

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR APPROVAL OF ELECTRIC)
ENERGY EFFICIENCY PROGRAMS AND)
LOAD MANAGEMENT PROGRAMS AND)
PROGRAM COST TARIFF RIDERS)
PURSUANT TO THE NEW MEXICO PUBLIC)
UTILITY AND EFFICIENT USE OF ENERGY ACTS) Case No. 07-____-UT
)
PUBLIC SERVICE COMPANY OF)
NEW MEXICO,)
)
Applicant.)
_____)

DIRECT TESTIMONY AND EXHIBITS

OF

GERARD T. ORTIZ

January 31, 2007

**DIRECT TESTIMONY OF
GERARD T. ORTIZ
NMPRC UTILITY CASE NO. 07-_____-UT**

1 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

2 **A.** My name is Gerard T. Ortiz. I am the Director of Market Services for Public
3 Service Company of New Mexico (“PNM” or “Company”). My business address
4 is Public Service Company of New Mexico, Alvarado Square – MS-0506,
5 Albuquerque, NM 87158.

6

7 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
8 **PROFESSIONAL QUALIFICATIONS.**

9 **A.** I graduated from New Mexico State University in 1981 with a Bachelor of
10 Science degree in Electrical Engineering. I obtained a Master of Business
11 Administration degree from the Robert O. Anderson Graduate School of
12 Management at the University of New Mexico in 1988. I am a Registered
13 Professional Engineer in the State of New Mexico. Since 1981 I have been
14 employed by PNM, and have held a variety of engineering, supervisory, and
15 managerial positions in Distribution Engineering, Electric Marketing and
16 Business Planning in addition to my current assignment. In my present position,
17 I oversee PNM’s energy efficiency efforts, account management, load research,
18 market research, and program development.

19

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21 **A.** My testimony will:

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- 1 i. Provide a summary of the electric efficiency and load management
2 programs being proposed and the approvals PNM is seeking in this case.
- 3 ii. Describe these programs PNM more fully, including program costs,
4 forecasted customer participation rates, Total Resource Cost test (“TRC”)
5 calculations for the programs, and other details associated with program
6 provision.
- 7 iii. Describe the public advisory process PNM implemented to develop these
8 programs.
- 9 iv. Describe the programs’ performance measures.
- 10 v. Provide an overview of the measurement and verification process for the
11 proposed programs.
- 12 vi. Introduce PNM’s other witnesses in this case.

13

14 **Q. HAVE YOU PREPARED ANY EXHIBITS?**

15 **A.** Yes. PNM Exhibits GTO-1 through GTO-3 are attached to my testimony. These
16 exhibits are:

17 PNM Exhibit GTO-1

18 2007 Electric Energy Efficiency Program Plan

19 PNM Exhibit GTO-2

20 2007-2016 PNM Load Forecast

21 PNM Exhibit GTO-3

22 Filing Requirements for Program Approval Cross Table

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1

2 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NEW MEXICO**
3 **PUBLIC REGULATION COMMISSION (“NMPRC” or “Commission”) OR**
4 **ITS PREDECESSOR AGENCY?**

5 **A.** Yes, I have.

6 NMPUC Case No. 2782 – City of Albuquerque Pilot/Load Aggregation
7 Program

8 NMPRC Case No. 3137 – Transition Plan

9 NMPRC Case No. 03-00101-UT - Voluntary Renewable Energy Tariff

10 NMPRC Case No. 03-00352-UT – Rio Rancho 2003 Underground Rider

11 NMPRC Case No. 05-00261-UT – Gas Energy Efficiency Program

12 NMPRC Case No. 05-00275-UT - Afton CCN Application

13 NMPRC Case No. 05-00418-UT – Rio Rancho 2005 Underground Project Rider

14 NMPRC Case No. 05-00443-UT - PNM’s Fiber Optic Pilot Program

15 NMPRC Case No. 06-00095-UT - Unser Road Widening Underground Rider

16 NMPRC Case No. 06-00302-UT – Rio Rancho 2006 Underground Project Rider

17

18

19

I. OVERVIEW

20 **Q. PLEASE PROVIDE AN OVERVIEW OF PNM’S APPLICATION IN THIS**
21 **CASE?**

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1 **A.** PNM is proposing a set of electric energy efficiency and load management
2 programs targeting both residential and commercial customers. This filing is
3 being made consistent with the Efficient Use of Energy Act, NMSA 1978 §62-17-
4 1 et. seq. (“Act”), the Energy Efficiency Rule, 17.7.2 NMAC, (“Rule”), and the
5 approved Stipulation in NMPRC Case No. 05-00275-UT.

6
7 **Q. WHAT ARE PNM’S OBJECTIVES IN OFFERING THESE PROGRAMS?**

8 **A.** PNM has two overall primary objectives in offering these programs. First, PNM
9 hopes to increase customer awareness of energy efficiency and provide incentives
10 that will result in the increased application of energy efficiency measures.

11 Ideally, PNM’s programs will stimulate the market for energy efficient products.

12 Second, PNM believes there are significant system benefits associated with these
13 programs since PNM hopes to significantly affect the energy and demand growth
14 of its retail electric customers. This is increasingly important as PNM enters a
15 period when it must bring new generation capacity on-line to meet the increasing
16 needs of its customers. Additionally, PNM has program-specific objectives for
17 each program. The program-specific objectives are described in the 2007 Electric
18 Energy Efficiency and Load Management Programs Plan (“Program Plan”), PNM
19 Exhibit GTO-1.

20
21 **Q. WHAT APPROVALS IS PNM SEEKING IN THIS CASE?**

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1 **A.** PNM is seeking approval to offer the proposed programs to PNM retail customers
2 in New Mexico, including customers receiving service under certain Public
3 Service Company of New Mexico TNMP Services (“TNMP Services”) rate
4 schedules. In addition, PNM is seeking approval of rate riders to recover the costs
5 associated with proposed programs. PNM requests the Commission to consider
6 this application as expeditiously as possible so that PNM may implement, and its
7 customers may begin to realize the benefits of, the programs approved by the
8 Commission as soon as possible.

9

10 **Q. WHAT ARE THE SIGNIFICANT SYSTEM BENEFITS OF THESE**
11 **PROGRAMS?**

12 **A.** As I mentioned earlier, PNM is entering a period when it must either bring new
13 generation capacity on-line or enter into contracts for such capacity. PNM
14 Exhibit GTO-2 shows the projected energy and capacity needs for the period
15 2007 through 2016. The projected peak load in 2016 is 2132 MW. PNM’s
16 current generation portfolio, including the Afton combined cycle facility, consists
17 of 1966 MW of capacity. PNM clearly needs additional supply resources
18 throughout this 10-year period, and these resources will likely exert upward
19 pressure on the prices that PNM customers pay for electricity. All of PNM’s
20 customers will benefit to the extent that PNM can successfully offset some of that
21 growth in supply-side resources and avoid the associated cost through the
22 provision of these programs.

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1

2 **Q. WHICH CUSTOMERS ARE ELIGIBLE TO PARTICIPATE IN THESE**
3 **PROGRAMS?**

4 **A.** Generally speaking, all residential, and most business and industrial customers in
5 PNM's service territory will be eligible to participate in one or more of the
6 proposed programs. This will include former customers of TNMP in New
7 Mexico. Specifically, customers receiving service under PNM's Residential
8 Service 1A & 1B, Small Power Service 2A & 2B, General Power Service 3B,
9 Large Power Service 4B, Large Service for Public Universities 15B, Large
10 Service for Manufacturing 17B, Special Contract Service for Large Customers 23,
11 and Large Service for Manufacturing - Distribution Level 30B; and TNMP
12 Services' Residential Service 1, General Service 2, Large General Service 3,
13 School Service 5 and Municipal Power Service 12.

14

15 **Q. WHY IS PNM PROPOSING TO MAKE THESE PROGRAMS**
16 **AVAILABLE TO FORMER TNMP CUSTOMERS IN NEW MEXICO?**

17 **A.** There is clearly benefit to making energy efficiency and load management
18 measures available to all of PNM's retail customers given PNM's projected
19 generation shortfall. Further, the Act finds that energy efficiency and load
20 management are cost effective resources that are an essential component of a
21 balanced utility portfolio. Finally, effective January 1, 2007, PNM integrated the
22 New Mexico operations of the acquired TNMP service territories into PNM.

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1 Therefore, PNM decided that the programs proposed in this application should be
2 made available to TNMP Services customers, rather than make a separate
3 application for these customers.

4

5

II. PROGRAM DESCRIPTIONS

6 **Q. WHAT ENERGY EFFICIENCY AND LOAD MANAGEMENT**
7 **PROGRAMS ARE BEING PROPOSED BY PNM IN THIS CASE?**

8 **A.** PNM is proposing six residential programs and three commercial programs. The
9 residential programs include a refrigerator recycling program, a compact
10 fluorescent lighting (“CFL”) program, an indirect evaporative cooling program,
11 an ENERGY STAR[®] Homes program, an energy savers direct install kit, and a
12 refrigerated air conditioning load management program. The commercial
13 programs consist of an efficient lighting program, a commercial indirect cooling
14 program, and a commercial load management program.

15

16 **Q. PLEASE DESCRIBE EACH OF THESE PROGRAMS.**

17 **A.** These programs are described in detail in PNM Exhibit GTO-1. A brief
18 description of each program is provided below:

19

Residential

20

(1) The Refrigerator-Recycling program is designed to encourage early
21 retirement and recycling of old refrigerators or unnecessary second refrigerators.

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1 (2) The Residential Lighting program will provide incentives for purchasing
2 CFLs. Lighting is the single largest area of energy efficiency potential in PNM’s
3 service territory.

4 (3) The Residential Indirect Cooling program provides an incentive to install
5 single inlet evaporative coolers with an advanced indirect cooling module in place
6 of refrigerated air conditioning. Indirect cooling improves the cooling
7 performance of evaporative coolers and offers an alternative to refrigerated air.

8 (4) The ENERGY STAR[®] Homes program will provide residential builders
9 with an incentive for homes built to the ENERGY STAR standards.

10 (5) The Energy Saver Kit Direct-Install program will install a bundle of
11 efficiency measures free of charge for income-qualified customers (up to 200% of
12 the federal poverty level). The New Mexico Mortgage Finance Authority (MFA)
13 will administer this program.

14 (6) The Residential Load Management program is a demand side management
15 (“DSM”) strategy whereby non-critical residential loads (refrigerated air
16 conditioning units, pool pumps, etc.) are cycled on and off during summer peak
17 times.

18 Commercial

19 (7) The Commercial Lighting program will provide incentives to replace
20 existing lighting with CFLs, T8 fluorescent lamps and other energy efficient
21 lighting and controls options.

22 (8) The Commercial Indirect Cooling Program provides an incentive for
23 commercial customers to install single inlet evaporative coolers with an advanced
24 indirect cooling module in place of refrigerated air conditioning.

25 (9) The Commercial Load Management program is a DSM strategy whereby
26 tailored curtailment and load management strategies will be used to provide firm
27 demand response capacity in the commercial and industrial segments.

28

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1 **Q. WHAT ADDITIONAL INFORMATION IS CONTAINED IN PNM'S**
2 **PROGRAM PLAN?**

3 **A.** The Program Plan, supplemented by PNM's testimony and other exhibits, meets
4 all of the evidentiary requirements for program approval contained in Section 9 of
5 the Rule. In addition, the Program Plan contains further detail about the customer
6 incentive for each program and the expected useful life of each measure,
7 describes the targeted customer sub-segment for each measure, and provides
8 details about implementation and administration of each program. Finally, the
9 Program Plan provides more detailed information regarding promotion and
10 performance measurement, including Measurement and Verification ("M&V").
11 PNM Exhibit GTO-3 consists of a cross table that identifies the sections of the
12 Program Plan or other parts of PNM's application that address each requirement
13 of the Rule.

14
15 **Q. HOW DID PNM SELECT THESE PROGRAMS?**

16 **A.** These programs were selected from an initial list contained in the Public Service
17 New Mexico Electric Energy Efficiency Potential Study completed for PNM in
18 September 2006 by Itron, Inc ("Potential Study"). This study contained a list of
19 measures that have been cost-effective programs at other utilities across the
20 country and relied on data obtained in an appliance saturation study performed by
21 SRBI, Inc. for PNM in early 2006. Program selection was based on the criteria
22 identified in the Energy Efficiency Rule. These criteria include cost-

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1 effectiveness, the extent to which programs provide significant system benefits,
2 the extent to which the program offers potential for broad customer participation,
3 total estimated energy savings, ease of administration, overall portfolio
4 development considerations, and the performance risk of the technologies.

5 Additionally, consideration was given to programs that benefit the low-income
6 segment of PNM's customers.

7

8 **Q. HOW WERE THE CRITERIA IN THE RULE SPECIFICALLY APPLIED**
9 **IN THE PROGRAM SELECTION PROCESS?**

10 **A.** Cost effectiveness, as measured by the TRC, was obviously the threshold test.
11 Beyond that, PNM tried to construct a set of programs that would have broad
12 application within eligible customer classes. Given the generation capacity
13 shortfall PNM is facing over the next several years, PNM placed a high priority
14 on the energy savings or dispatchable demand potential of alternate programs.
15 Dispatchable demand programs are those that will allow PNM to reduce
16 participating customers' loads upon demand. As discussed by Mr. Rufo, the bulk
17 of achievable energy savings among residential customers is found in lighting.
18 The next highest opportunities are found in cooling and refrigeration. The largest
19 opportunity for demand savings among residential customers is found in cooling.
20 The vast majority of energy saving opportunities among commercial customers
21 are in lighting. The second highest opportunity for demand savings among
22 commercial customers is in cooling. Consequently, PNM is including measures

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1 focused on lighting, refrigeration, and cooling in its initial electric efficiency
2 application.

3

4 **Q. WHY IS THE TRC THE THRESHOLD TEST?**

5 **A.** Under the Act, the TRC is the benchmark that establishes cost effectiveness for
6 energy efficiency measures. The TRC is designed to compare energy efficiency or
7 load management measure's benefits to its costs.

8

9 **Q. WHAT IS THE TRC RATIO FOR EACH OF THE PROPOSED
10 PROGRAMS BASED ON PNM'S ESTIMATED COSTS?**

11 **A.** The TRC ratio for each program is provided below.

12

Program	TRC
Refrigerator Recycling	2.69
Residential lighting	1.60
Residential Indirect Cooling	2.09
ENERGY STAR Homes	1.48
Energy Saver Direct Install	1.25
Residential Load Management	1.29
Commercial Lighting	1.77
Commercial Indirect Cooling	1.11
Commercial load management	1.37
Total of all programs	1.39

13

14 **Q. PLEASE EXPLAIN THE TRC CALCULATIONS.**

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1 **A.** The TRC is the ratio of the present value of savings associated with a given
2 program to the present value of costs associated with that program. Any program
3 that has a TRC equal to, or exceeding, 1.0 is cost-effective. Generally speaking,
4 the program savings include avoided generation supply costs. The program costs
5 include utility design and implementation costs and participant costs associated
6 with the program. The estimated per unit energy and/or demand savings for each
7 program are from the Potential Study. The relevant inputs for the TRC calculation
8 for the proposed programs are shown in Sections II.G, VIII, XII and XIII in PNM
9 Exhibit GTO-1.

10
11 **Q. HOW MANY CUSTOMERS ARE EXPECTED TO PARTICIPATE IN**
12 **THESE PROGRAMS?**

13 **A.** The anticipated annual participation rate for the first full year for each program is
14 included in the table below.

Program	Number of Customers	Anticipated Annual Unit Target
Refrigerator Recycling	10,000	10,000
Residential Lighting	39,100 – 97,750	391,000
Residential Indirect Cooling	100	100
ENERGY STAR Homes	400	400
Energy Saver Direct Install	1,500	1,500
Residential Load Management		7.5 MW
Commercial Lighting	375	75,000
Commercial Indirect Cooling	50	50
Commercial Load Management		22.5 MW

15

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1 Three year (for the efficiency programs) and 10 year (for the load management
2 programs) participation projections are included in Section II of the Program
3 Plan.

4

5 **Q. WILL THE PROGRAMS BE COST-EFFECTIVE IF THE PROJECTED**
6 **PARTICIPATION LEVELS ARE NOT REACHED?**

7 **A.** Yes. The minimum participation levels necessary to achieve a TRC equal to 1.0,
8 assuming the budgeted costs are fully incurred, are shown in the table below.

9

Program	Minimum Participation
Refrigerator Recycling	240
Residential lighting	130,000
Residential Indirect Cooling	33
ENERGY STAR Homes	50
Energy Saver Direct Install	650
Residential Load Management	3 MW
Commercial Lighting	4,500
Commercial Indirect Cooling	45
Commercial Load Management	3.3 MW

10

11

12 **Q. WHAT ARE THE PROGRAMS' OBJECTIVES IN TERMS OF**
13 **ANTICIPATED ANNUAL ELECTRIC ENERGY SAVINGS?**

14 **A.** Assuming we achieve the annual participation levels shown above and the energy
15 savings estimated in the Potential Study, the table below provides the annual
16 electric energy savings by program, and in total.

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Program	Annual participation in units	Annual electric savings per unit installed (kWh)	Total annual energy savings per program (kWh)
Refrigerator Recycling	10,000	663	6,169,495
Residential Lighting	391,000	48	12,818,828
Residential Indirect Cooling	100	1,292	129,200
ENERGY STAR Homes	400	1,483	415,240
Energy Saver Direct Install	1,500	575	862,200
Residential Load Management	7.5 MW	N/A	N/A
Commercial Lighting	75,000	188	5,655,201
Commercial Indirect Cooling	50	1,938	96,900
Commercial Load Management	22.5 MW	N/A	N/A
Total	N/A	N/A	26,147,064

Q. HOW DID PNM DETERMINE PARTICIPATION RATES FOR EACH OF THESE PROGRAMS?

A. PNM considered several factors in developing estimated participation rates. PNM first considered the participation potential identified in the Potential Study. PNM

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1 also asked potential vendors responding to RFPs to estimate achievable
2 participation for those programs which PNM plans to deliver through a third
3 party. PNM also conducted secondary research to determine actual participation
4 rates for other utilities offering electric energy efficiency programs, while taking
5 into account past participant rates of similar, past PNM offers. We also factored in
6 the cost of the measure to the participant.

7

8 **Q. DOES PNM REGARD THESE PROJECTED PARTICIPATION**
9 **TARGETS AS CAPS THAT WILL LIMIT PARTICIPATION IN THE**
10 **PROGRAMS?**

11 **A.** No. PNM believes these projected targets are reasonable estimations of what can
12 be achieved in the first full year for each of these programs. PNM would
13 welcome participation above these targets. Section II.F. of PNM Exhibit GTO-1
14 includes multiple year targets for each of these programs. As can be seen, PNM
15 expects participation to grow as customer awareness of the program increases.

16

17 **Q. HOW WILL THESE PROGRAMS BE DELIVERED?**

18 **A.** That depends on the program. PNM intends to engage third parties to deliver the
19 residential CFL program, the refrigerator programs, and the two load management
20 programs on behalf of PNM. The Energy Saver Direct Install program will be
21 administered through the New Mexico Mortgage Finance Authority (“MFA”).
22 The ENERGY STAR Homes program will be implemented by PNM and

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1 delivered through participating homebuilders. The indirect cooling program will
2 be implemented by PNM and delivered through homebuilders and local cooling
3 vendors and contractors. The commercial lighting program will be a rebate
4 program implemented by PNM and marketed to commercial customers and
5 electrical contractors.

6

7 **Q. WHAT WILL BE THE RESPONSIBILITIES OF THE THIRD PARTIES**
8 **HIRED TO ADMINISTER THE RESIDENTIAL CFL AND THE**
9 **REFRIGERATOR PROGRAMS?**

10 **A.** While PNM is ultimately responsible for all of these programs, these third parties
11 will be responsible for providing the turnkey administration of these programs on
12 PNM's behalf. In the case of the CFL program, the third party will be responsible
13 for developing and implementing marketing plans, dealing with lighting
14 manufacturers and distributors, accounting for participation, and reporting results
15 to PNM. The third party administering the refrigerator program will be
16 responsible for developing and implementing marketing plans, arranging for pick-
17 up of old refrigerators, ensuring old refrigerators are recycled, tracking
18 participation, and reporting results to PNM. PNM will have approval authority
19 over all marketing plans. Additional details about the contractors' responsibilities
20 are included in the Section VII of PNM Exhibit GTO-1.

21

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1 **Q. WHAT WILL BE THE RESPONSIBILITIES OF THE THIRD PARTIES**
2 **HIRED TO ADMINISTER THE LOAD MANAGEMENT PROGRAMS?**

3 **A.** These third parties will be responsible for developing and implementing all
4 marketing plans, installation and maintenance of all equipment, tracking
5 participation, and reporting results to PNM. PNM will have approval authority
6 over all marketing plans. Additional details about the contractors' responsibilities
7 are included in the Section VII of PNM Exhibit GTO-1.

8
9 **Q. HAS PNM SELECTED THE THIRD PARTY ADMINISTRATORS FOR**
10 **THESE PROGRAMS?**

11 **A.** Yes, although in some cases PNM is still in contract negotiations with the
12 selected third parties.

13
14 **Q. HOW DID PNM SELECT THE THIRD PARTY ADMINISTRATORS FOR**
15 **PROGRAMS THAT ARE BEING CONTRACTED?**

16 **A.** PNM developed and issued an RFP for those programs that will be administered
17 by third parties. PNM compiled the list of potential respondents for the lighting
18 and refrigerator programs by consulting with Esource, ENERGY STAR, and
19 SWEEP, ESource is an industry-sponsored firm that conducts research in many
20 utility customer-related areas. SWEEP is a well-known organization that
21 specializes in energy efficiency and load management efforts in the western

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1 United States. PNM evaluated the proposals based on the prospective vendor's
2 experience, completeness and quality of proposal, references, and cost.

3

4 **Q. WHY IS PNM UTILIZING A THIRD PARTY TO IMPLEMENT SOME**
5 **PROGRAMS?**

6 **A.** There are several reasons. First and foremost, PNM's energy efficiency group is
7 comprised of a staff of four people. Administering all of these programs internally
8 would require additional people, resulting in increased long-term costs and
9 limiting PNM's ability to match resources with market demands. Second, there
10 are many firms that have considerable experience implementing efficiency
11 programs. PNM believed the quickest way to grow participation in some of these
12 programs was to take advantage of the experience existing in the market. Finally,
13 some of the programs require considerable infrastructure to implement. An
14 example is the system and contractor network that must be put in place for the
15 refrigerator-recycling program. Rather than investing in building this
16 infrastructure itself PNM believed it to be more efficient to hire others to take the
17 risks associated with creating this infrastructure. This is also true of the two load
18 management programs. The third parties will assume the responsibility to install
19 the equipment, and make the required communications arrangements necessary to
20 remotely control the loads.

21

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1 **Q. PLEASE DESCRIBE THE CONTRACT UNDER WHICH THE**
2 **REFRIGERATOR RECYCLING PROGRAM WILL BE ADMINISTERED.**

3 **A.** While this contract has not yet been finalized, I can describe many of the most
4 important contract provisions. First the contract will only become effective upon
5 Commission approval of the program. The term will be three years. Should PNM
6 terminate the contract early, there will be a termination fee. We are estimating the
7 annual contract cost to be \$1,350,000, assuming projected participation estimates
8 are achieved and based on the firm's price proposal.

9

10 **Q. PLEASE DESCRIBE THE CONTRACT UNDER WHICH THE**
11 **RESIDENTIAL CFL PROGRAM WILL BE ADMINISTERED.**

12 **A.** While this contract has also not yet been finalized, I can describe many of the
13 most important contract provisions. First the contract will only become effective
14 upon Commission approval of the program. The term will be three years. Should
15 PNM terminate the contract early, there will be a termination fee. We are
16 estimating the annual contract cost to be \$1,125,700, assuming projected
17 participation estimates are achieved and based on the firm's price proposal.

18

19 **Q. PLEASE DESCRIBE THE CONTRACT UNDER WHICH THE**
20 **RESIDENTIAL LOAD MANAGEMENT PROGRAM WILL BE**
21 **ADMINISTERED.**

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1 **A.** While this contract has not yet been finalized, I can describe many of the most
2 important contract provisions. The firm selected to administer this program is
3 Comverge, Inc. This contract is also contingent upon Commission approval of the
4 program. The target customers for this program are residential customers with
5 refrigerated air conditioning, and small business customers with less than 150 kW
6 of load. The term of this contract is ten years, and there will be substantial exit
7 fees should PNM terminate this contract early. The termination fees increase
8 annually beginning at \$1.8 million in the first year of the contract to \$7.4 million
9 in year 4 and then decrease to \$622,000 in the last year of the contract. The cost
10 to PNM is based on delivered load kW. The projected capacity to be delivered
11 starts at 10 MW in 2008 and grows to 43 MW in 2017. Comverge will be
12 responsible for marketing to PNM's customers, although PNM will have approval
13 authority of all marketing materials. A summary of several of the contract
14 provisions is contained in Section XII of PNM Exhibit GTO-1.

15

16 **Q. PLEASE DESCRIBE THE CONTRACT UNDER WHICH THE**
17 **COMMERCIAL LOAD MANAGEMENT PROGRAM WILL BE**
18 **ADMINISTERED.**

19 **A.** While these contracts have not yet been finalized, I can describe many of the most
20 important contract provisions. The Commercial Load Management program will
21 be administered under two contracts. Comverge will be responsible for delivering
22 the load management program to commercial and industrial customers with less

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1 than 150 kW of load. The contract terms will be similar to those described for the
2 Residential Load Management program. The firm selected to administer this
3 program for customers larger than 150 kW is EnerNOC, Inc. This contract is also
4 contingent upon Commission approval of the program. The target customers for
5 this program are business customers with more than 150 kW of load. EnerNOC
6 will typically control refrigerated air conditioning, manufacturing process loads
7 and refrigeration equipment. The term of this contract is ten years, and there will
8 be substantial exit fees should PNM terminate this contract early. The termination
9 fees range from \$5 million in the first year of the contract to \$500,000 in the last
10 year of the contract. The cost to PNM is based on delivered load kW. The
11 projected capacity to be delivered is 20 MW. EnerNOC will be responsible for
12 marketing to PNM's customers, although PNM will have approval authority of all
13 marketing materials. PNM's account management team will play a critical role
14 introducing this program to their customers. A summary of several of the
15 contract provisions is contained in Section XII of PNM Exhibit GTO-1.

16

17 **Q. WHAT ARE THE ANTICIPATED COSTS ASSOCIATED WITH THE**
18 **PROPOSED PROGRAMS?**

19 **A.** The projected total program cost for the nine programs is estimated to be
20 \$7,546,884/year. These costs are based on projected first year participation rates.
21 Section II. H of PNM Exhibit GTO-1 includes multi-year budget projections. In
22 PNM's annual compliance filing, PNM will propose to adjust the target based on

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1 the previous year’s actual participation, any proposed program changes, and new
2 forward-looking participation projections.

3

4 **Q. WHAT COMPRISES THESE PROGRAM COSTS?**

5 **A.** These program costs are comprised of administrative costs (including labor
6 costs), third party implementation costs, promotional costs, customer incentive
7 costs, and costs associated with measurement and verification of the individual
8 programs. The table below provides a breakdown of the total costs.

Cost Type	Annual Cost
Administrative Costs	\$414,200
Third Party Implementation Costs	\$4,443,606
Promotional Costs	\$300,000
Incentive Costs	\$2,049,700
Measurement & Verification Costs	\$339,338
Total	\$7,546,884

9

10 **Q. HOW DID PNM ESTIMATE THE INCENTIVE COSTS?**

11 **A.** The incentive costs were determined for each program primarily by studying
12 other utilities’ experiences offering energy efficiency programs, discussions with
13 local suppliers and contractors, and assessing the incentive necessary to
14 encourage our customers to participate. For most of the programs, the incentive

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1 level is between one-quarter and one-half of the total cost of the measure that is
2 consistent with the assumptions used in the Potential Study.

3

4 **Q. WHAT COMPRISES THE ADMINISTRATIVE COSTS?**

5 **A.** The administrative costs consist of PNM labor costs to coordinate with
6 participating retailers and contractors, administer any contracts associated with
7 the program, preparing annual compliance filings, and payments to third parties
8 responsible for implementing the programs. PNM's Energy Efficiency group
9 formed earlier this year to develop and implement gas and electric efficiency
10 programs will perform the in-house work.

11

12 **Q. HOW DID PNM ESTIMATE THE ADMINISTRATIVE COSTS?**

13 **A.** After developing the proposed programs, PNM assessed the manpower
14 requirements of the function and identified anticipated labor budgets. Based on
15 this assessment, PNM allocated 40% of the Energy Efficiency group budget to the
16 programs proposed in this case. Additionally, PNM has identified the need for a
17 new position to administer the two load management programs, and that cost is
18 included. PNM's proposed administrative costs are consistent with those of other
19 utilities offering similar programs.

20

21 **Q. HOW DID PNM ESTIMATE THE PROMOTIONAL COSTS?**

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1 **A.** PNM began by looking at the amount of money other utilities have devoted to
2 promoting energy efficiency programs. This is typically on the order of 20% of
3 the total program budget. Beyond that PNM prepared a tentative promotional
4 plan to achieve a high level of program awareness among our residential
5 customers. Based on our experience, we used this plan to create a promotional
6 budget. This plan is shown in Section X of PNM Exhibit GTO-1.

7

8 **Q. PLEASE PROVIDE ADDITIONAL DETAIL ABOUT THE ENERGY
9 SAVER KIT DIRECT INSTALL PROGRAM?**

10 **A.** PNM is proposing to enter into an agreement with the New Mexico MFA to
11 provide \$450,000 in funding for the purpose of installing CFLs and other items in
12 the MFA’s weatherization efforts. This agreement will specify that the money
13 provided by PNM can only be used on homes within PNM’s electric service
14 territory. A more complete description of the MFA program is described in
15 Section XI of PNM Exhibit GTO-1.

16

17 **Q. WHY IS PNM PROPOSING TO DELIVER THE ENERGY SAVER KIT
18 DIRECT INSTALL PROGRAM VIA THE MFA?**

19 **A.** PNM believes this is the most efficient use of funds directed to low-income
20 participants. First, because the MFA already administers low-income
21 weatherization programs totaling over \$2 million, the delivery infrastructure is
22 already in place. This delivery infrastructure includes the process to determine

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1 participant eligibility and the agreements with the contractors actually delivering
2 the programs. Second, based on the last five years of data, approximately 85% of
3 the weatherization funding actually goes to funding weatherization efforts, rather
4 than funding overhead expenses.

5

6 **Q. HOW WILL PNM MAKE ELIGIBLE CUSTOMERS AWARE OF THE**
7 **ENERGY SAVER DIRECT INSTALL KIT?**

8 **A.** PNM will include information about this program on its website, will produce
9 brochures to be distributed by PNM and MFA through their sub-contractors, and
10 will promote the program to customers through its call center. Additionally,
11 MFA conducts a significant outreach effort that is described in Section XI of
12 PNM Exhibit GTO-1.

13

14 **Q. IS PNM PROPOSING TO INCLUDE IN THE RIDERS ANY COSTS**
15 **ASSOCIATED WITH OFFERING OR DEVELOPING THESE**
16 **PROGRAMS OTHER THAN THOSE COSTS ALREADY IDENTIFIED?**

17 **A.** Yes, PNM is including all of the development costs. These costs are comprised
18 of PNM labor, and payments made to several consultants for assistance in
19 preparing the programs or for providing regulatory support. This includes the one-
20 time costs associated with the preparation of the electric appliance saturation
21 survey and the Potential Study. PNM is also including the costs for Itron to
22 support PNM's program application. Additionally, PNM is proposing to include

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1 the costs paid to Paragon Consulting. Paragon Consulting helped PNM develop
2 the RFP and evaluate the responses for the load management programs. PNM is
3 proposing to recover these costs over a three-year period. The 2006 PNM labor to
4 develop this filing is \$65,015. The cost of the saturation study was \$141,177. The
5 cost of the Potential Study was \$159,027. PNM anticipates paying Itron \$15,000
6 for regulatory support. PNM estimates that Paragon Consulting will be paid a
7 total of \$46,606. The total one-time charges for these consulting firms are
8 \$426,825.

9

10 **Q. ARE THE COSTS OF THESE PROGRAMS REASONABLE?**

11 **A.** Yes. PNM based the levels of our proposed incentives on other utility programs
12 and its knowledge of our customer base. Additionally, PNM compared the
13 composition of total costs to other utilities' programs to ensure that these levels of
14 expenses were in-line with other companies' experiences.

15

16 **Q. HOW IS PNM PLANNING TO PROMOTE THESE PROGRAMS?**

17 **A.** Promotion is very important. It must encourage customers to participate, and it
18 must also educate customers about energy efficiency. This makes adequate
19 promotional support crucial to the programs' success. Because the residential
20 market is so large, we must utilize a variety of tactics to assure sufficient reach.
21 We intend to employ point of sale displays, print advertising, and radio
22 advertising. Reliance on multiple channels increases the message reach. To the

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1 extent possible, we may also embed messages about these programs within
2 existing communication channels, such as bill inserts. Nonetheless, PNM is only
3 seeking recovery under the rate rider of incremental promotional expenses, those
4 that are in addition to its regular communications budgets. Section X of PNM
5 Exhibit GTO-1 shows an illustration of how the promotional costs will be split
6 among communication channels.

7

8

III. PUBLIC ADVISORY PROCESS

9

**Q. HAS PNM SOLICITED RECOMMENDATIONS ON PROGRAM DESIGN
10 AND IMPLEMENTATION FROM COMMISSION STAFF, THE
11 ATTORNEY GENERAL, THE ENERGY, MINERALS, AND NATURAL
12 RESOURCES DEPARTMENT (“EMNRD”) AND OTHER INTERESTED
13 PARTIES?**

14

A. Yes, as specified in the Act and Section 8A of the Rule, PNM met with a Public
15 Advisory Group (“Group”) to obtain non-binding recommendations. This Group
16 was comprised of representatives from Commission Staff, the Attorney General,
17 EMNRD, Coalition for Clean Affordable Energy, Community Action New
18 Mexico, MFA, the AARP, New Mexico Industrial Energy Consumers, the
19 Natural Resource Defense Council, the Southwest Energy Efficiency Project
20 (“SWEEP”), the NM Shareholders Alliance, Siemens, NRG Engineering, and
21 Xcel. PNM solicited input from this group through several meetings to discuss
22 potential programs and the design of those programs. The dates and purposes of

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1 these meetings are contained in Section II.E of the Program Plan. Lastly, a draft
2 Program Plan was presented to the parties for their review and comment.

3

4 **Q. DID PNM INCORPORATE ANY OF THE PUBLIC ADVISORY GROUP’S**
5 **RECOMMENDATIONS INTO THE FINAL PROGRAM DESIGN?**

6 **A.** Yes, there are several examples. Members of the group suggested that PNM
7 develop a program addressing the increased penetration of refrigerated air
8 conditioning in PNM’s service territory. As a result of research to address this
9 suggestion, PNM developed the indirect cooling program. Several members of the
10 group also recommended that PNM consider contracting for the administration of
11 some of the programs to firms experienced in delivering efficiency programs.
12 PNM also developed multiple year participation projections for the programs at
13 the request of several of the parties.

14

15 **IV. PROGRAM PERFORMANCE MEASURES**

16 **Q. HOW WILL PERFORMANCE BE MEASURED FOR THESE**
17 **PROGRAMS?**

18 **A.** The primary performance metrics for these programs will be cost effectiveness
19 based on TRC calculations, actual participation compared to projected
20 participation, and actual energy and/or demand savings compared to projected
21 savings.

22

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1 **Q. HOW WILL THESE METRICS BE DETERMINED?**

2 **A.** Participation in the CFL program will be measured by the number of CFLs sold;
3 participation in the refrigerator program will be based on the number of
4 refrigerators recycled. Participation in the indirect cooling program, the ENERGY
5 STAR Home program, and the Commercial Lighting program will be based on
6 the number of incentives paid out.

7

8 Savings will generally be based on the projected energy savings per participant
9 multiplied by the number of participants. Delivered capacity for the Residential
10 Load Management Program will be based on the number of participating
11 customers. Delivered capacity for the Commercial Load Management Program
12 will be based on a measurement of delivered capacity during an interruption. Cost
13 effectiveness will be determined by using the actual results to calculate the actual
14 TRC for the programs. All of this information will be subject to the independent
15 evaluator's analysis.

16

17 **Q. PLEASE PROVIDE MORE DETAIL ABOUT HOW PNM WILL
18 DETERMINE THE CAPACITY DELIVERED BY THE RESIDENTIAL
19 LOAD MANAGEMENT PROGRAM?**

20 **A.** Since the Residential Load Management Program involves a very large number of
21 participants, it is impractical to meter individually the loads of every participant.
22 Instead, Comverge will use statistical methods to evaluate capacity reductions.

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1 Comverge will install utility grade meters, capable of recording energy usage
2 every five minutes, and a dedicated communication system on the curtailable
3 loads of two randomly selected samples of these participants. One sample will be
4 the curtailed group and the other the comparison group. When load is curtailed,
5 the equipment in the curtailed group is cycled on and off according to
6 Comverge's plan to reduce load. The equipment in the comparison group
7 continues its usual cycling pattern. Comverge will retrieve data from all these
8 meters during and after a curtailment and will calculate the average load of
9 curtailable equipment for both groups for every 15-minute interval during the
10 curtailment. Comverge will next calculate the difference in average loads
11 between the two groups for every 15-minute interval. The maximum difference
12 between loads of the two groups is the per-unit load reduction for this curtailment.
13 Total capacity reduction for this curtailment is the per-unit load reduction times
14 the number of participants. An independent program evaluator, hired in
15 accordance with Commission rules, will independently verify total capacity
16 reduction by checking Comverge's fieldwork, data collection, and analyses.

17

18 **Q. PLEASE PROVIDE MORE DETAIL ABOUT HOW PNM WILL**
19 **DETERMINE THE CAPACITY DELIVERED BY THE COMMERCIAL**
20 **LOAD MANAGEMENT PROGRAM?**

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1 **A.** For commercial customers with demands less than 50 kW, capacity reductions
2 will be determined in the same manner as for the Residential Load Management
3 Program.

4
5 For commercial customers with loads exceeding 50 kW, determining capacity
6 reductions requires more sophisticated methods because of the diversity of the
7 controlled loads. For these facilities, calculating capacity reductions requires
8 estimating what the loads would have been on the day of a curtailment, absent the
9 curtailment. The industry-standard method for doing this is to calculate a
10 baseline load profile of electricity usage for each facility. Every participating
11 facility will have metering capable of providing pulse output, representing energy
12 usage of the entire facility over time, to the administrators of this program. The
13 administrators use this energy usage data to construct a baseline load profile for
14 each facility based on the data for the ten most recent days that were non-holiday
15 weekdays and during which no curtailments occurred. When these customers'
16 loads are curtailed, the administrators first calibrate the baseline load to the day of
17 the curtailment and then calculate the average baseline load for every five or
18 fifteen minute interval for all participating facilities for the duration of the
19 curtailment. The administrators also calculate the average actual load for every
20 five or fifteen minute interval for all participating facilities for the duration of the
21 curtailment. The difference between these two load profiles provides both the
22 energy and capacity reductions during the curtailment period. An independent
23 program evaluator, hired in accordance with Commission rules, will

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1 independently verify total capacity reduction by checking Comverge’s fieldwork,
2 data collection, and analyses.
3

4 **Q. WHAT IS THE EXPECTED LIFE OF THE PROPOSED ENERGY**
5 **EFFICIENCY PROGRAMS?**

6 **A.** This will depend in part on customers’ reaction to the programs. PNM initially
7 selected these programs intending to offer them for at least three years. If the
8 programs continue to be fully subscribed at that point, PNM will likely continue
9 to offer them. Alternately, if these programs are not achieving sufficient
10 participation to pass the TRC, PNM will consider if the lack of participation is a
11 result of program design or promotion, or whether it is a program that is simply
12 not viable within PNM’s service territory. If PNM determines the shortfall results
13 from program design, PNM will propose to modify the programs in order to
14 improve participation. These proposed modifications will be contained in a filing
15 made 90 days after the submission of the independent evaluator’s report as
16 prescribed by the Rule. On the other hand, if PNM determines that the program is
17 not viable, PNM will propose withdrawing the program.

18
19 **Q. WHAT ARE PNM’S PLANS ONCE IT DETERMINES THESE**
20 **PROGRAMS HAVE REACHED THE END OF THEIR USEFUL LIVES?**

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1 **A.** PNM intends to develop new programs to take the place of programs that are no
2 longer necessary, although PNM cannot anticipate today what the replacement
3 programs may be.

4
5 **Q.** **DO YOU ANTICIPATE THAT THESE PROGRAMS WILL BE COST**
6 **EFFECTIVE IN 2007?**

7 **A.** That is unlikely because the TRC calculations are based on full year participation
8 targets, and costs to implement the programs are front-end loaded. PNM will be
9 unable to implement the proposed programs until PRC approval is received,
10 probably not before the third quarter of 2007. Once approval is received, PNM
11 will begin incurring the costs to implement the programs, but will likely not
12 achieve sufficient customer participation to make the programs cost-effective for
13 calendar year 2007. Nonetheless, it is important these programs be implemented
14 as soon as possible to begin to build customer awareness of these programs and to
15 realize the programs' benefits.

16

17

V. MEASUREMENT AND VERIFICATION

18 **Q.** **HOW IS PNM PLANNING ON HANDLING MEASUREMENT AND**
19 **VERIFICATION?**

20 **A.** Measurement and verification ("M&V") will be conducted by an
21 independent program evaluator as outlined in the Efficient Use of Energy Act,
22 and consistent with the Rule. As explained in Sections VI and VII of the Program

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1 Plan, PNM anticipates that deemed savings will be used to determine actual
2 energy savings for the lighting programs, the refrigerator recycling program, the
3 Energy Saver Direct Install kits, and the indirect cooling programs. PNM
4 proposes that prospective independent evaluators be asked to recommend the
5 most appropriate means to conduct M&V for the ENERGY STAR Homes
6 program, and the load management programs during the RFP process to select the
7 independent evaluator.

8

9 **Q. PLEASE DESCRIBE THE RELATIONSHIP BETWEEN THE PROPOSED**
10 **PROGRAMS AND THE PROGRAMS APPROVED IN NMPRC CASE NO.**
11 **05-00261-UT?**

12 **A.** PNM proposed and received approval for a set of gas energy efficiency programs
13 in NMPRC Case No. 05-00261-UT. Approval was received in December 2005,
14 and the programs were implemented in February 2006. There is no direct
15 relationship between those programs and the electric programs proposed in this
16 case, other than that the same PNM department is responsible for both sets of
17 programs. PNM will also co-promote the two sets of programs in the portions of
18 its service territory where it provides both gas and electric service.

19

20

VI. CONCLUSION

21 **Q. PLEASE INTRODUCE PNM'S OTHER WITNESSES.**

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1 **A.** Mr. Michael Rufo of Itron will describe the Potential Study that identified
2 potential electric efficiency programs in PNM’s service territory. Mr. John
3 Fernald will present the design of the proposed rate riders that PNM will use to
4 recover the costs associated with the programs.

5

6 **Q.** **PLEASE SUMMARIZE YOUR TESTIMONY.**

7 **A.** PNM is proposing six new residential and three new commercial electric energy
8 efficiency or load management programs. The Refrigerator Recycling program,
9 the Residential Lighting program, the Residential Indirect Cooling program, the
10 ENERGY STAR Homes program, and the Residential Load Management
11 program comprise the residential programs. The commercial programs include the
12 Commercial Lighting program, the Commercial Indirect Cooling program, and
13 the Commercial Load Management program. These programs offer the potential
14 to significantly reduce the energy consumption and peak demand of PNM’s retail
15 customers and provide the opportunity for broad participation among eligible
16 customer classes. This set of programs was developed consistent with the Act
17 and the Rule. PNM convened, and held several meetings with, a Public Advisory
18 Group consisting of several stakeholders. All of the programs are cost effective,
19 as measured by the TRC, separately and collectively. The TRC of the set of
20 programs is 1.39. Once Commission approval is received, PNM anticipates
21 offering the energy efficiency measures for at least 3 years, and the load

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1 management for a period of ten years. M&V will be conducted as prescribed by
2 the Rule.

3

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

5 **A.** Yes, it does.

6

7