SOAH DOCKET NO. 473-13-4068
DOCKET NO. 41444

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TEXAS, INC. FOR AUTHORITY TO
REDETERMINE RATES FOR THE
ENERGY EFFICIENCY COST
RECOVERY FACTOR</td><td>§
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§</td><td>BEFORE THE STATE OFFICE

OF

ADMINISTRATIVE HEARINGS</td></tr>
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REBUTTAL TESTIMONY

OF

JOHN K. CARSON

ON BEHALF OF

ENTERGY TEXAS, INC.

August 6, 2013

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ENTERGY TEXAS, INC.
REBUTTAL TESTIMONY OF JOHN K. CARSON

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I. WITNESS INTRODUCTION AND QUALIFICATIONS

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

A. My name is John K. Carson. I am employed by Entergy Texas, Inc. ("ETI" or "the Company") as a Lead Account Service Manager. I manage several energy efficiency programs as well as assist with budgeting requirements and energy efficiency program forecasting. My business address is 9425 Pinecroft, The Woodlands, TX, 77380.

Q. ARE YOU THE SAME JOHN K. CARSON THAT PROVIDED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes, I am.

II. PURPOSE OF REBUTTAL TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My rebuttal testimony responds to the pre-filed direct testimony of Cities witness Karl Nalepa and Staff witnesses Therese Harris and Brian Murphy.

III. RESPONSE TO MR. NALEPA

Q. IN HIS TESTIMONY, CITIES WITNESS KARL J. NALEPA CHALLENGES HOW ETI PROJECTS ITS INCENTIVE BUDGET. CAN YOU EXPLAIN HOW ETI DEVELOPS ITS INCENTIVE BUDGET?

A. Yes. ETI develops its incentive budget for each program in consideration of the required savings goals, the previous years' program costs and savings achieved, and market conditions and other factors that may affect the program in the coming year.

For example, in the Energy Star Homes MTP (now Entergy Solutions Premium Home MTP), the Company meets with its Program Implementer each year to discuss whether the Implementer can achieve the same results in the coming year and what budget would be required to do so. This discussion may include, among other things: whether changes in market conditions will affect new construction; whether builders who have participated in the program in the past will be building the same size homes as in the previous year; whether builders will have available lots to build on and in what areas; whether there are sufficient numbers of interested customers and Project Sponsors in areas where new construction will take place; what energy efficiency code changes have been adopted by the state of Texas and how will these changes affect the program; and whether the EPA has made any changes to the Energy Star requirements for the coming year that will affect the cost to achieve savings.

As another example, in the SCORE/City Smart Market Transformation Program, the Company meets with CLEAResult Consulting each year to discuss whether the Company can achieve the same results in the coming year and what budget would be required to do so. CLEAResult Consulting is the third party implementer the Company has hired to provide technical expertise on energy efficiency matters in the commercial sector. This discussion may include, among other things: what the adequacy of current incentive levels will do to continue to attract program participation; the impact on program participation from any adjustment, upward, or downward of the incentive levels; what incentive levels could be needed to attract the newer, but more expensive technologies to the program, such as LED lighting systems. As a further example, in the Residential Program, the Company meets with its Project Sponsors each year to discuss whether the Project Sponsors can achieve the same results in the coming year and what budget would be required to do so. This discussion may include, among other things: is the budget adequate to keep the majority of the Project Sponsors active in the Company's service territory all year; will the incentive levels be adequate for the Project Sponsors to continue to provide for the installation of comprehensive measures in a home; and, are there opportunities to install additional measures in customers' homes if the incentive levels could be adjusted.

Like these examples, the budget for each of ETI's programs and measures is impacted by various factors that affect the Company's projections.

Moreover, the reasonableness of ETI's projected budgets since 2008 is further supported by the Energy Efficiency Plan and Report ("EEPR") that the Company has filed each year. Each EEPR describes the Company's planned program offerings and budgets for the upcoming year as well as the market conditions affecting these plans. I have included the annual EEPRs in my workpapers to this testimony.

Q. IS MR. NALEPA'S APPROACH TO SETTING PROJECTED INCENTIVE COST BUDGETS FOR 2014 AND PRIOR YEARS REASONABLE?

A. No. I disagree that averaged incentive payment costs per kW from two and three years ago provide an adequate basis for setting incentive budgets for the future year. Not only are energy efficiency goals increasing but the more easily achieved savings have already been achieved in prior years. Baselines for what savings should be measured against add to the challenge because more efficient building and facilities are becoming more common. Likewise, construction codes are changing and increasing the baseline energy efficiency of buildings and facilities, making additional savings more difficult. Thus, the goals become more challenging and costly to meet each year even if the savings goal were to remain the same. For example, in April of 2011, the state of Texas adopted the 2009 International Energy Conservation Code as its statewide energy efficiency code. This code change increased the baseline so that for every 1.5 kW of savings that was captured prior to the code's adoption, there would only be around 1 kW after its adoption. This means the utilities would be paying more in incentives for less kWs of savings.

I would also add that Mr. Nalepa's approach focuses only on historical costs per kW and ignores costs per kWh. Some programs, such as load management, achieve greater demand (kW) savings while other programs, such as lighting programs, achieve greater energy (kWh) savings. Mr. Nalepa's approach would disrupt the Commission's current policies as reflected in the Commission's energy efficiency rule with regard to the balance of programs offered by the utility that achieve greater kW savings as opposed to programs that achieve greater kWh savings.

Q. MR. NALEPA INDICATES ON HIS PAGE 11 THAT, AFTER TOTAL PROGRAM COSTS ARE APPROVED, ETI CAN TAKE ACTIONS SUCH AS DECREASING INCENTIVES IN ORDER TO INCREASE SAVINGS. WHAT IS YOUR RESPONSE TO THAT?

A. Decreasing incentives does not necessarily result in increased savings. If the Company is able to reduce incentives so that it can allow more customers into a program, it will do so. The point of having an energy efficiency market transformation program is to transform the market for certain measures in order to generate more interest and more costeffective savings. However, when incentives are decreased, it can result in less demand or energy savings if fewer customers or Project Sponsors participate. The Company must weigh the sustainability of its programs with the savings to be achieved before it reduces incentive levels.

ETI does not believe it can reduce its incentives and still attract sufficient numbers of customers and Project Sponsors into its programs to meet its energy efficiency goal. Reducing incentives too much can reduce savings and undermine the long-term sustainability of a program, especially in the Standard Offer Programs (SOPs) where Project Sponsors expect some consistency from year to year in the Company's program offerings.

The Commission's energy efficiency goals have increased almost every year since 2007. Therefore, ETI must develop programs that not only achieve immediate savings but also have long-term sustainability so ETI can continue to achieve those savings to meet a higher goal year after year. Keeping reliable Project Sponsors is already challenging. Most of the Project Sponsors working in the Company's programs, especially in the Residential and Hard-to-Reach SOPs, are not local companies. They come from all parts of the state. If the incentives paid by the Company are reduced too much, Project Sponsors could decide it is not worth their time to serve ETI's customers and abandon the Company's service territory in the middle of a program year. If ETI loses Project Sponsors in a program because the incentives are suddenly reduced, it could lose not only the projected savings for the coming year, but savings in future years. Without reliable Project Sponsors, ETI will not have energy efficiency programs to meet the requirements of P.U.C. SUBST. R. 25.181. Therefore, ETI would have to increase incentives to attract new Project Sponsors or would have to create new programs from scratch, both of which could be costly and make it even more difficult to project costs and savings in the future.

Q. DO YOU HAVE ANYTHING ELSE TO ADD IN RESPONSE TO MR. NALEPA'S TESTIMONY REGARDING HOW THE COMPANY PROJECTS ITS INCENTIVES?

A. Yes. It is well-documented that utilities believe that energy efficiency programs result in lost revenues for utilities.[1] The more ETI invests in energy efficiency programs, the less electricity it sells to its customers and the fewer opportunities it has to meet its revenue requirement. While ETI believes it is important to find ways to promote energy efficiency among its customers, the Company achieves no net financial gain from inflating its program costs just to sell less electricity. Even if the Company achieves a bonus for realizing higher savings, it still stands to lose money based on its increased program costs and resulting lost sales. To the extent

[1] *See Rulemaking Proceeding to Amend Energy Efficiency Rules,* Docket No. 37625 (Aug. 9, 2011).

Mr. Nalepa is suggesting that ETI is inflating its program costs to ensure it achieves a bonus, he is incorrect.

IV. RESPONSE TO STAFF TESTIMONY

Q. STAFF WITNESS MURPHY CALCULATES AN AMOUNT OF ENERGY EFFICIENCY COSTS THAT HE ASSERTS WERE INCLUDED IN ETI'S BASE RATES FOR THE FIRST HALF OF 2012, AND HE PROPOSES THAT THE AMOUNT ($37,921) BE ACCOUNTED FOR IN THE CALCULATION OF EACH RATE CLASS'S OVER- OR UNDER-RECOVERY OF PROGRAM YEAR 2012 EE COSTS. DO YOU AGREE WITH HIS PROPOSAL?

A. Without agreeing to the theory or methodology underlying Mr. Murphy's calculation, the Company does not object to Mr. Murphy's proposal that $37,921 be accounted for in the calculation of each rate class's over- or under-recovery of program year 2012 EE costs.

I will also note that Cities witness Nalepa calculates a disallowance of $54,234 with regard to this issue of the amount of energy efficiency costs included in the early 2012 rates. The Company disagrees with this calculation because it does not recognize that the early 2012 rates were based on the settlement in Docket No. 37744; Mr. Nalepa's calculation assumes the early 2012 rates reflected the actual costs incurred in 2012 when of course the early 2012 rates were set several years prior to that in Docket No. 37744.

Q. DOES THE COMPANY OBJECT TO ANY OTHER ADJUSTMENT PROPOSED BY STAFF IN ITS TESTIMONY?

A. No. In particular, ETI agrees with the adjustment related to the errata ETI filed on July 23, 2013, with regard to the amount of the performance bonus.

Further, Staff proposes that financially based incentive compensation costs ($5,794) included in ETI's 2012 program costs should be removed. Staff states that removal of these costs is consistent with recent Commission precedent. Without agreeing with the theory underlying that precedent, ETI will not object to removal of those costs as proposed by Staff.

Finally, the Company agrees with Mr. Murphy's calculation of the 2014 EECRF rates in his Exhibit BTM-2.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.