Progress Energy

January 8, 2009

Mr. Charles Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Drive
Columbia, SC 29210

RE: Docket No. 2008-251-E
Testimony and Exhibit of B. Mitchell Williams

Dear Mr. Terreni:

Enclosed for filing in the above-referenced docket on behalf of Progress Energy Carolinas, Inc. is the testimony and exhibit of B. Mitchell Williams.

Yours very truly,

Len S. Anthony/mhm

Len S. Anthony
General Counsel
Progress Energy Carolinas, Inc.

LSA:mhm

Enclosure

cc: Mr. John Flitter

STAREG189

Progress Energy Service Company, LLC
P.O. Box 1551
Raleigh, NC 27602

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2008-251-E

IN RE: Application of Carolina Power and Light Company d/b/a Progress Energy Carolinas, Incorporated for the Establishment of Procedures for DSM/EE Programs	))))))	**CERTIFICATE OF SERVICE**

I, Len S. Anthony, hereby certify that the Testimony of B. Mitchell Williams on behalf of Progress Energy Carolinas, Inc. has been served on all parties of record either by hand delivery, e-mail, or by depositing said copy in the United States mail, postage prepaid, addressed as follows:

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This 8th day of January, 2009.

Len S. Anthony /mhm

Len S. Anthony
General Counsel

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DOCKET NO. 2008-251-E

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IN RE: Application of Carolina Power and Light Company d/b/a Progress Energy Carolinas, Incorporated for the Establishment of Procedures for DSM/EE Programs	))))))	**TESTIMONY OF B. MITCHELL WILLIAMS ON BEHALF OF CAROLINA POWER AND LIGHT COMPANY D/B/A PROGRESS ENERGY CAROLINAS, INC.**

Q. MR. WILLIAMS, PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS.

A. My name is B. Mitchell Williams and my business address is 410 South Wilmington Street, Raleigh, North Carolina.

Q. MR. WILLIAMS, BY WHOM ARE YOU EMPLOYED?

A. I am employed by Progress Energy Service Company, LLC, the service company that supports Progress Energy Carolinas, Inc. ("PEC").

Q. WHAT IS YOUR POSITION WITH PROGRESS ENERGY SERVICE COMPANY?

A. I am Manager, Regulatory Affairs for PEC.

Q. MR. WILLIAMS, PLEASE SUMMARIZE BRIEFLY YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I graduated from North Carolina State University with a B.S. Degree in Agricultural Engineering in 1969. From 1969 to 1973, I was employed as an engineer in transmission and distribution engineering with Virginia Electric & Power Company. In 1973, I joined Carolina Power & Light Company ("CP&L") and have since held a variety of positions in customer service, transmission engineering, system planning & operations, demand-side management ("DSM"), rates and regulatory affairs. I have held various leadership and management roles in regulatory affairs since 1996, currently serving as Manager of Regulatory Affairs. I have served on numerous industry groups and committees related to marketing, DSM, rates and regulatory affairs at the Edison Electric Institute and the Southeastern Electric Exchange. I currently serve on the Board of Directors of NC GreenPower and Palmetto Clean Energy. I am also a member of the Energy Advisory Committee for the South Carolina Energy Office.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to support and explain PEC's revised application for the establishment of procedures to encourage PEC to invest in cost-effective energy efficient technologies and energy conservation programs, to establish an annual rider to allow recovery of all just, reasonable and prudent costs associated with such programs, and an appropriate incentive for investing in such programs.

Q. IS PEC PROPOSING ANY CHANGES TO THE DSM/EE COST RECOVERY MECHANISM IT FILED WITH THE COMMISSION ON JUNE 27, 2008?

A. Yes. Following the filing of PEC's June 27, 2008 Petition with the Commission, PEC entered into negotiations with the North Carolina Utilities Commission

Public Staff and Wal-Mart to mutually agree upon an appropriate DSM/EE cost recovery mechanism for use in North Carolina. These parties successfully negotiated such a mechanism. Therefore, PEC is revising its proposal in this proceeding to be consistent with the settlement reached in North Carolina. It is attached to my testimony as Williams Exhibit No. 1.

Q. WHY IS PEC SEEKING TO ESTABLISH A COST RECOVERY MECHANISM FOR ITS DEMAND-SIDE MANAGEMENT AND ENERGY EFFICIENCY ("DSM/EE") RELATED EXPENDITURES?

A. Traditionally, an electric utility's duty is to provide a reliable supply of electricity to its customers at the lowest reasonable price. How the utility's customers use the electricity generated by the utility has been left to the discretion of the customer. Any attempt to influence the customer's use of electricity has primarily been limited to the use of price signals such as those employed by PEC in its time-of-use and curtailable rate schedules pursuant to which PEC provides the customer a credit if the customer will allow PEC to interrupt the supply of electricity to the customer during times of peak demand. Furthermore, given the relatively low price of electricity in South Carolina, historically, very few DSM/EE Programs have been cost-effective. Because South Carolina has such low electricity rates, customers find the use of electricity to heat and cool their homes and businesses, as well as run appliances and machines, to be economically beneficial.

While South Carolina continues to enjoy some of the lowest electricity rates in the nation, the cost of coal and natural gas has increased precipitously

over the past few years, resulting in increases in electricity rates. In addition, South Carolina's electric utilities have "grown into" the base load generation facilities constructed over the last two decades and all of South Carolina's electric providers are in a position of having to add a substantial amount of base load generation during the next ten (10) years. The cost of this new base load generation will be substantially greater than the average cost of the utilities' existing generation mix.

As a result, DSM/EE programs are expected to become more cost-effective and therefore much more prevalent and expansive than has historically been the case. However, it must be recognized that DSM/EE Programs, particularly EE Programs, are designed to encourage customers to not purchase a utility's product, i.e., electricity. In other words, through these programs and measures, utilities are spending money to encourage their customers not to buy their product. This is certainly inconsistent with any normal business plan. In addition, this reduction in energy sales results in a loss of revenue which imperils the utility's ability to recover its costs. As a result, in order to properly compensate and encourage PEC to invest in and promote such programs, it is appropriate to provide PEC with timely cost recovery for all costs incurred, a mechanism to recover net lost revenues and an appropriate incentive for promoting such programs.

Q. DOES SOUTH CAROLINA LAW PERMIT COST RECOVERY AND INCENTIVES FOR DSM/EE PROGRAMS AS PROPOSED BY PEC?

A. Yes. S.C. Code Ann. § 58-37-20 provides that the Commission may adopt procedures that encourage electric utilities to invest in cost effective energy efficient technologies and energy conservation programs. The statute further provides that if the Commission chooses to adopt such procedures these procedures must:

1. Provide incentives and cost recovery for electric utilities that invest in energy supply and end-use technologies that are cost effective, environmentally acceptable, and reduce energy consumption or demand;
2. Allow electric utilities to recover their costs and obtain a reasonable rate of return on their investment in qualified demand-side management programs sufficient to make these programs at least as financially attractive as construction of new generating facilities; and
3. Establish rates and charges that ensure that the net income of an electric utility after implementation of specific cost effective energy conservation measures is at least as high as the utility's net income would have been if the energy conservation measures had not been implemented.

Q. PLEASE EXPLAIN THE COST RECOVERY PROCEDURES PROPOSED BY PEC?

A. The cost recovery procedure proposed by PEC consists of an annual rider to allow PEC to recover the following costs and incentives: (1) the actual cost incurred in providing these programs (including a return on PEC's investment). PEC is proposing that DSM/EE expenses be deferred and amortized over a ten (10) year period using a levelized rate. The unamortized balance would earn a return equal

to PEC's rate of return authorized in PEC's last general rate case. DSM/EE capital expenditures would be depreciated over the useful life of the equipment with a return based upon PEC's current capital structure, current embedded cost of debt, and cost of equity as determined in PEC's last general rate case; (2) the recovery of net lost revenues resulting from these programs; and (3) an incentive equal to 8% of the net present value of the net benefits associated with each DSM program as calculated using the Utility Cost Test, and 13% of the net present value of the net benefits associated with each EE program as calculated using the Utility Cost Test. The term "net lost revenues" as used in PEC's proposed rider means the revenue losses, net of marginal cost avoided at the time of the lost kilowatt-hour sale or in the case of purchased power, in the applicable billing period, incurred by PEC as a result of a new DSM/EE program. Net lost revenues are also the net of any increases in revenues resulting from activity by PEC that causes a customer to increase demand or energy consumption. PEC would be allowed to recover net lost revenues for three years from the installation of a measure as part of an approved DSM/EE program, or until PEC's next general rate case when any lost revenues are addressed, which ever time period is shorter.

Q. PLEASE EXPLAIN HOW PEC'S PROPOSED COST-RECOVERY PROCEDURE IS CONSISTENT WITH <u>S.C. CODE ANN.</u> § 58-37-20.

A. The statute requires that a utility be allowed to recover its costs and obtain a reasonable rate of return on its investment. PEC is requesting that it be allowed to recover all of its costs incurred in offering a DSM/EE program, including a return on any capital expenditures made in furtherance of such programs.

The statute further provides that the Commission is to establish rates that ensure that the net income of the utility after implementation of the DSM/EE programs is at least as high as the net income would have been if the DSM/EE programs had not been offered. By allowing PEC to recover its net lost revenues, this requirement of the statute would be met.

Finally, the statute provides that the rate established by the Commission must be sufficient to make the utility's DSM/EE programs at least as financially attractive as construction of new generation facilities. By definition, investments in supply-side generating facilities are much more capital intensive than demand-side resources and therefore result in higher earnings for the utility, all other things being equal. By allowing PEC to recover 8% for DSM programs and 13% for EE programs of the net present value of the net benefits associated with such programs as calculated using the utility cost test PEC will be allowed to recover at least a portion of the earnings foregone by investing in demand-side versus supply-side resources.

Q. IS PEC PROPOSING THAT ALL CUSTOMERS BE REQUIRED TO PARTICIPATE IN ITS NEW DSM/EE PROGRAMS?

A. No. PEC proposes that none of the costs of new DSM/EE programs be assigned to any large commercial customer or industrial customer that notifies PEC that the customer at its own expense is implementing or, in accordance with stated, quantified goals, will implement alternative DSM/EE programs, and that the customer elects not to participate in PEC's DSM/EE programs. Any customer that elects not to participate in PEC's DSM/EE programs, but subsequently elects

to participate in any new DSM/EE program, will lose the right to be exempt from payment of the annual rider for five (5) years or the life of the program, whichever is longer (life of the program means either the capitalization period over which PEC will amortize or depreciate the costs associated with the program or the anticipated period for the program to reach maximum penetration).

Q. WHY IS PEC PROPOSING TO ALLOW LARGE COMMERCIAL CUSTOMERS AND ALL INDUSTRIAL CUSTOMERS TO OPT OUT OF PEC'S DSM/EE PROGRAMS?

A. Large commercial customers (and by that I mean customers that consume at least a million kilowatt-hours per year) and industrial customers often invest in DSM/EE programs on their own because they find it cost effective to do so. If these customers are investing in DSM/EE programs without any incentive from PEC, they should not be required to contribute to the cost of the programs being provided to those customers who have not made such investments and are being provided incentives to do so by PEC. Customers most likely to participate in utility-sponsored DSM/EE programs are the residential and small commercial segments. Thus, PEC's programs will target these customer segments. By participating in the DSM/EE programs these customers will receive the direct and tangible benefits of lower energy costs. It is appropriate that the customer segments enjoying the benefits also have responsibility for the costs of the programs, and that those larger customers most likely to finance and install energy efficiency improvements on their own not also be required to pay for utility-sponsored programs.

1 **Q. HOW DOES PEC PROPOSE TO ALLOCATE DSM/EE COSTS AMONG**

2 **JURISDICTIONS?**

3 **A.** PEC proposes that the costs associated with new DSM/EE programs be allocated

4 between PEC's North and South Carolina retail jurisdictions, with DSM related

5 costs allocated based on a one-hour coincident peak demand and EE related costs

6 allocated based on energy sales.

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 A. Yes.

WILLIAMS EXHIBIT I

COST RECOVERY AND INCENTIVE MECHANISM FOR DEMAND-SIDE MANAGEMENT AND ENERGY EFFICIENCY PROGRAMS

The purpose of this Mechanism is to allow Progress Energy Carolinas, Inc. ("PEC"), to recover all reasonable and prudent costs incurred for adopting and implementing new demand-side management ("DSM") and new energy efficiency ("EE") measures.

Changes in the terms and conditions of this Mechanism shall be applied prospectively only. Programs and measures shall continue to be subject to the terms and conditions that were in effect when they were implemented with respect to the recovery of reasonable and prudent costs and Net Lost Revenues. With respect to the recovery of Program Performance Incentives, approved programs and measures shall continue to be subject to the terms and conditions in effect in the vintage year that the measurement unit was installed.

Definitions

1. "Costs" include all capital costs, including cost of capital and depreciation expenses, administrative costs, implementation costs, incentive payments to program participants, and operating costs. Costs also include the designated amounts dedicated for expenditure on efforts to promote general awareness of and education about EE and DSM activities, as well as research and development activities and the costs for pilot programs. Costs do not include expenditures allocable to the North Carolina retail jurisdiction.

2. Low Income Programs or Low Income Measures are DSM or EE programs or DSM or EE measures provided specifically to low-income customers.

3. "Measure" means, with respect to EE, an "energy efficiency measure."

4. "Energy efficiency measure" means an equipment, physical, or program change implemented after 1 January 2007 by PEC that results in less electrical energy used to perform the same function. "Energy efficiency measure" does not include DSM.

5. "DSM" is an activity, initiative, or program change, implemented after January 1, 2007 and is undertaken by PEC or its customers to reduce electrical demand or shift the timing of electricity use from peak to nonpeak demand periods. DSM includes, but is not limited to, load management, electric system equipment and operating controls, direct load control and interruptible load.

6. Measurement unit means the basic unit that is used to measure and track the (a) incurred costs, (b) Net Lost Revenues, and (c) net savings for DSM or EE measures installed in each vintage year. A measurement unit may consist of an individual measure or bundles of measures. PEC shall designate the Measurement units for each program.

7. Measurement unit's life means the number of years that equipment associated with a measurement unit will operate if properly maintained or activities associated with the measurement unit will continue to be cost-effective, unless the Commission determines otherwise.

8. Net Lost Revenues means the revenue losses, net of marginal costs avoided at the time of the lost kilowatt-hour sale(s), or in the case of purchased power, in the applicable billing period, incurred by PEC's public utility operations as the result of a new DSM or EE measure. Net Lost Revenues shall also be net of any increases in revenues resulting from any activity by PEC's public utility operations that causes a customer to increase demand or energy consumption. Program Performance Incentives shall not be considered in the calculation of Net Lost Revenues.

9. Program means a collection of new DSM or EE measures with similar objectives that has been consolidated for purposes of delivery, administration, and cost recovery, and that has been or will be adopted on or after January 1, 2007, including subsequent changes and modifications.

10. Program Performance Incentive ("PPI") means a payment to PEC for adopting and implementing new EE or DSM measures based on the sharing of savings achieved by those DSM and EE measures. PPI exclude Net Lost Revenues.

11. Total Resource Cost ("TRC") test means a cost-effectiveness test that measures the net costs of a DSM or EE program as a resource option based on the total costs of the program, including both the participants' costs and the utility's costs (excluding incentives paid by the utility to participants). The benefits for the TRC test are avoided supply costs, i.e., the reduction in transmission, distribution, generation and capacity costs valued at marginal cost for the periods when there is a load reduction. The avoided supply costs shall be calculated using net program savings, i.e., savings net of changes in energy use that would have happened in the absence of the program. The costs are the program costs paid by the utility and the participants, plus the increased supply costs for any periods in which load is increased. All equipment costs, installation, operation and maintenance, cost of removal (less salvage value) and the administration costs, no matter who pays for them, are included in this test. Any tax credits are considered a reduction to costs in this test.

12. Utility Cost Test ("UCT") means a cost-effectiveness test that measures the net costs of a DSM or EE program as a resource option based on the costs incurred by the utility (including incentive costs paid by the utility to or on behalf of participants) and excluding any net costs incurred by the participant. The benefits for the UCT are the avoided supply costs, i.e., the reduction in transmission, distribution, generation and capacity costs valued at marginal cost for the periods when there is a load reduction. The avoided supply costs shall be calculated using net program savings, i.e., savings net of changes in energy use that would have happened in the absence of the program. The costs for the UCT are the program costs incurred by the utility, the incentives paid to or on behalf of participants, and the increased supply costs for any periods in which load is increased. Utility costs include initial and annual costs, such as the cost of utility equipment, operation and maintenance, installation, program administration, and participant dropout and removal of equipment (less salvage value).

13. Vintage year means an identified twelve-month period in which a specific DSM or EE measure is installed for an individual participant or group of participants.

Application for Approval of Programs

14. In evaluating potential DSM/EE measures and programs for selection and implementation, PEC will first perform a qualitative measure screening to ensure measures are:

a. Commercially available and sufficiently mature
b. Applicable to the PEC service area demographics and climate
c. Feasible for a utility DSM/EE program

15. PEC will then further screen EE and DSM measures for cost-effectiveness. With the exception of measures included in a Low Income Program, an EE or DSM measure with a TRC test result less than 1.0 will not be considered further, unless the measure can be bundled into an EE or DSM Program to enhance the overall cost-effectiveness of that program.

16. With the exception of Low Income Programs, all programs submitted for approval will have a TRC and UCT test result greater than 1.05.

17. If a program fails the economic screening in Paragraph 16 above, PEC will determine if certain measures can be removed from the program to satisfy the criteria established in Paragraph 16.

18. PEC will contact each party to its most recent DSM/EE cost recovery proceeding by March 1 of each year and provide them with a list and description of programs and measures either currently being considered or planned for future consideration, and seek suggestions for additional programs and measures for consideration.

19. PEC shall describe the industry-accepted methods to be used to measure, verify, and validate the energy and peak demand savings estimated in its annual cost recovery proceeding and shall provide a schedule for reporting the savings to the Commission.

Cost Recovery

20. PEC shall be allowed to recover, through the DSM/EE rider, all reasonable and prudent DSM/EE costs reasonably and appropriately estimated to be incurred during the forecasted 12 month period December 1 through November 30. PEC shall be allowed to defer and amortize all such costs over a period of time not to exceed ten (10) years, unless the Commission determines otherwise. PEC shall be allowed to earn a rate of return at the overall weighted average net-of-tax rate of return approved in PEC's most recent general rate case on the unamortized balance of such costs.

21. PEC shall also be allowed to defer and recover through the DSM/EE rider the difference between the reasonable and prudent DSM/EE costs incurred during the twelve month test period April 1 through March 31and the revenues actually realized during such test period under

the DSM/EE rider then in effect. The balance in the deferral account, net of deferred income taxes, may accrue a return at the net-of-tax rate of return approved in PEC's most recent general rate proceeding.

Lost Revenues

22. PEC shall be permitted to recover, through the DSM/EE rider, Net Lost Revenues associated with the implementation of DSM and EE measurement units, subject to the restrictions set out below.

23. Net Lost Revenues resulting from an approved measurement unit installed in a given vintage year shall be recovered through the DSM/EE rider only for the first 36 months after the installation of the measurement unit. Thereafter, recovery of Net Lost Revenues shall end.

24. Programs or measures with the primary purpose of promoting general awareness and education of EE and DSM activities, as well as research and development activities are ineligible for the recovery of Net Lost Revenues. Pilot programs or measures are also ineligible for the recovery of Net Lost Revenues, unless the Commission approves PEC's specific request that a pilot program or measure be eligible for the recovery of Net Lost Revenues.

25. Recovery of Net Lost Revenues for measurement units installed in a prior vintage year shall cease upon the implementation of new rates approved by the Commission in a general rate case or comparable proceeding to the extent the rates set in the general rate case or comparable proceeding are set to explicitly or implicitly recover those Net Lost Revenues.

26. Overall Net Lost Revenues as measured by any vintage year or the two succeeding vintage years shall be reduced by any increases in revenues during the same periods resulting from any activity by PEC's public utility operations that causes a customer to increase demand or energy consumption.

27. Net Lost Revenues shall be trued-up as follows:

a. Net Lost Revenues shall be trued-up in the first DSM/EE cost recovery proceeding following the completion and review of a program's or measure's impact evaluation. The true-up shall be based on approved measurement units and shall cover all vintage years, as provided in Paragraphs 23 and 25 above, from the previous measurement unit's impact evaluation or program or measure approval, whichever is more recent.

b. The true-up factor shall be calculated based on the difference between projected and actual Net Lost Revenues for each measurement unit and vintage years under consideration, accounting for any differences derived from the completed and reviewed measurement unit evaluation including: (1) the projected and actual number of installations per measurement unit, (2) the projected and actual net kilowatt-hour ("kWh") and kilowatt ("kW") savings per installation, (3) the projected and actual gross lost revenues per kWh and kW saved, and (4) the projected and actual deductions from gross lost revenues per kWh and kW saved.

c. The combined total of all true-up factors calculated in a given year's cost recovery proceeding shall be incorporated into the DSM/EE EMF rider.

Program Performance Incentive ("PPI")

28. PEC shall be allowed to collect a PPI for each DSM or EE program approved and in effect during a given rate period, subject to the restrictions set out below

29. Programs or measures with the primary purpose of promoting general awareness of and education about EE and DSM activities, as well as research and development activities, are ineligible for PPI. Pilot programs or measures are also ineligible for PPI, unless the Commission approves PEC's specific request that a pilot program or measure be eligible for PPI when PEC seeks approval of that program or measure.

30. With the exception of Low Income Programs or Low Income Measures, for any vintage year in which a program's or measure's TRC test result is less than 1.00 at the time of the cost recovery proceeding, there shall be a rebuttable presumption that the PPI for that program or measure for the applicable vintage year is zero. PEC shall be allowed an opportunity to rebut the presumption that PPI should be zero, by showing the impact of weather, decline in avoided costs, uncontrolled market forces, etc.

31. The PPI shall be based on the net savings of each program or measure as calculated using the UCT. The total of the PPIs for all programs or measures shall be added to PEC's DSM/EE or DSM/EE EMF cost recovery riders, as appropriate.

32. In its annual cost recovery filing, PEC shall indicate, for each program or measure for which it desires a PPI, the annual projected and actual utility costs, participant costs, number of measurement units installed, per kW and kWh impacts for each measurement unit, and per kW and kWh avoided costs for each measurement unit, related to the applicable vintage year installations that it requests the Commission to approve. Upon its review, the Commission shall make findings based on PEC's annual filing for each program or measure for which an estimated or trued-up PPI is approved.

33. The amount of the PPI initially to be recovered for a given measurement unit and vintage year shall be equal to 8% for DSM programs and measures and 13% for EE programs and measures, multiplied by the estimated net savings. Estimated net savings shall be calculated by multiplying the number of measurement units projected to be installed specific to a program or measure in a vintage year by the most current estimates of the annual per installation kW and kWh savings over the measurement unit's life and by the most current estimates of the annual kW and kWh avoided costs, subtracting the estimated utility costs over the measurement unit's life related to the projected installations in that vintage year, and discounting the result to, determine a net present value. In approving the initial PPI, the Commission shall assume that projections will be achieved.

34. The initial PPI shall be converted into a stream of ten (10) levelized annual payments, accounting for and incorporating PEC's overall weighted average net-of-tax rate of return approved in PEC's most recent general rate case as the appropriate discount rate.

35. The per kW avoided capacity costs and the per kWh avoided energy costs used to calculate net savings for a vintage year shall be determined annually by PEC using comparable methodologies to those in the most recently approved biennial avoided cost proceeding. PEC's assumptions used in these methodologies, as well as the methodologies, are subject to the Office of Regulatory Staff's review and acceptance at the time PEC files its petition for annual cost recovery pursuant to this Mechanism. Unless PEC and the Office of Regulatory Staff agree otherwise, PEC shall not be allowed to update its avoided capacity costs and avoided energy costs after filing its petition for its annual cost recovery proceeding pursuant to this Mechanism and prior to the Commission's order establishing the rider for that rate period for purposes of calculating the PPI.

36. When PEC files for its annual DSM/EE cost recovery, it shall report all interim measurement and verification data, even if that data is not final, to assist the Commission and the Office of Regulatory Staff in their review and monitoring of the impacts of the DSM and EE measures.

37. PEC bears the burden of proving all savings and costs included in calculating the PPI. PEC shall be responsible for the measurement and verification of energy and peak demand savings consistently with its measurement and verification plan described in Paragraph 19.

38. The PPI shall be trued-up as follows:

a. The PP1 shall be trued-up in the first cost recovery proceeding following the completion and review of a program's or measure's impact evaluation. The true-up shall include all measurement units specific to the program or measure and shall cover all vintage years since the previous measurement unit's impact evaluation or program or measure approval, whichever is more recent.

b. The amount of the PPI ultimately to be recovered for a given program or measure and vintage year shall be based on the actual net savings derived from all measurement units specific to the program or measure. Actual net savings shall be calculated by multiplying the number of actual installed measurement units in a vintage year by the verified annual per installation kW and kWh savings over the measurement unit's life and by the annual per kW and kWh avoided costs used in calculating the initial PPI, subtracting the actual vintage year measurement unit costs over the measurement unit's life related to installations in that vintage year and discounting the result to present value.

39. The combined total of all components of the estimated and trued up performance incentive shall be incorporated into the DSM/EE rider and the DSM/EE EMF rider, as appropriate.