Power and Light Company (the predecessor of TCC) from November 1991 through May 1992. In June 1992, I accepted the position of Market Research Analyst with West Texas Utilities Company (the predecessor of AEP Texas North Company). In September 1997, I was appointed Demand Side Management (DSM) Resource Evaluation Coordinator with Central and South West Services, Inc. (the corporate service affiliate of Central and South West Corporation or CSW) located in Austin, Texas. In that role, I was responsible for energy efficiency regulatory activities and compliance for DSM activities for CSW in Texas. In April 1999, I transferred to Corpus Christi with CSW and began work in my current role as a Senior EE/DR Coordinator. In my current position, I am responsible for implementing and administering energy efficiency programs in compliance with Public Utility Commission of Texas (PUC or Commission) rule for such energy efficiency

programs. I hold professional certification from the Association of Energy Engineers as a Certified Energy Manager.

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

A. Yes, I have previously filed testimony before the Commission in Docket No. 35627, TCC's Application for Energy Efficiency Cost Recovery Factor; Docket No. 36960, TCC's Application to Adjust Energy Efficiency Cost Recovery Factor; Docket No. 38208, TCC's Application to Adjust Energy Efficiency Cost Recovery Factor and Related Relief; and Docket No. 39360, TCC's Application to Adjust Energy Efficiency Cost Recovery Factor and Related Relief.

Q. DO YOU SPONSOR ANY OF THE SCHEDULES ACCOMPANYING TCC'S FILING?

A. Yes, I sponsor Schedules E through H. In addition, I cosponsor Schedule A with TCC witness Billy G. Berny.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my testimony is to present information supporting TCC's request to adjust its energy efficiency cost recovery factor (EECRF) for 2013. As Mr. Berny discusses in his direct testimony, TCC seeks an adjustment in 2013 to reflect:

- recovery of $7,747,505, which is the amount of projected energy efficiency budget for TCC's 2013 programs that exceeds the energy efficiency costs expressly included in TCC's prior base rate order;

- return to customers the amount of $2,788,466, which is the amount of TCC's over-recovered 2011 energy efficiency program expense;
- recovery of $2,634,727, which is the amount of TCC's performance bonus earned from actual 2011 results achieved; and
- recovery of TCC's estimated 2013 Evaluation Measurement & Verification (EM&V) costs of $475,643 as contemplated by PUC rulemaking Project No. 39674 proposed rule as published in the Texas Register on April 27, 2012.

The total amount that TCC requests be recovered through its adjusted 2013 EECRF is $8,069,409.

In my direct testimony, I first outline the energy efficiency goal established by Public Utility Regulatory Act (PURA) §39.905. I then present the actual energy efficiency expenditures incurred by TCC for its 2011 programs. I will describe each of the programs that TCC implemented during 2011. I will also present TCC's projected budget and the plans and programs TCC will implement to achieve its energy efficiency objectives for 2013.

III. ENERGY EFFICIENCY REQUIREMENTS AND OBJECTIVES

A. Statutory Requirements

Q. PLEASE DESCRIBE THE BASIC REQUIREMENTS OF PURA §39.905 AS RELEVANT TO YOUR TESTIMONY.

A. As discussed by Mr. Berny in his testimony, the requirements of PURA §39.905 as relevant to my testimony are:

- A utility must administer energy efficiency programs.
- A utility must provide incentives adequate for the purpose of acquiring cost-effective energy efficiency equivalent to at least 30% of the electric utility's

annual growth in demand of residential and commercial customers for the 2013 program year.

- A utility must provide incentives through market-based standard offer programs (SOPs) or targeted market transformation programs (MTPs).

- A utility must provide incentives in such a manner that retail electric providers (REPs) and competitive energy efficiency service providers (EESPs) install the measures that produce the energy efficiency necessary to meet the utility's mandated annual goal.

Q. HOW DOES TCC IMPLEMENT THESE REQUIREMENTS?

A. TCC develops and offers cost-effective energy efficiency programs to third-party EESPs and REPs, who in turn market their services to end-use residential and commercial customers. These programs offer incentives to encourage third-party EESPs and/or REPs and customers to participate as project sponsors of energy efficiency measures. These project sponsors then supply and install the measures at homes or businesses that produce the energy efficiency savings that TCC seeks to satisfy the energy efficiency objectives of its programs. The Commission's energy efficiency rule allows commercial customers with a peak demand of 50 kW or greater to act as their own EESP for measures they install for themselves. The energy efficiency objectives and goals are established annually, so that each year TCC must procure the necessary demand reduction and energy savings from participating project sponsors to meet TCC's objectives for that respective year. These energy efficiency savings may be in the form of reduction in peak demand (kW), energy usage (kWh), or both. TCC pays incentives to the project sponsors for peak demand and energy savings resulting from the energy efficiency measures installed according to program guidelines.

Q. PLEASE DEFINE THE TERM STANDARD OFFER PROGRAM OR SOP.

A. In PUC SUBST. R. 25.181(c)(30), the Commission defines an SOP as a program under which a utility administers standard offer contracts with EESPs/REPs for eligible energy efficiency measures that produce energy efficiency savings. The contract between the EESP/REP and the utility specifies the standard payments for each unit of energy and peak demand savings achieved through energy efficiency measures, outlines measurement and verification (M&V) protocols, and includes other terms and conditions that are standard.

Q. PLEASE DEFINE THE TERM MARKET TRANSFORMATION PROGRAM OR MTP.

A. In PUC SUBST. R. 25.181(c)(21), an MTP is defined as a strategic program intended to induce lasting structural or behavioral changes in a market that result in the increased adoption of energy efficiency technologies, services, and practices.

Q. HAS THE COMMISSION ADOPTED RULES TO IMPLEMENT PURA §39.905?

A. Yes, PUC SUBST. R. 25.181 has been adopted to implement PURA §39.905.

Q. WHAT ARE SOME OF THE KEY COMPONENTS OF PUC SUBST. R. 25.181?

A. Some of the key components of PUC SUBST. R. 25.181 are:

- An electric utility shall administer energy efficiency programs to achieve at least a 20% reduction of the utility's annual growth in demand of residential and commercial customers for the 2011 program year.
- An electric utility shall administer energy efficiency programs to achieve at least a 30% reduction of the utility's annual growth in demand of residential and commercial customers for the 2013 program year and subsequent years.
- A utility's demand goal in any year shall not be lower than its goal for the prior year.

- Each utility shall administer energy efficiency programs to effectively and efficiently achieve its energy efficiency goals.

- In order for the utility to achieve these higher goals, PUC SUBST. R. 25.181(f) allows the utility to establish an EECRF.

- A utility shall adjust an EECRF to timely recover forecasted annual energy efficiency program costs in excess of the costs included in base rates.

- PUC SUBST. R. 25.181(h) allows a utility exceeding the minimum goal to earn a performance bonus.

- A utility may use up to 15% of its total program costs for administration of its energy efficiency programs.

- A utility may use up to 10% of total program costs to perform necessary energy efficiency research and development (R&D) to foster continuous improvement and innovation in the application of energy efficiency technology and energy efficiency program design and implementation.

- The cumulative cost of administration and R&D shall not exceed 20% of a utility's total program costs.

B. Annual Demand Reduction Goal

Q. PLEASE DESCRIBE HOW TCC'S DEMAND REDUCTION GOAL IS CALCULATED UNDER PUC SUBST. R. 25.181.

A. PUC SUBST. R. 25.181(e)(3)(A) requires that TCC's demand reduction goal be calculated based on the average growth rate for the prior five years. Demand growth is based on the growth in residential and commercial retail load in each utility's service area measured at the annual system peak. Each year's historical demand is adjusted for weather fluctuations, using weather data for the most recent ten years. The growth in demand is calculated based on the historical peak demand for the five years. The utility's demand reduction goal is then calculated by multiplying the

five-year average growth in demand by the appropriate percentage specified in the Commission's rule.

Q. WHAT IS TCC'S DEMAND REDUCTION GOAL TO BE ACHIEVED IN 2013?

A. The demand reduction goal for TCC to achieve in 2013 is 12.93 megawatts (MW) of demand reduction, based on the requirements in PUC SUBST. R. 25.181(e)(3)(B). The 2013 demand reduction goal is set forth in Schedule E that I sponsor. However, TCC projects it will achieve as much as 31.41 MW of demand reduction from the programs it will implement in 2013 with the projected budget outlined within this filing. As Mr. Berny explains in his testimony, TCC interprets PURA §39.905 and PUC SUBST. R. 25.181 as being intended to encourage utilities to achieve as much cost-effective energy efficiency as can reasonably be achieved under the limits set forth in the statute and rule. In keeping with this interpretation, TCC has established a projected demand reduction objective of 31.41 MW for 2013.

C. Annual Energy Savings Goal

Q. HOW IS THE ENERGY SAVINGS GOAL CALCULATED UNDER PUC SUBST. R. 25.181?

A. The minimum energy savings goal is calculated from the utility's demand goal, using a 20% capacity factor, as set forth in PUC SUBST. R. 25.181(e)(4).

Q. WHAT IS TCC'S ENERGY SAVINGS GOAL TO ACHIEVE IN 2013?

A. The energy savings goal for TCC to achieve in 2013 is 22,657 megawatt-hours (MWh) in energy savings. The 2013 energy savings goal is set forth in Schedule E. However, TCC projects to achieve as much as 61,943 MWh of energy savings from

the programs it will implement in 2013 with the projected budget outlined in this filing. As I mentioned above and as Mr. Berny explains in his testimony, TCC interprets PURA §39.905 and PUC SUBST. R. 25.181 as being intended to encourage utilities to achieve as much cost-effective energy efficiency as can reasonably be achieved under the limits set forth in the statute and rule. In keeping with this interpretation, TCC has projected its energy savings objective of 61,943 MWh for 2013.

D. Programs to Achieve Objectives

Q. WILL TCC OFFER PROGRAMS TO ACHIEVE THESE 2013 OBJECTIVES?

A. Yes, I discuss the programs that TCC will offer in Section V of my testimony. TCC's energy efficiency program portfolio is designed to achieve both its demand reduction and energy savings objectives for 2013.

Q. WILL ALL RESIDENTIAL AND COMMERCIAL CUSTOMERS HAVE ACCESS TO ENERGY EFFICIENCY PROGRAMS OFFERED BY TCC TO ACHIEVE THESE OBJECTIVES?

A. Yes, all customers in the residential and commercial customer classes will have access to the energy efficiency programs offered by TCC.

Q. DO THE COMMISSION'S RULES CONTAIN PROVISIONS FOR DETERMINING THE COST-EFFECTIVENESS OF ENERGY EFFICIENCY PROGRAMS?

A. Yes, the rule has established specific criteria to determine a program's cost-effectiveness. PUC SUBST. R. 25.181(d) outlines that a program is deemed to be cost-

effective if the cost of the program to the utility is less than or equal to the benefits of the program. Costs include the cost of incentives, M&V, and actual or allocated R&D and administrative costs. The benefits of the program consist of the value of the demand reductions and energy savings, measured in accordance with the avoided costs.

IV. ENERGY EFFICIENCY PROGRAM COSTS

A. 2011

Q. WHAT COSTS DID TCC INCUR WITH ITS 2011 ENERGY EFFICIENCY PROGRAMS?

A. The costs incurred by TCC to implement its 2011 energy efficiency programs totaled $13,173,634, as shown in Schedule H.

Q. WAS THE AMOUNT THAT TCC ACTUALLY INCURRED FOR ENERGY EFFICIENCY IN 2011 LESS THAN THE COMBINED AMOUNT RECOVERED IN TCC'S BASE RATES AND THE 2011 EECRF FOR ENERGY EFFICIENCY?

A. Yes. TCC's total energy efficiency costs in 2011 were $13,173,634. In 2011, TCC collected $6,334,949 through base rates and $9,835,299 through the 2011 EECRF for a total of $16,170,248. This total includes the 2009 performance bonus of $2,768,731 and a 2010 over-recovery amount returned to customers of $2,560,583. Therefore, TCC collected $9,627,151 for its energy efficiency program costs through the EECRF or $2,788,466 more than was spent in 2011.

Q. WERE TCC'S ACTUAL ENERGY EFFICIENCY COSTS LESS THAN THE ENERGY EFFICIENCY BUDGETED AMOUNT FOR 2011?

A. Yes. TCC's energy efficiency costs were $1,982,330 less than the $15,155,964 budgeted amount (or about 13.1%) in 2011.

Q. WHY WERE TCC'S ACTUAL ENERGY EFFICIENCY COSTS LESS THAN THE ENERGY EFFICIENCY BUDGETED AMOUNT FOR 2011?

A. TCC's 2011 costs were less than the budgeted amount due to lower than expected participation in several programs, most notably the Commercial SOP, the Load Management SOP, the ENERGY STAR® New Homes MTP and the residential component of the SMART Source℠ Solar PV Pilot MTP. The Commercial SOP also came in under budget due to lower than expected participation. There was also a timing difference between when the funds were reserved for certain projects and when those funds were actually paid upon project completion. The Load Management SOP was also under budget due to program participants providing less than the amount of demand (kW) reduction estimated in their program applications. The ENERGY STAR New Homes MTP was under budget due to lower than expected participation of builders installing higher incentive measures such as heat pump water heaters. The residential component of the SMART Source℠ Solar PV Pilot MTP was under budget because several projects withdrew from the program toward the end of the program year.

Some programs, however, exceeded their projected budgets, thereby partially offsetting the under-predictions as discussed previously. The commercial component

of the SMART Source[SM] Solar PV Pilot MTP was over budget due primarily to the timing of completed projects. Construction on several projects that began in a prior year was completed in 2011, so the incentives associated with those projects were paid and savings counted in 2011. Funding in the Targeted Low-Income Energy Efficiency Program was increased to comply with the changes to PURA §39.905. The commercial component of the CoolSaver© MTP experienced larger than expected participation and exceeded its proposed budget.

Q. DID TCC HAVE ANY EXPENSES ASSOCIATED WITH R&D IN 2011?

A. Yes. TCC expended $314,082 for R&D in 2011 as detailed in Schedule H.

Q. PLEASE DESCRIBE TCC'S R&D EFFORTS.

A. TCC's 2011 R&D projects included:

- Costs related to developing, upgrading and enhancing some of its web-based electronic energy efficiency tracking and reporting databases and to research new technologies and energy efficiency program ideas which resulted in the implementation of the A/C Distributor Pilot MTP during 2012. TCC's 2011 share of these costs was $165,740.

- Participation in research and development projects of the Center for the Commercialization of Electric Technologies. TCC's expenditures related to these projects were $98,512.

- Research and development costs associated with the SMART View[SM] In-Home Device R&D Project were $49,830.

All of these R&D expenditures incurred in 2011 were for the purpose of fostering continuous improvement and innovation in the application of energy efficiency technology and energy efficiency program design and implementation.

B. 2013

Q. WHAT ARE TCC'S ENERGY EFFICIENCY PLANS FOR 2013?

A. As shown in Schedule A, TCC will implement 14 energy efficiency programs in 2013 with a total budget of $14,558,097, which includes R&D activities and estimated EM&V costs. These 14 energy efficiency programs are described in Schedule F and are designed to allow TCC to acquire as much energy efficiency as it reasonably can. This portfolio of programs will continue to encourage EESPs and REPs to provide energy efficiency services to all residential and commercial customers. Each year TCC reviews the programs and activities that have taken place to plan for the upcoming year. TCC has selected the programs that it believes will achieve its 2013 objectives and comply with PUC rules.

Q. HOW DID TCC DETERMINE ITS 2013 ENERGY EFFICIENCY OBJECTIVES?

A. TCC first determined to achieve even greater cost-effective energy efficiency savings than required by the Commission's rule. TCC then allocated portions of its 2013 budget among customer classes using criteria such as customer counts, historical budget allocation, and previous programs. The Hard-to-Reach SOP and the Targeted Low-Income Energy Efficiency Program were budgeted to comply with PURA and the Commission's rule. TCC then estimated projected impacts from each program based on historical results and previous years' experience. The projected impacts from all programs within each customer class were rolled together to formulate customer class projected savings. Finally, all customer class savings were added together to comprise TCC's 2013 energy efficiency objectives.

Q. ARE THERE SPECIFIC TYPES OF ADMINISTRATIVE COSTS ASSOCIATED WITH THE ENERGY EFFICIENCY PROGRAMS INCLUDED IN THE BUDGET FOR 2013?

A. Yes, administrative costs for 2013 will include conducting workshops to explain programs to EESPs and REPs, conducting outreach and program marketing, reviewing M&V plans for some projects that do not utilize deemed savings measures, and site inspections of installed measures. Administrative costs also include development, review, and selection of new or revised programs that may be considered for successful program implementation. Costs associated with work activities regarding regulatory reporting and special projects are also considered administrative costs and are included in the 2013 budget as shown in Schedule A.

Q. PLEASE EXPLAIN THE ESTIMATED EM&V COSTS TCC INCLUDED IN ITS 2013 BUDGET.

A. On April 27, 2012, the proposed energy efficiency rule was published in the Texas Register as approved by the PUC in Project No. 39674. Included in this proposed rule, with a scheduled effective date of January 1, 2013, are proposed changes to PUC SUBST. R. 25.181 that will increase TCC's 2013 proposed budget. Specifically, if the rule is adopted as proposed, TCC will be assigned a portion of the state-wide EM&V costs incurred in 2013. TCC's share of these EM&V costs for 2013 is estimated to be $475,643. As discussed by Mr. Berny in his testimony, TCC has included the estimated 2013 EM&V costs as part of the recovery it is seeking for projected 2013 expenses.

V. ENERGY EFFICIENCY PROGRAMS

A. 2011 Programs

Q. WHAT PROGRAMS DID TCC OFFER IN 2011 TO ACHIEVE ITS ENERGY EFFICIENCY OBJECTIVES?

A. TCC offered the following programs in 2011:

- SCORE/CitySmart MTP
- CoolSaver© A/C Tune-Up Pilot MTP
- Commercial SOP
- Commercial Solutions Pilot MTP
- AEP CARE$ Energy Efficiency for Not-for-Profit Agencies SOP
- Load Management SOP
- ENERGY STAR New Homes MTP
- Residential SOP
- Hard-to-Reach SOP
- Targeted Low-Income Energy Efficiency Program
- SMART Source℠ Solar PV Pilot MTP

Q. PLEASE DESCRIBE THE SCORE/CITYSMART MTP.

A. The Schools COnserving REsources/CitySmart MTP (SCORE/CitySmart) provides energy efficiency and demand reduction solutions for cities and public schools. In 2011, SCORE/CitySmart facilitated the examination of actual demand and energy savings, operating characteristics, program design, long-range energy efficiency planning and overall measure and program acceptance by the targeted cities and

schools. This program is designed to help educate and assist these customers to lower energy use by integrating energy efficiency into their short- and long-term planning, budgeting and operational practices. Incentives are paid to participants for certain qualifying measures installed in new or retrofit applications that result in verifiable demand and energy savings.

Q. PLEASE DESCRIBE THE COMMERCIAL SOP.

A. The Commercial SOP provides incentives for the installation of a wide range of measures that reduce customer energy costs and reduce peak demand and/or save energy in non-residential facilities. Eligible customer sites have included hotels, schools, manufacturing facilities, restaurants, and larger grocery and retail stores. These types of customers have installed eligible measures such as lighting systems, new or replacement chiller systems, high-efficiency pumping systems, and other similar efficient technologies. Incentives are paid to project sponsors on the basis of deemed savings or, if deemed savings have not been established for a particular qualifying energy efficiency measure, incentives may be paid on the basis of verified peak demand and/or energy savings using the International Performance Measurement & Verification Protocol.

Q. PLEASE DESCRIBE THE COMMERCIAL SOLUTIONS PILOT MTP.

A. The Commercial Solutions Pilot MTP identifies a variety of commercial customers having a high likelihood of installing energy efficiency measures within their facilities. These customers may have delayed making such improvements for a number of reasons, including an inability to identify appropriate actions to take or

lack of understanding of energy efficiency project funding. The Commercial Solutions Pilot MTP provides education and information to such customers, and provides monetary incentives to encourage them to take action to improve their facilities' energy efficiency.

Q. PLEASE DESCRIBE THE AEP TEXAS CARE$ ENERGY EFFICIENCY FOR NOT-FOR-PROFIT AGENCIES SOP.

A. The AEP Texas CARE$ Energy Efficiency for Not-for-Profit Agencies SOP was implemented as the result of the Integrated Stipulation and Agreement in Docket No. 19265 (the AEP/CSW merger docket). This program targets a specific segment of commercial customers that are not-for-profit agencies whose major purpose is to provide various services for the hard-to-reach customer population. Proposals are submitted by the agency for energy efficiency improvements in its administrative facilities. Contracts are awarded to those agencies with proposals for the most comprehensive energy efficiency projects. The program offers incentives for the completion of the energy efficiency improvements. With lower electric bills, a larger share of agency funds is made available for the services they provide to individuals within the hard-to-reach category.

Q. PLEASE DESCRIBE THE LOAD MANAGEMENT SOP.

A. The Load Management SOP targets commercial customers that have a minimum demand of 500 kW or more. Incentives are paid to project sponsors that identify interruptible load and provide curtailment of this electric load on short notice. These payments are based on the delivery of metered demand reduction.

Q. PLEASE DESCRIBE THE ENERGY STAR NEW HOMES MTP.

A. The ENERGY STAR New Homes MTP targets homebuilders and residential consumers. The program's goal is to create conditions where consumers are demanding ENERGY STAR qualified homes, and homebuilders are supplying these energy-efficient homes. Incentives are paid to homebuilders who construct ENERGY STAR qualified homes in the TCC service area and independent home energy raters who verify the energy efficiency of the homes.

Q. PLEASE DESCRIBE THE RESIDENTIAL SOP.

A. The Residential SOP provides incentives for the installation of a wide range of measures that reduce residential customer energy costs and reduce peak demand. It is also designed to encourage private sector delivery of energy efficiency products and services. Incentives are paid to project sponsors for eligible measures installed in retrofit applications on the basis of deemed savings. Eligible measures include replacement air conditioners, wall and ceiling insulation, and air distribution duct improvements, among others.

Q. PLEASE DESCRIBE THE COOLSAVER© A/C TUNE-UP PILOT MTP.

A. The CoolSaver© A/C Tune-Up Pilot MTP is designed to overcome market barriers that prevent residential and small business customers from receiving high performance air conditioning system tune-ups. This program works with local air conditioning distributor networks to train and certify A/C technicians on the tune-up and air flow correction services and protocols.

Q. PLEASE DESCRIBE THE HARD-TO-REACH SOP.

A. The Hard-to-Reach SOP targets a specific subset of residential customers defined by PUC SUBST. R. 25.181(c)(16). The hard-to-reach customer is one whose total household income is less than 200% of federal poverty guidelines. The program provides incentives for the installation of a wide range of measures that reduce residential customer energy costs and reduce peak demand. It is designed to cost-effectively provide energy efficiency improvements to individual households at no or very low cost. Incentives are paid to project sponsors for eligible measures installed in retrofit applications on the basis of deemed savings. Eligible measures include replacement air conditioners, wall and ceiling insulation, and air distribution duct improvements, among others.

Q. PLEASE DESCRIBE THE TARGETED LOW-INCOME ENERGY EFFICIENCY PROGRAM.

A. TCC's Targeted Low-Income Energy Efficiency Program is designed to cost-effectively reduce the energy consumption and energy costs of TCC's low-income residential customers. The weatherization service providers verify customer eligibility and conduct an energy use assessment of eligible customers' homes. The agencies install measures based on the savings-to-investment ratio, which evaluates cost effectiveness using the present value of the measure's lifetime energy savings divided by the installation costs. The program provides eligible residential customers with appropriate weatherization measures and basic on-site energy education to satisfy the requirements of PUC SUBST. R. 25.181(p).