TESTIMONY INDEX

I. INTRODUCTION

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

A. My name is Rhonda R. Fahrlender. I am Energy Efficiency/Demand Response (EE/DR) Coordinator Senior for AEP Texas North Company (TNC). My business address is 910 Energy Drive, Abilene, Texas 79602.

Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I received a Bachelor of Business Administration degree from McMurry University in 1997. I was first employed by West Texas Utilities Company (the predecessor of TNC) in December 1979 in Clyde, Texas as Bookkeeper/Cashier. I then held the position of Customer Service Representative before transferring to Abilene in June 1994. In November of 1996, I transferred to the Customer Accounting department as a Staff Associate and then Senior Staff Associate. In August 2000, I assumed my current duties as EE/DR Coordinator for TNC. In my current position, I am responsible for administering programs in compliance with the Public Utility Regulatory Act provisions and the Public Utility Commission of Texas (PUC or Commission) rules for energy efficiency. I hold professional certifications with the Association of Energy Engineers (AEE) as a Certified Energy Manager, Certified Energy Auditor, Certified Measurement and Verification Professional, and Certified Demand-Side Management Professional.

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

A. Yes, I have previously filed testimony before the PUC in the following dockets:

- Docket No. 39361, TNC's Application to Adjust Energy Efficiency Cost Recovery Factor (EECRF) and Related Relief;
- Docket No. 40358, TNC's Application to Adjust Energy Efficiency Cost Recovery Factor and Related Relief;
- Docket No. 41539, TNC's Application to Adjust Energy Efficiency Cost Recovery Factor and Related Relief; and
- Docket No. 42509, TNC's Application to Adjust Energy Efficiency Cost Recovery Factor and Related Relief.

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

A. Yes, I sponsor Schedules L through O and Schedule R. In addition, I cosponsor Schedule A with TNC witnesses Robert Cavazos and Jennifer L. Jackson. I also cosponsor Schedule B with TNC witness Jackson and Schedules J, P and S with TNC witness Cavazos.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my testimony is to present information supporting TNC's request to adjust its EECRF for 2016. As Mr. Cavazos discusses in his direct testimony, TNC seeks an adjustment in 2016 to reflect:

- recovery of $1,480,871, which is the amount of TNC's projected 2016 energy efficiency program costs that exceeds the energy efficiency costs expressly included in TNC's prior base rate order adjusted for 2014 revenue according to 16 Tex. Admin. Code § 25.181(f)(1)(B) (TAC);

- recovery of $32,247, which is TNC's share of the projected Evaluation, Measurement and Verification (EM&V) cost for evaluating Program Year (PY) 2015;
- return to customers of $330,517, which is the amount of TNC's over-recovered energy efficiency costs in 2014;
- recovery of $16,955, which is the amount of municipal EECRF proceeding expenses incurred in 2014, as allowed by 16 TAC § 25.181(f)(3)(B); and
- recovery of $518,092, which is the amount of TNC's performance bonus earned from actual energy efficiency achievements in PY 2014.

The total amount that TNC requests be recovered through its adjusted 2016 EECRF is $1,717,648.

In my direct testimony, I first outline the energy efficiency goals established by Public Utility Regulatory Act, Tex. Util. Code Ann. § 39.905 (West 2007 & Supp. 2014) (PURA). I also discuss the impact of the identification notice referenced in 16 TAC § 25.181(w). I then present the actual energy efficiency expenditures incurred by TNC for its PY 2014 programs, 2014 municipal EECRF proceeding expenses, and EM&V costs incurred in PY 2014. I also present TNC's plans and projected costs to achieve its energy efficiency objectives for PY 2016 and explain the projected PY 2015 EM&V costs to be recovered through the 2016 EECRF. Finally, I describe the programs TNC implemented during PY 2014 and the plans and programs TNC will implement to achieve its energy efficiency objectives for PY 2016.

III. ENERGY EFFICIENCY REQUIREMENTS AND OBJECTIVES

A. Statutory and Regulatory Requirements

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

A. As discussed by Mr. Cavazos 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 utility's annual growth in demand of residential and commercial customers beginning with the 2013 program year, but not less than the previous year.
- Once the utility's demand reduction goal is equivalent to at least four-tenths of one percent of its summer weather-adjusted peak demand for the combined residential and commercial customers for the previous program year, the utility's goal shall be four-tenths of one percent of its summer weather-adjusted peak demand for the combined residential and commercial customers for the previous program year, but not less than the previous 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. HAS THE COMMISSION ADOPTED RULES TO IMPLEMENT PURA §39.905?

A. Yes, 16 TAC § 25.181 has been adopted to implement PURA §39.905.

Q. WHAT ARE SOME OF THE KEY COMPONENTS OF 16 TAC § 25.181?

A. Some of the key components of 16 TAC § 25.181 are:

- An electric utility shall administer energy efficiency programs to acquire a 30% reduction of its annual growth in demand of residential and commercial customers until the demand reduction goal to be acquired is at least four-tenths of 1% of its summer weather-adjusted peak demand for the combined residential and commercial customers for the previous program year.
- Once the demand reduction goal to be acquired is equivalent to at least four-tenths of 1% of its summer weather-adjusted peak demand for the combined residential and commercial customers for the previous program year, the utility shall acquire four-tenths of 1% of its summer weather-adjusted peak demand for the combined residential and commercial customers for the previous program year.

- A utility's demand goal in any year shall not be lower than its goal for the prior year.
- Utilities are encouraged to achieve demand reduction and energy savings through a portfolio of cost-effective programs that exceed each utility's energy efficiency goals while staying within the required cost caps.
- A utility shall adjust an EECRF to timely recover forecasted annual energy efficiency program costs in excess of the actual energy efficiency revenues collected from base rates, the preceding year's over- or under-recovery including municipal and utility EECRF proceeding expenses, any performance bonus earned, and EM&V costs assigned to the utility.
- 16 TAC § 25.181(h) allows a utility exceeding its minimum demand and energy reduction goals 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 the previous program year's 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.
- An EM&V framework is included to evaluate program portfolio performance and to measure and verify estimated demand and energy impacts reported for those programs.
- Qualifying industrial customers taking electric service at distribution voltage may submit a notice to identify metering points for their industrial processes, which allows those metering points to not be charged for any costs associated with programs provided through the EECRF.

Q. HOW DOES TNC IMPLEMENT THESE REQUIREMENTS?

A. TNC develops and offers cost-effective energy efficiency programs to third-party EESPs as defined in 16 TAC § 25.181(c)(17), who in turn market their services to end-use retail residential and commercial customers. These programs offer incentives to encourage third-party EESPs, REPs and/or customers to participate as project sponsors of energy efficiency measures. The project sponsors then supply and install

the measures at homes or businesses that produce the energy efficiency savings that TNC reports to satisfy the energy efficiency objectives of its programs. The Commission's energy efficiency rule allows commercial customers with a peak demand of 50 kilowatts (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 TNC must procure the necessary demand reduction and energy savings from participating project sponsors to meet TNC's objectives for that year. The energy efficiency savings may be in the form of reduction in summer or winter peak demand (kW), energy usage (kWh), or both. TNC 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 SOP.

A. Pursuant to 16 TAC § 25.181(c)(56), an SOP is defined as a program under which a utility administers standard offer contracts between the utility and the EESP. A standard offer contract specifies standard payments based upon the amount of energy and peak demand savings achieved through energy efficiency measures, the measurement and verification (M&V) protocols, and other terms and conditions, consistent with 16 TAC § 25.181.

Q. PLEASE DEFINE THE TERM MTP.

A. Pursuant to 16 TAC § 25.181(c)(37), an MTP is defined as a strategic program intended to induce lasting structural or behavioral changes in a market that result in increased adoption of energy efficiency technologies, services, and practices.

B. Annual Demand Reduction Goal

Q. PLEASE DESCRIBE TNC's DEMAND REDUCTION GOAL REQUIREMENT.

A. Pursuant to 16 TAC § 25.181(e)(1) TNC is required to acquire a 30% reduction of its annual growth in demand of residential and commercial customers until that goal is equivalent to at least four-tenths of 1% (the trigger) of TNC's summer weather-adjusted peak demand for the combined residential and commercial customers for the previous program year. Once that trigger is reached, TNC shall acquire four-tenths of 1% of its summer weather-adjusted peak demand for the combined residential and commercial customers for the previous program year. In addition, 16 TAC § 25.181(e)(1)(E) also states that, except as adjusted in accordance with subsection (w) of the rule, a utility's demand reduction goal in any year shall not be lower than its goal for the prior year, unless the Commission establishes a goal for a utility pursuant to paragraph (2) of 16 TAC § 25.181(e).

Q. HAS TNC MET THE TRIGGER DESCRIBED IN 16 TAC § 25.181(e)(1)(C)?

A. Yes. TNC met the trigger when calculating its goal for PY 2015.

Q. PLEASE DESCRIBE HOW TNC'S FOUR-TENTHS OF 1% DEMAND REDUCTION GOAL IS CALCULATED.

A. TNC's summer weather-adjusted peak demand for its combined residential and commercial customers for 2014 was 1,002 MW; therefore its four-tenths of 1% goal is 4.01 MW.

Q. COULD THE IDENTIFICATION NOTICE REQUIREMENT AFFECT THE UTILITY'S CALCULATED GOAL FOR ENERGY EFFICIENCY?

A. Yes. Pursuant to 16 TAC § 25.181(w) the utility's demand reduction goal is required to be adjusted to remove any load identified as a result of the identification notice provision.

Q. ARE ANY SUCH NOTICES TO BE EFFECTIVE IN PY 2016?

A. Yes. TNC received identification notices prior to February 1, 2015 for 160 ESIDs representing 9,873 kW.

Q. WHAT IS TNC'S DEMAND REDUCTION GOAL TO BE ACHIEVED IN PY 2016?

A. The demand reduction goal for TNC to achieve in PY 2016 is 4.26 MW, based on the requirements in 16 TAC § 25.181(e)(1)(E) and as adjusted in accordance with subsection (w). The minimum PY 2016 demand reduction goal is set forth in Schedule N that I sponsor. TNC, however, projects it will achieve as much as 5.72 MW of demand reduction from the programs it will implement in PY 2016. As Mr. Cavazos explains in his testimony, TNC interprets PURA §39.905 and 16 TAC § 25.181 as intended to encourage as much cost-effective energy efficiency as can reasonably be achieved under the limits set forth in the statute and rule.

Q. WERE LINE LOSSES INCORPORATED IN THE CALCULATION OF THE DEMAND REDUCTION GOAL?

A. Yes. Calculation of the demand reduction goal used the line loss numbers referenced in Table 4 of its 2015 Energy Efficiency Plan and Report. Line losses are derived from the loss factors determined in TNC's most recent line loss study.

C. Annual Energy Savings Goal

Q. HOW IS THE ENERGY SAVINGS GOAL CALCULATED UNDER 16 TAC § 25.181?

A. The minimum energy savings goal is calculated from the utility's calculated demand goal, using a 20% conservation load factor, as set forth in 16 TAC § 25.181(e)(4).

Q. WHAT IS TNC'S ENERGY SAVINGS GOAL TO BE ACHIEVED IN PY 2016?

A. The energy savings goal for TNC to achieve in PY 2016 is 7,464 Megawatt-hour (MWh). The PY 2016 energy savings goal is set forth in Schedule N. TNC projects, however, to achieve as much as 11,372 MWh of energy savings from the programs it will implement in PY 2016. As I mentioned above and as Mr. Cavazos explains in his testimony, TNC interprets PURA §39.905 and 16 TAC § 25.181 as 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.

D. Process to Achieve Savings

Q. WILL TNC OFFER PROGRAMS TO ACHIEVE THESE PY 2016 SAVINGS?

A. Yes, I discuss the programs that TNC will offer in Section V of my testimony. TNC's energy efficiency program portfolio is designed to achieve both its demand reduction and energy savings objectives for PY 2016.

Q. WILL ALL ELIGIBLE CUSTOMERS HAVE ACCESS TO ENERGY EFFICIENCY PROGRAMS OFFERED BY TNC?

A. Yes, except for industrial customers who have submitted an identification notice, all customers in the residential and commercial customer classes will have access to the energy efficiency programs offered by TNC.

IV. ENERGY EFFICIENCY COSTS

A. PY 2014

Q. WHAT COSTS DID TNC INCUR WITH ITS PY 2014 ENERGY EFFICIENCY PROGRAMS?

A. The costs incurred by TNC to implement its PY 2014 energy efficiency programs totaled $2,810,627, as shown in Schedule B.

Q. WERE TNC'S ACTUAL PY 2014 ENERGY EFFICIENCY COSTS LESS THAN THE ENERGY EFFICIENCY AMOUNT PROJECTED FOR PY 2014?

A. Yes. TNC's total energy efficiency costs for PY 2014 were about 1.5% ($44,334) less than the $2,854,961 projected amount.

Q. WERE TNC'S PY 2014 PROGRAM PORTFOLIO COSTS LESS THAN OR EQUAL TO THE BENEFITS OF THE PROGRAMS?

A. Yes. The benefit-cost ratio for TNC's entire PY 2014 program portfolio is shown in Schedule P. The estimated useful life for each measure in each program is provided in Schedule M.

Q. PLEASE DESCRIBE TNC'S PY 2014 ADMINISTRATIVE COSTS.

A. TNC's PY 2014 administrative costs included costs to conduct outreach and workshops to explain programs to EESPs and REPs and costs to review incentive reports and conduct field site inspections of installed measures. Administrative duties also included continuous review and monitoring of all programs for successful program implementation. Costs associated with work activities regarding regulatory reporting and special projects are considered administrative costs and are included in TNC's administrative costs.

Q. DID TNC'S PY 2014 ADMINISTRATIVE COSTS INCLUDE ANY AFFILIATE COSTS?

A. Yes. Affiliate costs are discussed by TNC witnesses Cavazos and Brian Frantz.

Q. DID TNC HAVE ANY EXPENSES ASSOCIATED WITH R&D IN PY 2014?

A. Yes. TNC expended $122,513 for R&D in PY 2014, as shown in Schedule B.

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

A. TNC's PY 2014 R&D projects included costs related to identifying, developing and implementing necessary enhancements to its electronic data collection and management systems to incorporate updates for new program requirements, regulatory requirements, and deemed savings values; and costs associated with researching new technologies and energy efficiency program ideas. TNC also participated with the Electric Utility Marketing Managers of Texas (EUMMOT) in research activities that included providing technical support for the Texas Technical Reference Manual.

All of the R&D expenditures incurred in PY 2014 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. PLEASE DESCRIBE TNC'S PY 2014 EXPENDITURES FOR ITS TARGETED LOW-INCOME PROGRAM.

A. As required by 16 TAC § 25.181(r), TNC expended $281,048 in PY 2014 for the targeted low-income energy efficiency program, which is 10% of TNC's PY 2014 energy efficiency budget.

Q. HAS TNC PROVIDED INFORMATION REGARDING THE BIDDING AND ENGAGEMENT PROCESS USED FOR CONTRACTING WITH EESPs?

A. Yes. Schedule L describes the process TNC used to select and contract with EESPs.

Q. DID ANY SINGLE EESP RECEIVE MORE THAN 5% OF TNC'S OVERALL PY 2014 INCENTIVE PAYMENTS?

A. Yes. Please see Confidential Schedule J for a list of EESPs receiving more than 5% of TNC's PY 2014 overall incentive payments.

B. 2014 EECRF Proceeding Expenses

Q. DOES TNC REQUEST RECOVERY OF ANY COSTS RELATED TO ITS 2014 EECRF PROCEEDING?

A. Yes. TNC requests recovery of $16,955 for municipal rate case expenses incurred as a result of its 2014 EECRF proceeding, Docket No. 42509.

Q. WHY DID TNC INCLUDE MUNICIPAL RATE CASE EXPENSES?

A. 16 TAC § 25.181(f)(3) states that an EECRF proceeding is a ratemaking proceeding for the purposes of PURA §33.023 and that EECRF proceeding expenses are to be included in the EECRF. TNC has included municipal expenses incurred for the 2014 EECRF proceeding, as allowed by 16 TAC § 25.181(f)(3)(B).

C. 2014 EM&V Costs

Q. DID TNC INCUR ANY COSTS IN 2014 FOR EM&V?

A. Yes. TNC incurred $53,819 in costs paid to the statewide EM&V contractor.

D. 2016 Projected Energy Efficiency Program Costs

Q. WHAT ARE TNC'S ENERGY EFFICIENCY PLANS FOR PY 2016?

A. As shown in Schedule A, TNC will implement 10 energy efficiency programs in PY 2016 with a total projected cost of $2,987,851, which includes R&D and EM&V activities. The 10 energy efficiency programs are described in Schedule R and are designed to allow TNC to achieve its energy efficiency objectives for PY 2016. This portfolio of programs will continue to encourage EESPs and REPs to provide energy efficiency services to all qualifying residential and commercial customers. Each year TNC reviews the programs and activities that have taken place to improve its plan for the upcoming year. TNC has selected the programs that it believes will achieve its PY 2016 objectives and comply with PURA provisions and the PUC rules.

Q. HOW DID TNC DETERMINE ITS PY 2016 ENERGY EFFICIENCY OBJECTIVES?

A. TNC first determined to achieve even greater cost-effective energy efficiency savings than required. TNC then allocated portions of its PY 2016 projected program costs among customer classes using criteria such as customer counts, historical cost allocation, and previous program success. The Hard-to-Reach SOP and the Targeted Low-Income Energy Efficiency Program were designed to comply with PURA provisions and the Commission rule. TNC then estimated projected impacts from each program based on historical results and previous years' experience. Projected impacts from all programs within each customer class were then combined to formulate customer class projected savings. Finally, all projected customer class

savings were added together to produce TNC's PY 2016 energy efficiency objectives, as shown in Schedule O.

Q. ARE THERE SPECIFIC TYPES OF ADMINISTRATIVE COSTS ASSOCIATED WITH THE PY 2016 ENERGY EFFICIENCY PROGRAMS?

A. Yes. Administrative costs for PY 2016 will include conducting workshops to explain programs to EESPs and REPs, conducting program outreach and marketing, reviewing M&V plans for some projects that do not utilize deemed savings measures, and performing field site inspections of installed measures. Administrative costs also include the development, review and selection of new or revised programs that may be considered for successful program implementation. Costs associated with work activities regarding energy efficiency regulatory reporting and special projects are also considered administrative costs and are included as shown in Schedule A.

Q. DOES TNC INCLUDE ANY R&D ACTIVITIES IN ITS PROJECTED COSTS FOR PY 2016?

A. Yes. TNC's PY 2016 projected costs include $200,000, or about 6.8% of its total projected program costs, for R&D activities, as referenced in Schedule A.

E. 2016 EM&V Costs

Q. DOES TNC INCLUDE ANY EM&V COSTS AS PART OF ITS PROJECTED PY 2016 COSTS?

A. Yes. TNC includes $32,247 as its apportioned PY 2015 EM&V costs as shown in Schedule A.

Q. PLEASE EXPLAIN THE EM&V COSTS TNC INCLUDES IN ITS 2016 PROJECTED ENERGY EFFICIENCY COSTS.

A. Pursuant to 16 TAC § 25.181, TNC has been assigned a portion of the state-wide EM&V costs. TNC's share of these EM&V costs to evaluate PY 2015 will be incurred in 2015 and 2016 and is projected to be $32,247. As discussed by Mr. Cavazos in his testimony, TNC has included the projected EM&V costs to evaluate PY 2015 as part of the recovery it is seeking for projected 2016 expenses as provided in 16 TAC § 25.181(q)(10).

V. ENERGY EFFICIENCY PROGRAMS

A. PY 2014 Programs

Q. WHAT PROGRAMS DID TNC OFFER IN PY 2014 TO ACHIEVE ITS ENERGY EFFICIENCY OBJECTIVES?

A. TNC offered the following programs in PY 2014:

- A/C Distributor Pilot MTP
- Commercial Solutions MTP
- Commercial SOP
- Hard-to-Reach SOP
- Irrigation Load Management MTP
- Load Management SOP
- Open MTP
- Residential SOP
- SCORE/CitySmart MTP
- SMART Source^{SM} Solar PV MTP
- Targeted Low-Income Energy Efficiency Program

Q. PLEASE DESCRIBE THE A/C DISTRIBUTOR PILOT MTP.

A. The A/C Distributor Pilot MTP targets a select number of air conditioning (A/C) distributors in one or more cities served by TNC. The objective of the program is to increase the market penetration of high-efficiency A/C equipment for residential customers served by TNC. Incentives are paid to the distributor for the installation of high-efficiency A/C equipment of up to five tons in cooling capacity.

Q. PLEASE DESCRIBE THE COMMERCIAL SOLUTIONS MTP.

A. The Commercial Solutions MTP identifies a variety of commercial customers having a high likelihood of needing energy efficiency improvements 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 a lack of understanding of energy efficiency project funding. The Commercial Solutions MTP provides education and information to such customers, and provides monetary incentives to encourage them to take action to improve the energy efficiency of their facilities.

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. Examples of eligible customer sites include hotels, schools, manufacturing facilities, restaurants, and larger grocery and retail stores. These types of customers install eligible measures such as lighting systems, new or replacement chiller systems, high efficiency pumping systems, and other energy efficiency 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 are paid on the basis of verified peak demand and/or energy savings using the International Performance Measurement and Verification Protocol.

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

A. The Hard-to-Reach SOP targets a specific subset of residential customers defined by 16 TAC § 25.181(c)(27). The hard-to-reach customer is one whose total annual household income is at or below 200% of the federal poverty guidelines. The program provides incentives for the installation of a wide range of measures that reduce residential customer energy costs and 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 IRRIGATION LOAD MANAGEMENT MTP.

A. The Irrigation Load Management MTP targets commercial agricultural customers using electric drive irrigation pumps with at least 25 kW of electric peak demand. Incentive payments are based on measured and verified demand reduction of irrigation pump loads during the summer peak period. Load management events are dispatched by TNC, using a one-hour-ahead notice for curtailment periods of one to four hours duration. The third-party program implementer installs remote control and

communications hardware at each pump to enable shutdown of pumps during load management events.

Q. PLEASE DESCRIBE THE LOAD MANAGEMENT SOP.

A. The Load Management SOP targets commercial customers that have a minimum demand of 500 kW. Incentives are paid to project sponsors that can 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 OPEN MTP.

A. The Open MTP targets traditionally underserved small commercial customers who may not employ knowledgeable personnel with a focus on energy efficiency, who are limited in the ability to implement energy efficiency measures, and/or who typically do not actively seek the help of a professional EESP. Small commercial customers with a peak demand not exceeding 100 kW in the previous 12 consecutive billing months may qualify to participate in the program. The program is intended to overcome market barriers for participating contractors by providing technical support and incentives to implement energy efficiency upgrades and produce demand and energy savings.

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 by REPs and EESPs. 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 SCORE/CITYSMART MTP.

A. The Schools COnserving REsources/CitySmart (SCORE/CitySmart) MTP provides energy efficiency and demand reduction solutions for cities and public schools. In 2014, 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 SMART SOURCE^{SM} SOLAR PV MTP.

A. The SMART Source^{SM} Solar PV MTP offers a financial incentive for residential and commercial installations of solar electric (photovoltaic) systems interconnected on the customer's side of the electric service meter. The goal of this program is to transform the market by increasing the number of qualified companies offering installation services and by decreasing the average installed cost of systems, creating economies of scale.

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

A. TNC's Targeted Low-Income Energy Efficiency Program is designed to cost-effectively reduce the energy consumption and energy costs of TNC's low-income customers. The program provides eligible residential customers with appropriate weatherization measures and basic on-site energy education.

B. PY 2014 Achievements

Q. PLEASE DESCRIBE TNC'S REQUIRED DEMAND REDUCTION GOAL AND THE RESULTS THAT WERE ACHIEVED IN PY 2014.

A. TNC's required demand reduction goal to be achieved in PY 2014 was 4.26 MW. TNC's actual 2014 demand reduction achieved was 8.15 MW of peak demand savings.

Q. PLEASE DESCRIBE TNC'S REQUIRED ENERGY REDUCTION GOAL AND THE RESULTS THAT WERE ACHIEVED IN PY 2014.

A. TNC's required energy reduction goal to be achieved in PY 2014 was 7,464 MWh. TNC's actual energy reduction achieved was 11,867 MWh.

Q. PLEASE DESCRIBE THE AMOUNT OF DEMAND REDUCTION THAT TNC ACHIEVED FROM ITS HARD-TO-REACH PROGRAMS.

A. TNC achieved demand reductions of 224 kW (0.224 MW) from its Hard-to-Reach SOP and 110 kW (0.110 MW) from its Targeted Low-Income Energy Efficiency Program. The total demand reduction from both hard-to-reach programs was 334 kW (0.33 MW).

Q. DID TNC ACHIEVE MORE THAN 5% OF ITS 2014 STATUTORY DEMAND REDUCTION GOAL FROM ITS HARD-TO-REACH PROGRAMS?

A. Yes, TNC achieved 8% of its PY 2014 statutory demand reduction goal from its hard-to-reach programs.

Q. DOES TNC REQUEST A PERFORMANCE BONUS FOR PY 2014?

A. Yes, it does. Mr. Cavazos discusses in more detail the $518,092 performance bonus requested by TNC for its PY 2014 results.

Q. SHOULD TNC BE GRANTED ITS REQUESTED PERFORMANCE BONUS?

A. Yes, TNC should be granted its performance bonus set forth in Schedule D.

C. PY 2016 Programs

Q. WHAT PROGRAMS WILL TNC OFFER IN PY 2016 TO ACHIEVE ITS ENERGY EFFICIENCY OBJECTIVES?

A. TNC will offer the following programs in PY 2016:

- Commercial Solutions MTP
- Commercial SOP
- Efficiency Connection Pilot MTP
- Hard-to-Reach SOP
- Load Management SOP
- Open MTP
- Residential SOP
- SCORE/CitySmart MTP
- SMART Source^{SM} Solar PV MTP
- Targeted Low-Income Energy Efficiency Program

Q. WHAT IS THE PY 2016 PROJECTED COST FOR EACH PROGRAM?

A. Please refer to Schedule A, which details the PY 2016 projected cost for each of TNC's programs and its total PY 2016 projections.

Q. WHAT ARE THE PROJECTED SAVINGS FROM EACH PROGRAM?

A. Please refer to Schedule O, which contains the PY 2016 projected savings to be achieved by each program.

VI. CONCLUSION

Q. DO TNC'S ENERGY EFFICIENCY COSTS INCURRED IN PY 2014 COMPLY WITH THE COMMISSION RULE?

A. Yes. The costs incurred in connection with the PY 2014 energy efficiency programs were reasonable and necessary to provide energy efficiency to residential and commercial customers and were properly incurred consistent with 16 TAC § 25.181(f).

Q. DO TNC's CALCULATIONS OF ITS ENERGY EFFICIENCY GOALS, OBJECTIVES, AND PROJECTED COSTS TO BE INCURRED IN PY 2016 AND INCLUDED IN THE ADJUSTED 2016 EECRF COMPLY WITH THE COMMISSION RULE?

A. Yes. TNC's statutory minimum goals to be achieved in PY 2016 are 4.26 MW of demand reduction and 7,464 MWh of energy reduction, and are in compliance with the Commission rule. As discussed above and in Mr. Cavazos' testimony, in order to satisfy PURA §39.905 and the Commission rule that utilities achieve as much energy efficiency savings as reasonably possible within the limitations in the statute and the rule, TNC has established energy efficiency objectives for PY 2016 above the minimum goals in the statute and rule. The $2,987,851 that TNC projects it will incur in PY 2016 is a reasonable estimate of the costs necessary to provide energy

efficiency programs to meet TNC's energy efficiency objectives for PY 2016 in furtherance of PURA §39.905 and 16 TAC § 25.181.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

PUC DOCKET NO. 44718

PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF

AEP TEXAS NORTH COMPANY

TO ADJUST

ENERGY EFFICIENCY COST RECOVERY FACTOR AND RELATED RELIEF

DIRECT TESTIMONY OF

BRIAN J. FRANTZ

FOR

AEP TEXAS NORTH COMPANY

JUNE 1, 2015

TESTIMONY INDEX

EXHIBITS

I. INTRODUCTION

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

A. My name is Brian J. Frantz. My business address is 1 Riverside Plaza, Columbus, Ohio 43215. I am currently Manager, Regulated Accounting, of American Electric Power Service Corporation (AEPSC), a wholly-owned subsidiary of American Electric Power, Inc. (AEP).

Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY WITH AEPSC?

A. I am responsible for maintaining the accounting books and records, and regulatory reporting for AEPSC. I am also responsible for AEPSC's monthly service billings to its affiliates. My responsibilities for AEPSC also include compliance with the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts accounting and reporting requirements.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I attended Ohio University and received a Bachelor of Business Administration degree, with an emphasis in Accounting in 1999. I have been employed by AEPSC since March 2005, when I was hired as a Staff Accountant in the Wholesale Commodity Accounting group. In May 2010 I was promoted to Supervisor of the Fuel and Contract Accounting group. In August 2013 I was promoted to Administrator of Regulated Accounting. In December 2013 I was promoted to Manager Regulated Accounting where I was responsible for the books and records for four operating companies (Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company and AEP Generating Company). I moved to

my present position in November 2014. Prior to my employment with AEP, I spent approximately one year in a financial reporting role and five years in various roles in public accounting.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY COMMISSIONS?

A. No.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony addresses several areas relating to the affiliate services provided in support of TNC's energy efficiency programs, including:

- An explanation of how affiliate services related to energy efficiency activities are assigned to TNC;
- A discussion of the workings of the affiliate billing systems for the services provided to TNC and the other AEP utility operating companies;
- A demonstration that the work order billing system ensures that TNC's charges are no higher than those of other AEP affiliates for the same services or types of services;
- The Texas standards governing recovery of affiliate costs; and
- A review of the affiliate costs included in this filing.

Q. DO YOU SPONSOR ANY SCHEDULES IN THE FILING?

A. Yes, I co-sponsor Schedule K with TNC witness Robert Cavazos.

Q. WHAT EXHIBITS DO YOU SPONSOR?

A. I sponsor EXHIBITs BJF-1 and BJF-2 as listed in the index to my testimony.

III. AFFILIATE COST ACCOUNTING AND OVERSIGHT

A. Assignment of Affiliate Costs to TNC

Q. HOW ARE AFFILIATE SERVICES RELATED TO ENERGY EFFICIENCY ACTIVITIES ASSIGNED TO TNC?

A. AEPSC uses a work order system designed for the express purpose of meeting the FERC requirements to fairly allocate common charges among AEP affiliates and to do so at cost. By using a work order system, the expenses for specific projects are identified and the work orders are assigned specific and approved benefiting locations and allocation factors. Common costs are allocated based on the factor that best matches the charge with the cost driver related to the service, and that same factor is applied to all companies in proportion to the benefit they received from the service.

The costs for services benefiting only one company are directly assigned and are billed 100% to that company. AEPSC and operating company employees directly assign costs to the maximum extent practicable by coding their time to unique work orders. Unique work orders have also been established for billing of certain affiliate support services exclusively performed for the TNC energy efficiency programs, which allow the associated costs billed to energy efficiency programs to be tracked and readily identified.

Q. HOW DOES AEPSC BILL FOR THE SERVICES IT PROVIDES TO TNC AND OTHER AFFILIATES?

A. Services are billed by AEPSC at cost, without any profit. Included in the billings for AEPSC labor are overheads for benefits (i.e. medical, dental, pension), payroll taxes, nonproductive time (sick time, vacation time, jury duty, etc.), and departmental

charges for certain costs, such as personal computers and the maintenance of automated accounting systems required to provide a service. To the extent third-party labor under a contract with AEPSC is involved, the contract labor charges are at the contract employee's hourly rate paid by AEPSC to the contractor providing the services, without any profit to AEPSC.

Q. HOW DOES THE WORK ORDER SYSTEM ENSURE THAT AEPSC'S CHARGES TO TNC ARE NO HIGHER THAN THE CHARGES TO OTHER AFFILIATES FOR THE SAME OR SIMILAR SERVICES, AND THAT THE CHARGES REASONABLY REFLECT THE ACTUAL COST OF PROVIDING THE SERVICE TO TNC?

A. Through the use of the AEPSC work order system, TNC and every other affiliate included in the benefiting locations receiving a shared service is charged the same unit price that is its appropriate share of the actual cost of the service. Accordingly, consistent with the requirements of the Public Utility Regulatory Act, Tex.Util.Code Ann. § 36.058(c)(2) (West 2007 & Supp. 2014) (PURA), the price charged to TNC for the service (AEPSC's actual cost) is no higher than the price charged to the other affiliates receiving the same service (AEPSC's actual cost).

Q. ARE TNC'S AFFILIATE CHARGES REASONABLE AND NECESSARY?

A. Yes, the affiliate services provided by AEPSC and AEP Texas Central Company (TCC) are reasonable and necessary costs of TNC's provision of energy efficiency programs. These services have been reasonably and necessarily incurred to support the energy efficiency programs as set forth in EXHIBITs BJF-1 and BJF-2 and within the testimonies of Mr. Cavazos and Ms. Rhonda R. Fahrlender.

B. Standards Governing Recovery of Affiliate Costs

Q. ARE AFFILIATE EXPENSES ADDRESSED IN PURA?

A. Yes, affiliate expenses are addressed by PURA § 36.058. PURA § 36.058 allows an electric utility to include in its revenue requirement payments to affiliates that meet the requirements of PURA § 36.058(b). PURA § 36.058(b), in turn, directs the Commission to allow recovery of affiliate payments "only to the extent that the regulatory authority finds the payment is reasonable and necessary for each item or class of items..." In addition, PURA § 36.058(c) requires that the Commission find that "the price to the electric utility [for the affiliate service] is not higher than the prices charged by the supplying affiliate for the same item or class of items" to other affiliates or to non-affiliated persons. Because the billings of AEPSC and other AEP utility operating companies to TNC are affiliate charges, the requirements of PURA § 36.058 apply to those billings. PURA § 36.058(f) provides:

> (f) If the regulatory authority finds that an affiliate expense for the test period is unreasonable, the regulatory authority shall:
> (1) determine the reasonable level of the expense; and
> (2) include that expense in determining the electric utility's service.

Q. DOES THE COMMISSION ALSO HAVE RULES PERTINENT TO THE REVIEW OF AFFILIATE TRANSACTIONS?

A. Yes. 16 Tex. Admin. Code § 25.272 (TAC) discusses the code of conduct with which electric utilities and their affiliates must comply. Specifically, 16 TAC § 25.272(e)(1) states:

> ...In accordance with PURA and the commission's rules, a utility and its affiliates shall fully allocate costs for any shared services, including corporate support services, offices,

employees, property, equipment, computer systems, information systems, and any other shared assets, services, or products.

Q. HOW ARE CORPORATE SUPPORT SERVICES DEFINED IN THE SUBSTANTIVE RULES?

A. 16 TAC § 25.272(c)(4) defines corporate support services as those "joint corporate oversight, governance, support systems and personnel," "shared by a utility, its parent holding company, or a separate affiliate created to perform corporate support services...." AEPSC is such an affiliate. This section of the rule further provides examples of the types of support services that may be shared, including accounting, human resources, procurement, information technology, regulatory services, legal services, environmental services, research and development, internal audit, community relations, and corporate services, among others. The services provided to TNC by AEPSC are of the same type referenced in the Commission's rule.

Q. DO THE AFFILIATE COSTS INCLUDED IN TNC'S FILING COMPLY WITH APPLICABLE STANDARDS IN TEXAS STATUTES AND RULES?

A. Yes, they do. Along with witness Cavazos I will discuss how the costs meet the tests for being reasonable and necessary, and that these costs are no higher than prices charged by the affiliate to others.

IV. ENERGY EFFICIENCY AFFILIATE COSTS

Q. WERE ANY AFFILIATE SERVICES PROVIDED IN SUPPORT OF TNC'S ENERGY EFFICIENCY PROGRAMS IN 2014?

A. Yes. TNC received affiliate services in 2014.

Q. PLEASE DESCRIBE THE AFFILIATE SERVICES RECEIVED BY THE COMPANY IN 2014.

A. As shown by department and project on EXHIBIT BJF-1, TNC incurred costs for services from the following affiliates:

Table 1

TNC Affiliate Costs - 2014

Affiliate	**2014 ($)**
American Electric Power Service Corporation	29,531
AEP Texas Central Company	47,036
Total Affiliate Services Provided	76,567

Source: EXHIBIT BJF-1

The affiliate services shown above were provided primarily by the Energy Efficiency/Demand Response Programs department as detailed on EXHIBIT BJF-1. This department is comprised of employees of AEPSC, TCC, and TNC and is responsible for the overall design and implementation of the programs discussed throughout the testimonies of witnesses Cavazos and Fahrlender. Additional services are provided by the legal department in support of compliance with Texas legal requirements related to energy efficiency programs.

Q. WERE THE SERVICES PROVIDED BY THESE AFFILIATES IN 2014 REASONABLY ALLOCATED?

A. Yes, they were. As shown on EXHIBIT BJF-2, 89% of the affiliate costs were allocated between TCC and TNC, who both participate in energy efficiency programs. These services were performed in a manner to benefit TCC and TNC and were primarily shared among each company using its relative number of customers as

the allocation methodology, which is an appropriate manner in which to share the cost of such services. In addition, certain administrative activities shared among TCC and TNC were allocated based upon their relative asset bases and relative number of employees. These allocation factors are reasonable methodologies in which to share the cost of administrative services.

The remaining 11% of the affiliate costs were directly assigned to TNC for those services that were performed solely for the benefit of TNC.

Q. HOW DO THE 2014 AFFILIATE COSTS COMPARE TO TOTAL ENERGY EFFICIENCY COSTS DURING THIS PERIOD?

A. As shown in the table below, costs for affiliate services received by TNC are 3% of total energy efficiency costs during the year. The remaining cost, 97%, is incurred directly by TNC and not through an affiliate.

Table 2

TNC Affiliate Costs as Percentage of Total Costs - 2014

Category	**2014 ($)**
Affiliate Cost	76,567
Total Cost	2,810,627
Percentage of Total Cost	3%

Source: EXHIBIT BJF-1 and Schedule B

V. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. My testimony describes and supports TNC's compliance with the rules governing affiliate costs. My testimony also addresses the overall reasonableness and necessity of affiliate costs, as well as the work order system utilized to ensure that TNC pays no

more than any other AEP company for the comparable services it receives from affiliates.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

TNC Affiliate Costs - 2014

To BU grouping	TNC

Sum of Act $				Years
Cost Type	**From Department**	**To Project**	**From BU Grouping**	**2014 ($)**
Administrative Costs	10329 TX EE/DR Programs	EON100550 EE/DR Industrial Id Notice	TCC	69
		EON100550 EE/DR Industrial Id Notice Total		**69**
		EON100551 EE/DR EECRF	AEPSC	2,366
			TCC	3,882
		EON100551 EE/DR EECRF Total		**6,248**
		TXDSMANDA Texas DSM Admin & General	AEPSC	17,428
			TCC	16,830
		TXDSMANDA Texas DSM Admin & General Total		**34,258**
	10329 TX EE/DR Programs Total			**40,575**
	10764 Legal GC/Administration	TXDSMANDA Texas DSM Admin & General	AEPSC	87
		TXDSMANDA Texas DSM Admin & General Total		**87**
	10764 Legal GC/Administration Total			**87**
	13168 Legal Reg Services West	TXDSMANDA Texas DSM Admin & General	AEPSC	1,120
		TXDSMANDA Texas DSM Admin & General Total		**1,120**
	13168 Legal Reg Services West Total			**1,120**
	13263 Distr, Cust Ops, & Reg Svcs	EON100551 EE/DR EECRF	AEPSC	618
		EON100551 EE/DR EECRF Total		**618**
		TXDSMANDA Texas DSM Admin & General	AEPSC	5,491
		TXDSMANDA Texas DSM Admin & General Total		**5,491**
	13263 Distr, Cust Ops, & Reg Svcs Total			**6,109**
Administrative Costs Total				**47,892**
Program Direct Costs	10329 TX EE/DR Programs	EON100514 Dsm-Hard To Reach Std Offer	TCC	569
		EON100514 Dsm-Hard To Reach Std Offer Total		**569**
		EON100547 DSM - EM&V	AEPSC	1,281
			TCC	17,644
		EON100547 DSM - EM&V Total		**18,925**
		EON100549 EE/DR Targeted Small Bus MTP	AEPSC	7
		EON100549 EE/DR Targeted Small Bus MTP Total		**7**
	10329 TX EE/DR Programs Total			**19,502**
	13263 Distr, Cust Ops, & Reg Svcs	EON100547 DSM - EM&V	AEPSC	433
		EON100547 DSM - EM&V Total		**433**
	13263 Distr, Cust Ops, & Reg Svcs Total			**433**
Program Direct Costs Total				**19,935**
R&D Costs	10329 TX EE/DR Programs	EON100528 DSM R&D - CCET	AEPSC	532
		EON100528 DSM R&D - CCET Total		**532**
		EON100535 EE/DR R&D	AEPSC	0
			TCC	3,683
		EON100535 EE/DR R&D Total		**3,683**
		EON100542 DSM R&D-In Home Devices Pilot	TCC	4,359
		EON100542 DSM R&D-In Home Devices Pilot Total		**4,359**
	10329 TX EE/DR Programs Total			**8,574**
	13263 Distr, Cust Ops, & Reg Svcs	EON100528 DSM R&D - CCET	AEPSC	167
		EON100528 DSM R&D - CCET Total		**167**
	13263 Distr, Cust Ops, & Reg Svcs Total			**167**
R&D Costs Total				**8,741**
Grand Total				76,567

TNC Affiliate Costs - 2014 by Benefiting Location and Allocation Factor

Benefiting Location	Allocation Factor	Total	%
1397 Distribution - TCC/TNC	08 - Number of Customers	53,744	70.2%
	09 - Number of Employees	228	0.3%
	58 - Total Assets	10,825	14.1%
	61 - Total Fixed Assets	2,985	3.9%
1397 Distribution - TCC/TNC Total		67,782	88.5%
119 100% TNC	39 - Direct	8,785	11.5%
119 100% TNC Total		8,785	11.5%
Grand Total		76,567	100.0%

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APPLICATION OF

AEP TEXAS NORTH COMPANY

TO ADJUST

ENERGY EFFICIENCY COST RECOVERY FACTOR AND RELATED RELIEF

DIRECT TESTIMONY OF

JENNIFER L. JACKSON

FOR

AEP TEXAS NORTH COMPANY

JUNE 1, 2015

TESTIMONY INDEX

I. INTRODUCTION AND PURPOSE

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

A. My name is Jennifer L. Jackson. I am a Regulatory Consultant in Regulated Pricing and Analysis, part of the American Electric Power Service Corporation (AEPSC) Regulatory Services Department, 212 East Sixth Street, Tulsa, Oklahoma 74119-1295.

Q. PLEASE BRIEFLY DESCRIBE THE AEPSC REGULATORY SERVICES DEPARTMENT, YOUR CURRENT JOB RESPONSIBILITIES, AND YOUR EDUCATION.

A. AEPSC Regulatory Services is part of the American Electric Power Company, Inc. (AEP) Utilities Business Group. Among its activities, Regulatory Services provides coordination and tariff-related services to the eleven AEP operating companies, including AEP Texas North Company (TNC). As a Regulatory Consultant for AEPSC, my job duties include providing testimony, rate review analysis and support, pricing design, implementation of pricing programs, and regulatory compliance for the AEP operating companies. I have been involved in regulatory rate review and pricing design proceedings since 1991 in all four of the AEP west state jurisdictions: Arkansas, Louisiana, Oklahoma, and Texas. I have a Bachelor of Business Administration Degree with an emphasis in Marketing from Texas Tech University.

Q. HAVE YOU PREVIOUSLY SPONSORED TESTIMONY BEFORE THIS COMMISSION?

A. Yes, I have previously sponsored testimony before the Public Utility Commission of Texas (PUC or Commission) in the following dockets: 20545, 28520, 28840, 31251,

31461, 32758, 33309, 33310, 35625, 35627, 36422, 36928, 36949, 36961, 36960, 36959, 38208, 38209, 38210, 39359, 39360, 39361, 40358, 40359, 40443, 41538, 41539, 41879, 41970, 42370, 42508, and 42509. I have also sponsored testimony before the Arkansas Public Service Commission and the Oklahoma Corporation Commission.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to support the calculation of the annual re-determination of TNC's Rider EECRF - Energy Efficiency Cost Recovery Factors and to support the revised tariff (Rider EECRF) accompanying this filing, proposed to be effective March 1, 2016. The adjusted factors are proposed based on 16 Tex. Admin. Code § 25.181(f) (TAC), which among other things provides for a cost recovery factor to allow a utility to recover reasonable expenditures on energy efficiency as well as a performance bonus for exceeding its goals, recover municipal EECRF proceeding expenses, and recover Evaluation, Measurement and Verification (EM&V) costs.

Q. WHAT SCHEDULES THAT ACCOMPANY TNC'S FILING DO YOU SPONSOR?

A. I sponsor the following schedules:

Schedule	Description
Schedule E	Calculation of the 2016 Revised EECRF Factors
Schedule F	Updated Energy Efficiency Cost Recovery Factor Rider
Schedule G	Calculation of Cost Caps
Schedule H	Development of Forecasted Billing Units
Schedule I	Energy Efficiency Costs Recovered Through Base Rates
Schedule Q	System and Line Losses

I also sponsor the workpapers supporting those schedules.

Q. WHAT SCHEDULES ARE YOU CO-SPONSORING?

A. I am co-sponsoring Schedule A with TNC witnesses Robert Cavazos and Rhonda R. Fahrlender, Schedule B with TNC witness Fahrlender, and Schedule C with TNC witness Cavazos.

Q. PLEASE DESCRIBE THE SCHEDULES THAT YOU ARE SPONSORING.

A. Schedule E provides the calculation of the proposed 2016 EECRF class factors. Schedule F contains the adjusted Rider EECRF, which sets forth the adjusted 2016 EECRF factors by EECRF rate class. Schedule G provides the 2016 cost cap calculation for the requested program budget year and the 2014 actual cap calculated on 2014 actual costs and class kWh. Schedule H details the development of the forecasted EECRF class kWh for program year 2016, including historical kWh for the most recent calendar year, January through December 2014. Schedule I shows the determination of the energy efficiency costs included in base rates and the adjustment to the base rate revenues using 2014 actual billing units. Schedule Q indicates that system and line losses are not applicable in the TNC EECRF filing.

II. ADJUSTED ENERGY EFFICIENCY COST RECOVERY REVENUE REQUIREMENT

Q. WHY IS TNC REQUESTING APPROVAL OF AN ADJUSTED EECRF?

A. TNC is requesting approval of an adjusted EECRF based on 16 TAC § 25.181(f). TNC filed for and received approval for its initial Schedule EECRF in Docket No. 36959. TNC also filed for an adjustment to its EECRF in Docket Nos. 38209, 39361, 40358, 41539, and 42509. In this adjustment request, TNC is requesting:

1) recovery of the 2016 projected energy efficiency program costs in excess of the amount expressly included in TNC's prior base rate order, adjusted to account for changes in billing determinants from the test year billing determinants used to set rates in the last base rate proceeding; 2) an adjustment to the EECRF factors for the over-recovery of actual energy efficiency program costs in 2014; 3) recovery of TNC's 2014 performance bonus for demand and energy reduction that exceeded the minimum goal to be achieved in 2014; 4) recovery of municipal EECRF proceeding expenses from Docket No. 42509; and 5) recovery of the EM&V costs for evaluating program year 2015 to be recovered through the 2016 EECRF factors. TNC is requesting Commission approval of an adjusted Rider EECRF with revised factors to be effective March 1, 2016.

Q. WHAT AMOUNT EXPRESSLY SPECIFIED AS ENERGY EFFICIENCY COSTS IS INCLUDED IN TNC'S BASE RATES?

A. The Commission's final order in Docket No. 33310 expressly included $1,294,430 of energy efficiency program funding in base rates.

Q. HOW WERE THE ENERGY EFFICIENCY COSTS THAT ARE EXPRESSLY INCLUDED IN TNC'S BASE RATES ALLOCATED TO THE CLASSES?

A. The total energy efficiency program costs approved to be recovered through base rates were functionalized to both the distribution function and the customer service function. The majority (99%) of the energy efficiency program costs recovered in TNC's base rates is included in the base distribution rates. Only a small portion of the total costs is recovered through the customer service function. The energy efficiency costs included in TNC's current distribution base rates were allocated to

the classes based on each class's average 4 coincident peak (4CP) demand, the allocator used and approved in Docket No. 33310 to allocate transmission expenses to the classes. The energy efficiency costs included in the customer service function were allocated to the classes based upon total customers. Schedule I shows the allocation factors by function and the amounts included in base rates for each function by class.

Q. HAS TNC MADE AN ADJUSTMENT TO THE ENERGY EFFICIENCY REVENUES INCLUDED IN BASE RATES?

A. Yes. 16 TAC § 25.181(f)(2) states that:

> where a utility collects energy efficiency costs in its base rates, actual energy efficiency revenues collected from base rates consist of the amount of energy efficiency costs expressly included in base rates, adjusted for changes in billing determinants from the test year billing determinants used to set rates in the last base rate proceeding.

TNC has increased actual energy efficiency base revenues by $180,303 to account for changes in test year billing determinants as determined in Docket No. 33310. Total energy efficiency base revenues are adjusted to be $1,474,733 as shown in Table 1 below.

Table 1			
EECRF Rate Class	Total Energy Efficiency Costs Expressly Included In Base Rates	Adjustment to Base Revenue	Total Adj. EE Base Revenue per 16 TAC § 25.181
Residential	$602,913	$44,770	$647,684
Secondary <= 10 kW	$37,620	($454)	$37,166
Secondary > 10 kW	$476,869	$47,897	$524,765
Primary	$169,274	$88,286	$257,560
Transmission	$7,754	($195)	$7,558
Lighting	$1	($1)	$0
Total	$1,294,430	$180,303	$1,474,733

The base rate energy efficiency adjustment is represented in the 2014 over-/under-recovery (Schedule C) and the 2016 EECRF (Schedule E). Schedule I details the calculation of the base revenue adjustment, including the base rate billing determinants and the 2014 billing determinants by class. The revenue adjustment is used in the base rate revenue adjustment determination for both the 2014 actual and 2016 forecasted program years.

Q. WHAT IS TNC REQUESTING THROUGH THE ADJUSTED EECRF?

A. TNC, through this application, is requesting to adjust the EECRF cost recovery factors to reflect:

- recovery of $1,480,871 in energy efficiency program costs projected to be incurred in 2016 that exceed costs for energy efficiency included in its prior base rate order, including the revenue adjustment;
- return of $330,517 to account for the over-recovery of EECRF revenues in excess of actual energy efficiency program expenditures incurred for its 2014 programs;
- recovery of $518,092 representing earned TNC's performance bonus;
- recovery of municipal EECRF proceeding expenses from Docket No. 42509 in the amount of $16,955; and

- recovery of $32,247, representing the projected portion of statewide EM&V contractor cost assigned to TNC for evaluating program year 2015 to be recovered through the 2016 EECRF factor.

In sum, TNC requests Commission approval of the adjusted EECRF cost recovery factors as provided for in 16 TAC § 25.181(f)(1) to recover $1,717,648 in energy efficiency costs in 2016.

Q. HOW ARE THE 2016 PROGRAM COSTS SOUGHT TO BE RECOVERED THROUGH THE EECRF ASSIGNED TO EACH CLASS?

A. TNC has assigned the 2016 program costs, including the administrative portion of each program cost, to each EECRF rate class based on each class's eligibility to participate in the proposed 2016 programs. Where more than one EECRF rate class is eligible to participate in a specific program, TNC has employed an adjusted and weighted demand allocator to assign program costs across the eligible classes. TNC has employed the weighted and adjusted demand allocator to assign R&D costs across the eligible classes.

The transmission service class of customers is not allocated energy efficiency program costs through the EECRF because those customers taking service at 69 kilovolts (kV) and above are not eligible for participation in the 2016 energy efficiency programs.

Q. PLEASE DESCRIBE THE 2016 ADJUSTED DEMAND ALLOCATION FACTORS USED TO ALLOCATE COSTS THAT ARE NOT DIRECTLY ASSIGNED TO RATE CLASSES.

A. The class demand allocators from TNC's last rate case in Docket No. 33310 have been weighted to remove the lighting class and transmission customers at or above 69

kV and adjusted using 2016 projected kWh. The 2016 kWh projection has accounted for industrial customers identifying themselves under 16 TAC § 25.181(c)(30) and (w). Under 16 TAC § 25.181(c)(30) and (w), distribution voltage industrial customers that qualify for a tax exemption under Texas Tax Code §151.317 and submit an identification notice by February 1 characterizing the account as such, are not eligible for participation in energy efficiency programs through the EECRF beginning with the next calendar year. TNC has therefore removed kWh associated with those customers from the 2016 kWh projection. The removal of the identification notice customers affects the adjusted demand allocators and the calculation of the proposed class EECRF factors for 2016. The kWh associated with the identification notice customers and the resulting 2016 kWh projection are shown in Schedule H and the adjusted demand allocators are shown in the rate design workpapers supporting Schedule E.

Q. HOW IS THE 2014 OVER-RECOVERY DETERMINED?

A. The over-recovery is determined by first assessing the total energy efficiency costs incurred in program year 2014. TNC incurred total energy efficiency costs of $2,810,627, including municipal rate case expenses and EM&V in program year 2014. After rate case expenses paid in program year 2014 are removed, the total incurred cost equals $2,793,672.

Next, the total energy efficiency program revenue is recognized. TNC recovered energy efficiency program costs through its base rates, including a base rate adjustment, and through the EECRF rider. TNC recovered $1,474,733 through base rates and $1,649,457 in program costs through the EECRF rider for a total

program cost recovery of $3,124,190. The difference between total costs incurred, less municipal rate case expenses, and total program revenue determines the 2014 over-recovery amount of $330,517.

Q. HOW IS TNC ASSIGNING THE 2014 PROGRAM YEAR OVER-RECOVERY TO THE CLASSES?

A. The over-recovery assignment to each class is based on a comparison of the total program year 2014 energy efficiency revenues, including the adjusted base rate and EECRF Rider revenues by EECRF rate class, to actual 2014 program costs assigned to each EECRF rate class. The municipal rate case expenses that were included in the total program expenses in 2014 have been removed from the total 2014 program expenses and are therefore not included in the over-recovery determination for program year 2014. TNC's actual 2014 energy efficiency program costs have been directly assigned to the individual EECRF rate classes that actually participated in each program using a direct, program-by-program assignment. The 2014 administrative costs follow the assignment of the incentive costs and the R&D costs have been either directly assigned to the rate classes or allocated to the classes based on class program cost assignment. The specifics of the class assignment of the over-recovery are shown on filed Schedule C and the workpaper supporting Schedule C.

Q. HOW IS TNC ASSIGNING THE PROGRAM YEAR 2014 EARNED PERFORMANCE BONUS TO THE CLASSES?

A. TNC has assigned the program year 2014 earned performance bonus to all EECRF rate classes eligible for participation in the 2014 energy efficiency program year using an allocator based on the direct assignment of the 2014 program incentives to the

EECRF rate classes. TNC's allocation is in accordance with 16 TAC § 25.181(h)(6), which states that the bonus shall be allocated in proportion to the program costs associated with meeting the demand and energy goals and allocated to the eligible customers on a rate class basis.

Q. ARE THERE MUNICIPAL RATE CASE EXPENSES INCLUDED IN THE 2016 TOTAL REVENUE REQUIREMENT?

A. Yes. TNC was billed by the municipal entities who took part in the EECRF proceeding in Docket No. 42509 in 2014 and TNC paid those bills even though the expenses have not been included for recovery in any program year. As stated above, the Docket No. 42509 municipal EECRF case expenses have been removed from the over-recovery of the 2014 program expenses and included for recovery in program year 2016.

Q. HOW IS TNC ASSIGNING THE MUNICIPAL EECRF PROCEEDING EXPENSES TO THE CLASSES?

A. TNC has proposed to assign the municipal EECRF proceeding expenses to the classes using an allocator developed using the assignment of the 2016 program cost to the classes.

Q. HAS TNC INCLUDED EM&V COSTS IN THE 2016 REVENUE REQUIREMENT?

A. Yes. TNC has included its assigned portion of the statewide EM&V contractor costs projected for evaluating program year 2015 to be recovered in the 2016 revenue requirement pursuant to 16 TAC § 25.181(f)(1).

Q. HOW IS TNC ASSIGNING THE PROJECTED EM&V COSTS TO THE EECRF RATE CLASSES?

A. The projected program year 2015 EM&V cost cannot be directly assigned to a specific EECRF rate class. In the absence of a direct assignment of the cost, TNC has assigned the projected program year 2015 EM&V costs to the EECRF rate classes using the program year 2016 total program cost class allocator.

III. DEVELOPMENT OF CLASS ENERGY EFFICIENCY COST RECOVERY FACTORS

Q. WHAT ARE THE COMPONENTS NEEDED TO DEVELOP TNC'S ADJUSTED ENERGY EFFICIENCY COST RECOVERY FACTORS?

A. The components needed to develop the EECRF cost recovery factors include:

1) the amount of energy efficiency revenue requirement included in base rates, including the base rate adjustment;
2) the projected 2016 energy efficiency program cost provided in Schedule A;
3) the over- or under-recovery associated with the 2014 energy efficiency programs;
4) TNC's performance bonus achieved during 2014;
5) the EM&V costs for evaluating program year 2015 to be recovered through 2016 EECRF factors;
6) the 2014 actual program direct assignment to the EECRF rate classes based on actual 2014 participation and assignment of the 2016 energy efficiency program costs to the EECRF rate classes;
7) the adjusted class demand allocation factors;
8) the identification notice customers and related kWh;
9) the forecasted billing units by EECRF rate class for 2016; and
10) the municipal rate case expenses from the immediately preceding EECRF docket.

Q. HOW ARE THE EECRF FACTORS DETERMINED ONCE ALL THE COMPONENTS ARE ASSEMBLED?