

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. E-2, SUB 931  
DOCKET NO. E-7, SUB 1032

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 931	)	
	)	
In the Matter of	)	
Application of Duke Energy Progress, LLC, for	)	
Approval of Demand-Side Management and	)	ORDER APPROVING
Energy Efficiency Cost Recovery Rider	)	REVISIONS TO DEMAND-SIDE
Pursuant to N.C.G.S. § 62-133.9 and	)	MANAGEMENT AND ENERGY
Commission Rule R8-69	)	EFFICIENCY COST RECOVERY
	)	MECHANISMS
DOCKET NO. E-7, SUB 1032	)	
	)	
In the Matter of	)	
Application of Duke Energy Carolinas, LLC, for	)	
Approval of New Cost Recovery Mechanism	)	
and Portfolio of Demand-Side Management	)	
and Energy Efficiency Programs	)	

BY THE COMMISSION: On January 20, 2015, the Commission issued an Order Approving Revised Cost Recovery Mechanism and Granting Waivers (DEP Mechanism Order), in Docket No. E-2, Sub 931 (Sub 931). The DEP Mechanism Order approved changes to the demand-side management and energy efficiency (DSM/EE) mechanism by which Duke Energy Progress, LLC (DEP) recovers its DSM/EE costs and incentives (DEP Mechanism). In Ordering Paragraph No. 7, the Commission directed

That the Public Staff shall initiate a formal review of the Company's Mechanism not later than February 1, 2019, unless requested to do so earlier by the Commission, the Company, or another interested party. The Public Staff's review should specifically address whether the incentives in the Commission-approved Mechanism are producing significant DSM and EE results; whether the customer rate impacts from the DSM/EE rider are reasonable and appropriate; whether overall portfolio performance targets should be adopted; and any other relevant issues that may be identified during the review process.

DEP Mechanism Order, at 7.

On August 23, 2017, in Docket No. E-7, Sub 1032 (Sub 1032), the Commission issued an Order Approving DSM/EE Rider, Revising DSM/EE Mechanism, and Requiring Filing of Proposed Customer Notice. The Order, among other things, revised the DSM/EE mechanism by which Duke Energy Carolinas, LLC (DEC) recovers its DSM/EE costs and incentives (DEC Mechanism), effective January 1, 2018.

On February 1, 2019, the Public Staff filed a Motion to Establish Comment Cycle in Subs 931 and 1032. In summary, the Public Staff recommended that the Commission initiate a review of the DEP and DEC Mechanisms in a joint proceeding, with initial comments due in 120 days and reply comments due 30 days thereafter. In addition, the Public Staff recommended that the parties address the topics specified by the Commission in Ordering Paragraph No. 7 of the DEP Mechanism Order, as well as other relevant issues. Further, the Public Staff recommended that if parties have suggested changes to the DEP Mechanism that those changes be presented by filing a redlined version of the DEP Mechanism filed as Maness Exhibit I on September 4, 2018, in Docket No. E-2, Sub 1174, and a redlined version of the DEC Mechanism filed as Maness Exhibit II on May 22, 2018, in Docket No. E-7, Sub 1164.

On February 6, 2019, the Commission issued an order requesting comments and reply comments addressing possible changes to the DEP and DEC Mechanisms. The order required that initial comments be filed by June 7, 2019, and that reply comments be filed by July 10, 2019. Further, the order specified that the parties' comments and reply comments should address the topics identified in the DEP Mechanism Order, as well as any other relevant issues. After the Commission granted the parties an extension of time, on July 10, 2019, initial comments were filed by the Public Staff and the North Carolina Attorney General's Office (AGO). In addition, initial comments were filed jointly by Natural Resources Defense Council (NRDC), Southern Alliance for Clean Energy (SACE), Sierra Club, South Carolina Coastal Conservation League (SCCCL),<sup>1</sup> and North Carolina Sustainable Energy Association (NCSEA, collectively Joint Commenters).

After the Commission granted extensions of time for the filing of reply comments based on motions citing discussions and negotiations among the Public Staff, DEC, DEP, AGO, and Joint Commenters, on January 15, 2020, the Public Staff filed proposed revisions to the DEP and DEC Mechanisms on behalf of itself, DEC, DEP, AGO, and Joint Commenters (Joint Parties).

### **JOINT PARTIES' PROPOSED MECHANISM REVISIONS**

The Public Staff explained that Joint Parties had participated in a number of meetings, conference calls, and other communications in order to attempt to resolve some or all of the issues identified in the initial comments, and that as a result of their collaboration Joint Parties had agreed to a number of revisions to the Mechanisms. The Joint Parties' filing included an Attachment A showing Joint Parties' proposed revisions to DEC's Mechanism and Attachment B showing Joint Parties' proposed revisions to

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<sup>1</sup> Sierra Club and SCCCL are parties only in Sub 1032.

DEP's Mechanism. The Public Staff stated that many of the proposed changes are not substantive but, rather, make conforming changes to the Mechanisms. In addition, the Public Staff stated that Joint Parties are recommending substantive changes to the Mechanisms that Joint Parties believe are in the public interest and will serve to make the Mechanisms more effective. The Public Staff described the substantive changes as follows.

- Addition of a Program Return Incentive (PRI) – Joint Parties believe that one central focus of DEC's and DEP's DSM/EE efforts should be to provide low-income customers with tools to lower their electricity bills, and that such focus is consistent with Recommendation I-3 of the North Carolina Clean Energy Plan to "[e]xpand energy efficiency and clean energy programs specifically targeted at underserved markets and low-income communities."<sup>2</sup> Consequently, the Joint Parties developed the PRI, which is an incentive to encourage DEC and DEP to pursue savings from existing and new low-income DSM/EE programs, and to maintain and increase the cost effectiveness of these programs. For these types of programs, the PRI initially will be based on 10.6% of the net present value of the avoided cost savings achieved by these DSM/EE programs. The percentage ultimately used to determine the PRI for each Vintage Year will be based on the Company's ability to maintain or improve the cost effectiveness of the PRI-eligible programs over and above that initially estimated for the Vintage Year. At no time will the PRI percentage fall below 2.65% or rise above 13.25%.
- Reduction of Portfolio Performance Incentive (PPI) Percentage - Currently, the PPI percentages used for DEC and DEP are 11.50% and 11.75%, respectively. Joint Parties propose to reduce the PPI percentages for both Companies to 10.60%.
- Cap and Floor on PPI – Joint Parties propose that the amount of pre-tax PPI allowed will not exceed or fall below the amount that produces a specified margin over the aggregate pre-tax program costs for the PPI-eligible programs. The maximum margin is set at 19.50% for Vintage Year 2022 and afterward, until completion of the next Mechanism review. Additionally, a minimum margin over aggregate pre-tax program costs for PPI eligible programs will be established at 10% for Vintage Year 2022, 6% for Vintage Year 2023, and 2.50% for Vintage Year 2024 and afterward, until completion of the next Mechanism review.
- Non-Energy Benefits – The revisions provide that the Commission will assess whether it is appropriate to use non-energy benefits in the determination of cost-effectiveness under the Total Resource Cost Test (TRC). Joint Parties stated

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<sup>2</sup> North Carolina Clean Energy Plan, North Carolina Department of Environmental Quality, State Energy Office, October 2019 (NC Clean Energy Plan), at 117-19. See [https://files.nc.gov/ncdeq/climate-change/clean-energy-plan/NC\\_Clean\\_Energy\\_Plan\\_OCT\\_2019\\_.pdf](https://files.nc.gov/ncdeq/climate-change/clean-energy-plan/NC_Clean_Energy_Plan_OCT_2019_.pdf).

that this change is consistent with Recommendation I-1 of the NC Clean Energy Plan.<sup>3</sup>

- Clarification of the Criteria for Bundling Measures within Programs – This revision requires bundled measures to be consistent with and related to the measure technologies or delivery channels of a program, unless otherwise ordered by the Commission.
- Use of the Utility Cost Test (UCT) – Currently, the TRC is used to calculate the prospective cost-effectiveness of new and ongoing programs. The proposed revisions provide that determination of the cost-effectiveness of new and ongoing programs will be calculated using the UCT.
- Recovery of PPI in Applicable Vintage Year – Currently, DEP has converted its vintage year PPI into a stream of levelized annual payments not to exceed ten years. Under the proposed revisions, after Vintage Year 2021 the PPI will be recovered in the applicable Vintage Year’s revenue requirement, though levelized annual payments from prior vintages will continue to be collected until recovered.
- Review of Avoided Transmission and Distribution (T&D) Costs – The Public Staff and DEC or DEP, as applicable, will review the avoided T&D costs no later than December 31, 2021, and make recommendations for any adjustment in the rider proceedings thereafter. Avoided T&D costs will be reviewed at least every three years and will be updated if they change by at least 20%.
- Additional Incentive and Penalty - If the Company achieves annual energy savings of 1.0% of the prior year's system retail electricity sales in any year during 2022 through 2025, the Company will receive an additional incentive of \$500,000 for that year. During that same period, if the Company fails to achieve annual energy savings of 0.5% of retail sales, net of sales associated with customers opting out of the Company’s EE programs, the Company will reduce its EE revenue requirement by \$500,000.
- Minor Modification to DEP Opt-Out Provision - A minor modification was made to the opt-out provisions of the DEP Mechanism that addresses a potential unintended outcome that could occur in the case in which there is rate element of Rider DSM/EE that is a credit.

Joint Parties stated that they spent substantial time considering the costs and benefits of aligning DEC’s and DEP’s use of amortization for their DSM/EE operations and maintenance (O&M) expenses. They noted that DEC does not amortize these expenses, while DEP generally amortizes post-2015 O&M expenses over five years for

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<sup>3</sup> NC Clean Energy Plan 114-15.

residential customers and three years for non-residential customers.<sup>4</sup> According to Joint Parties, they considered several scenarios, using a number of assumptions, to estimate the bill impact of ending or reducing the amortization periods. Their calculations indicated that ending the amortizations for new program costs entirely in 2022, when the revisions to the Mechanisms would go into effect, would result in overall residential bill increases of approximately 2.50% in that year, and increases of approximately 2.25% to 3.00% for different classes of non-residential customers. Reducing the period of amortization to two years instead of ending it would decrease the amount of rate increase to approximately 1.00% -1.20% for two years for residential customers and approximately 0.67% - 0.95% for two years for the different classes of non-residential customers. Further, the Joint Parties stated that they reviewed the impact of reducing the amortization period to three years, which they estimated to increase residential bills by approximately 0.50% for three years and non-residential bills by approximately 0.13% for two years. Finally, the Joint Parties' calculations indicated that after a period of time the increase in bills caused by ending or reducing the amortization periods would end, with the duration of the temporary increase varying under each of the scenarios above and by customer rate class from two to seven years.

Joint Parties agreed that aligning the amortization periods for DEP and DEC was a worthy goal. However, Joint Parties were also concerned about the impact of temporary rate increases on customers in light of the application for a rate increase filed by DEP in Docket No. E-2, Sub 1219. To minimize the impact on customer rates but to continue the process of aligning the amortization periods, Joint Parties proposed that the amortization period be reduced to three years in this revision of the DEP Mechanism, and that the parties consider the issue further in the next review of the Mechanisms.

Joint Parties also agreed that if the Commission finds that some level of temporary rate increases is acceptable in order to eliminate or reduce the amortization period to one or two years, that such a change would be feasible and should not have any other adverse consequences.

In addition, Joint Parties reached agreement that DEC and DEP will work with the DSM/EE Collaborative to develop a scope for a one-time study on the market penetration of EE programs with low and moderate income customers (LMI) to be performed by qualified independent third-party EM&V providers. The study will seek to estimate the LMI market penetration of its non-income qualified residential programs, as well as the market penetration of small commercial programs in neighborhoods with high LMI populations. The study will consider customer participation, energy savings, and bill impacts, as well

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<sup>4</sup> In the initial DEP Mechanism, the amortization period for these expenses was set at a maximum of ten years, and DEP utilized a ten-year period for most programs. In the 2015 revision to DEP's Mechanism, a reduction of amortization periods for O&M expenses incurred in future years was allowed for programs for which those expenses had previously been amortized over longer periods; this provided for the general reduction of those post-2015 cost amortization periods to five or three years. However, for O&M expenses incurred prior to 2016, the originally chosen amortization periods remained in place. For administrative and general (A&G) expenses, from the outset of the Mechanism, the maximum amortization period has been three years.

as identifying potential market barriers. In addition, the study will be utilized by DEC and DEP to make recommendations for program enhancements designed to cost effectively increase market penetration in the targeted populations and neighborhoods. Joint Parties further stated that DEC and DEP will seek to file an initial scope and budget for the work with their 2020 rider filings, and upon Commission approval for recovery of study costs, they will have the study completed prior to the cost recovery Mechanism modifications taking effect in 2022.

Joint Parties acknowledged that certain issues were not resolved through negotiation, and stated that Joint Parties had agreed that each party may identify additional recommendations to the Commission in its comments on the proposed revisions to the Mechanisms so long as such additional recommendations do not conflict with Joint Parties' proposed revisions.

Finally, Joint Parties requested that the Commission issue an order allowing parties to file comments and reply comments on the proposed revisions to the Mechanisms and other relevant issues.

## **RECOMMENDATIONS OF JOINT COMMENTERS**

On January 15, 2020, Joint Commenters filed comments stating that they support the proposed revisions filed by Joint Parties. Further, Joint Commenters made four additional recommendations for the Commission's consideration. First, Joint Commenters recommended that the Commission require a change in the discount rate used in the cost effectiveness tests for DSM/EE programs. They stated that presently each Company's weighted average cost of capital (WACC) is used. According to Joint Commenters, the WACC creates an inherent bias towards the objectives of the utility over those of consumers, reflects a shorter rate of time preference than that of the utility's customers or regulators, and does not reflect the cost of capital for DSM/EE resources, which is more akin to expenses. Joint Commenters recommended the use of a low-risk discount rate (in the range of 0% to 3%), that better aligns with customer objectives, reflects the time preference of customers and the Commission, and reflects the "cost of capital" for DSM/EE investments. Further, Joint Commenters stated that the National Standard Practice Manual (NSPM) offers a framework to assist regulatory bodies and jurisdictions in making the discount rate determination,<sup>5</sup> and they recommended that this framework would serve as a useful guide for the Commission in determining whether to require the use of a discount rate different from the utility's WACC.

Second, Joint Commenters recommended that the Commission consider adopting a reporting requirement for customers who opt out of the Companies' DSM/EE programs. They noted that in the rulemaking proceeding to implement Senate Bill 3, the Commission considered whether Rule R8-69 should require customers to make a showing of whether

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<sup>5</sup> National Efficiency Screening Project, *National Standard Practice Manual for Assessing Cost-Effectiveness of Energy Efficiency Resources* (May 2017), available at <https://nationalefficiencyscreening.org/national-standard-practice-manual/>.

they were pursuing DSM/EE in order to opt out of utility DSM/EE programs, and the Commission decided that it would not do so.<sup>6</sup> Joint Commenters opined that since Commission Rule R8-69 was promulgated the rate of large non-residential customers opting out of the DEC and DEP DSM/EE programs has remained persistently high, noting that in 2018 51% of DEC's North Carolina non-residential load opted out of the Company's EE rider, and 55% of non-residential load opted out of DEP's EE rider. Joint Commenters stated that although the Companies have worked to improve their non-residential program offerings and have implemented other changes aimed at encouraging greater participation by large customers, these steps have not meaningfully reduced opt-outs. Joint Commenters contended that the Commission should evaluate whether it should require the Companies' opt-out customers to report to DEC or DEP their stated and quantifiable goals for the DSM or EE measures they implement at their own expense, as well as the demand and/or energy savings from those measures.

Third, Joint Commenters recommended that the Commission request a report from the Governor's Office on the results of the Clean Energy Plan (CEP) utility business model reform stakeholder process, and use the report to inform a Commission investigation into decoupling. Joint Commenters maintained that lost-revenue adjustment mechanisms (LRAMs) are an inferior way to address a utility's inherent disincentive to pursue efficiency savings that will result in lost sales, and that revenue decoupling is an alternative way to remove the utility's disincentive to pursue efficiency savings. Joint Commenters stated that more than a decade has passed since the Commission issued its Senate Bill 3 report on decoupling, in which the Commission determined that, having only issued its rules implementing Senate Bill 3 earlier that year, it was "premature to mandate new major changes to electric utility rate structures before it has been determined whether the incentives under Senate Bill 3 serve their intended purpose and are sufficient."<sup>7</sup> Joint Commenters maintained that the time is right to revisit decoupling as a policy option, and that the Commission could use the information provided by the CEP to launch its analysis.

Fourth, Joint Commenters recommended that the Commission request a copy of the DEQ report on carbon-reduction policy options, and use the report to inform a Commission investigation into whether an Energy Efficiency Resource Standard (EERS) should be adopted in North Carolina. According to Joint Commenters, the CEP includes a recommendation for establishment of an EERS by 2021. They stated that research has shown that an EERS is the single most effective policy to promote energy efficiency savings.<sup>8</sup>

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<sup>6</sup> Order Adopting Final Rules, Docket No. E-100, Sub 113 (Feb. 29, 2008) at 128-29.

<sup>7</sup> Report of the North Carolina Utilities Commission to the Governor of North Carolina, the Environmental Review Commission and the Joint Legislative Utility Review Committee Regarding an Analysis of Rate Structures, Policies and Measures to Promote Renewable Energy Generation and Demand Reduction in North Carolina (Sept. 2, 2008) at 46,

<https://starw1.ncuc.net/NCUC/ViewFile.aspx?Id=3ab9a622-dab8-4f0b-b013-b7f9b99b0ff1>.

<sup>8</sup> *Beyond Carrots for Utilities: A National Review of Performance Incentives for Energy Efficiency*, American Council for an Energy Efficient Economy, at 26 (Sept. 2015) ("Of those states with shared net benefits performance incentives in place, seven of them have EERS and five do not. Those with EERS

## COMMENTS ON JOINT COMMENTERS' RECOMMENDATIONS

On January 16, 2020, the Commission issued an order allowing parties to file comments and reply comments addressing the Joint Parties' proposed revisions to DEC's and DEP's Mechanisms, the additional recommendations of the Joint Commenters, and any other issues deemed relevant to DEC's and DEP's Mechanisms, with comments due by February 17, 2020, and reply comments by March 9, 2020.

On February 17, 2020, the Public Staff and Carolina Utility Customers Association, Inc. (CUCA) filed comments in response to Joint Commenters' recommendations. As a preliminary matter, the Public Staff stated that it strongly endorses the Joint Parties' proposed revisions to DEP and DEC's DSM/EE Mechanisms because the revisions are designed to incentivize the utilities to achieve the most net savings from DSM/EE, while also placing greater emphasis on reaching low income customers who could most benefit from additional opportunities to reduce the costs of their electric utility service. As a result, the Public Staff believes that the revisions are in the public interest and should be approved.

Further, the Public Staff noted that the recommendations of Joint Commenters would affect all of the investor-owned utilities, including Dominion Energy North Carolina, which is not a party to this proceeding, and that if the Commission considers any of the four recommendations they should be considered in a generic docket, rather than the present dockets that only apply to DEP and DEC.

### Low-Risk Discount Rate

The Public Staff stated that the NSPM cited by Joint Commenters recommends that jurisdictions follow six steps in determining the appropriate discount rate:

Step A: Articulate the jurisdiction's applicable policy goals.

Step B: Consider the relevance of a utility's WACC.

Step C: Consider the relevance of the average customer discount rate.

Step D: Consider the relevance of a societal discount rate.

Step E: Consider an alternative discount rate different from the utility, customer, and societal perspective.

Step F: Consider using a low-risk discount rate for EE cost-effectiveness.

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have twice the energy savings relative to sales, and more than double the electric energy efficiency budgets as a percentage of utility revenue than the states with no EERS or similar policy.”).



The Public Staff opined that Step A, a determination of North Carolina's policy goals, would affect not only DSM/EE but almost every aspect of resource planning. According to the Public Staff, it is not appropriate to consider policy goals and changes to such goals in the context of the limited issue of discount rates. In addition, the Public Staff stated that using the utility's WACC places DSM/EE programs on a level playing field with supply-side resources, and that DEC witness Farmer noted the appropriateness of using the utility's WACC as being consistent with the Company's compensation for generation plant.<sup>9</sup> Further, the Public Staff stated that it would be difficult to quantify the average customer discount rate, as required by Step C, on a customer class level, and likely impossible on an individual customer basis.

With regard to the NSPM suggestion of a low-risk discount rate for EE, the Public Staff acknowledged that the cost of most EE programs are expensed as opposed to capitalized, but stated that this does not justify the use of a low-risk discount rate since DSM/EE programs are not entirely without risk to the Company because program participation rates and energy savings may vary widely from initial projections. In addition, the Public Staff stated that the calculation of a utility's capital structure and return on equity (ROE) to determine the WACC are generally two of the most contentious issues in a general rate case, and there are recognized models - such as the Discounted Cash Flow, Risk Premium, and Capital Asset Pricing models - used to calculate ROEs, as well as many publications from which to obtain comparative statistics for other utilities. According to the Public Staff, there is little guidance on how to calculate a discount rate directed to the customers' time and risk preferences, and the Public Staff cited cautionary language in the NSPM about several factors that are subject to change.

Finally, the Public Staff stated that using a lower discount rate would likely result in higher incentive payments to the utility under both the current and proposed Mechanisms because the cost effectiveness of the programs would increase, which could result in a windfall for the utility in the form of increased incentives without a corresponding increase in DSM/EE program participation or energy savings.

## **Reporting Requirement for Opt-Out Customers**

### ***Public Staff's Comments***

The Public Staff agreed with the Joint Commenters that the number of opt out customers has had a significant impact on the non-residential DSM/EE programs and riders. On the other hand, the Public Staff stated that it is aware of many industrial and commercial customers that have opted out and have implemented EE measures at their own expense. In addition, the Public Staff noted that the statute does not require such reports, and that the Public staff does not support a reporting requirement, but encourages the utilities and the Collaborative to work to develop cost-effective programs and measures that would reduce opt-outs. Moreover, the Public Staff cited the following

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<sup>9</sup> The recommended discount rate is addressed in the testimony of DEC witness Stephen M. Farmer filed in Docket No. E-7, Sub 831, on April 4, 2008, pp. 13-16.

statement from the Commission's February 29, 2008 Order Adopting Final Rules, in Docket No. E-100, Sub 113:

The Commission concludes that Rule R8-69 should not be revised to include either Duke's proposal to require a "substantially equivalent" test in order for customers to opt out of DSM and EE programs or ED, SACE and SELC's proposal that customers desiring to opt out be required to provide detailed descriptions of measures evaluated and measures implemented or planned together with quantified results and projections of the impact of the measures. Senate Bill 3, in general, and G.S. 62-133.8(f), in particular, do not contain any requirement that DSM or EE programs implemented by the customer or DSM or EE programs proposed to be implemented by the customer must be substantially equivalent to the programs or measures being supplied by the electric power supplier. Nor does Senate Bill 3 require customers desiring to opt out to provide detailed descriptions of measures evaluated and measures implemented or planned together with quantified results and projections of the impact of the measures. All that is required of a program used as the basis for a customer's decision to opt out is that: (1) the program have been implemented in the past or (2) that it be proposed to be implemented in the future in accordance with stated, quantified goals.

Order Adopting Final Rules (SB 3 Rules Order), at 129.

The Public Staff stated that there are no changed circumstances since 2008 that necessitate re-litigation of this matter.

### ***CUCA's Comments***

CUCA stated that there is no opt out reporting requirement contained in N.C.G.S. § 62-133.9(f), and contended that imposing such a reporting requirement would require a change in the statute. CUCA stated that representatives of CUCA, DEP, DEC, and other stakeholders, including a number of the Joint Commenters, were involved in the lengthy process of developing Senate Bill 3 in which the opt-out provision was negotiated. Further, CUCA noted that neither DEP nor DEC has ever required industrial customers wishing to exercise their opt-out rights to provide notice or information other than what is required under the statute, and that CUCA's members would consider a requirement to report their DSM/EE measures and savings to be a violation of their right to protect their confidential trade secret information from public disclosure. In addition, CUCA contended that following Joint Commenters' recommendation to undertake a process to develop a reporting requirement would be beyond the scope of the statute, the Commission's rules, and the stakeholder process that led up to the opt-out provision.

CUCA also noted that in 2018 51% of DEC's nonresidential load opted out of the DEC DSM/EE Rider, and 55% of DEP's non-residential load opted out, and opined that this results in a "glass half full," rather than half empty, as the situation is viewed by Joint

Commenters. Moreover, CUCA cited a recent news report in which Forrest Bradley-Wright, Energy Efficiency Director for SACE, stated that "Duke Energy is far and away the energy efficiency leader [in the region]," and that SACE reported that North Carolina is the only Southeastern state to exceed the national average in EE savings.

Further, CUCA stated that if it is cost effective for a business to invest capital in a DSM or EE project, then the business will choose to make such investments, but a company should not be forced to invest in Duke's DSM/EE programs if such investment does not make economic sense for the company.

Finally, CUCA responded to Joint Commenters' contention that the lack of reporting by opt-out customers inhibits DEC's and DEP's ability to plan for meeting their customers' electric power needs. CUCA stated that DEC and DEP have not identified in their Integrated Resource Plans a lack of opt-out customer data as an impediment to system demand and energy planning.

### **Investigation of Decoupling**

The Public Staff noted that investigations of decoupling mechanisms have typically been initiated upon request of the General Assembly, and that decoupling mechanisms for gas, water, and electric utilities have resulted from legislative action. In addition, the Public Staff opined that the recovery of net lost revenues is a type of decoupling, and stated that such recovery is allowed by statute and has been part of the DSM/EE rider proceedings since their initiation. Further, the Public Staff disagreed with Joint Commenters' view that the current method used for recovery of net lost revenues is "cumbersome and difficult to administer", noting that the Public Staff has been able to navigate the methodology.

### **Adoption of an Energy Efficiency Resource Standard**

The Public Staff stated that performance targets are included in the proposed Mechanisms for DEC and DEP, that an EERS is a mandate more than a target, and that such a mandate would need to come from the General Assembly.

## **DISCUSSION**

Pursuant to N.C.G.S. § 62-133.9(d), the Commission is authorized to approve an annual rider to the rates of electric public utilities to recover all reasonable and prudent costs incurred for the adoption and implementation of new DSM and EE programs. Under the statute DSM/EE costs include, but are not limited to, capital costs - including costs of capital and depreciation expense - administrative costs, implementation costs, incentive payments to participants, and operating costs. In addition, the statute authorizes the Commission to approve incentives for the utility for the adoption and implementation of new DSM and EE programs, including Net Lost Revenues (NLR) and appropriate rewards based on the sharing of savings achieved by the programs. The annual DSM/EE rider is composed of two parts: (1) the utility's forecasted costs, along with incentives, during the

rate period, and (2) an experience modification factor to collect the difference between the utility's actual reasonable and prudent costs and incentives incurred during the test period and actual revenues realized during the test period.

The present proceeding is the third review of DEC's Mechanism since it was initially approved in 2010 in Docket No. E-7, Sub 831, and the second review of DEP's Mechanism since it was initially approved in 2009 in Docket No. E-2, Sub 931. The Commission thanks the parties for their efforts in this proceeding and the cooperative spirit in which they have worked. Joint Parties' proposal includes a number of substantial revisions to DEC's and DEP's Mechanisms and evidences a comprehensive review by Joint Parties. One item that Joint Parties left open and expressly requested the Commission's consideration of is whether the amortization periods used by DEP for its DSM/EE O&M expenses - five years for residential customers and three years for non-residential customers - should be eliminated altogether to align with DEC's practice of not amortizing O&M, or whether DEP's amortization of O&M should be phased out over a period of years to reduce the rate impact on customers. Joint Parties included a three-year amortization period in DEP's proposed revised Mechanism, with the recommendation that the matter be considered again in the next review of the Mechanisms, but also agreed that the Commission could find it acceptable to eliminate the amortization period, or reduce it to one or two years. The Commission concludes that the three-year amortization period for DEP's O&M expenses is reasonable at this time and should be approved, with the matter to be further considered in the next Mechanism review proceeding.

The Commission commends the Joint Parties on the proposed revisions to paragraph numbers 87 and 93 of the DEC and DEP Mechanisms, respectively. These paragraphs provide for an additional incentive or a penalty relating to the attainment or non-attainment of a designated percentage of annual energy savings. If the Company achieves annual energy savings of 1.0% of the prior year's system retail electricity sales in any year during 2022 through 2025, the Company will receive an additional incentive of \$500,000 for that year. During that same period, if the Company fails to achieve annual energy savings of 0.5% of retail sales, net of sales associated with customers opting out of the Company's EE programs, the Company will reduce its EE revenue requirement by \$500,000. The Commission encourages the parties to consider a step approach which could incrementally increase the incentive for additional energy savings and increased penalties for non-attainment of certain milestones over the three-year period. Thus, the Commission directs the Collaborative to study ways to implement a step approach to this type of incentive/penalty structure to potentially achieve even greater annual energy savings. The Commission directs the Public Staff to include a report on the discussions and conclusions reached by the Collaborative on this matter in the next Mechanism review.

With respect to Joint Commenters' recommendation of a low-risk discount rate for DSM/EE programs, the Commission agrees with the Public Staff's observation that an investigation into a low-risk discount rate using the NSPM guidelines recommended by Joint Commenters would be a complex and largely uncharted process. While the

Commission agrees that there are differences in a utility's costs and risks of building and operating generating plants compared to implementing DSM/EE programs, there are also differences in the costs and risks of building and operating all of the different assets that comprise the rate base of an integrated electric utility. Traditional ratemaking addresses this fact by assigning a WACC which reflects the risks of the rate base as a whole. The Commission is persuaded that it is necessary to use the utility's WACC in order to place DSM/EE programs "on a level playing field with supply-side resources," as suggested by the Public Staff. Further, the Commission agrees with the Public Staff that, "determination of North Carolina's policy goals as required by Step A [of the NPSM guidelines] would be an immense undertaking far beyond the confines of DSM/EE." However, notwithstanding the foregoing, the Commission concludes that there may be merit in studying the concept of a low-risk discount rate for DSM/EE programs and, therefore, finds good cause to direct that the Collaborative to study this issue. Further, the Commission directs the Public Staff to include a report on the discussions and conclusions reached by the Collaborative on this matter in the next Mechanism review.

With regard to the Joint Commenters' recommendation that the Commission institute a reporting requirement for opt-out customers, the Commission agrees with the Public Staff that consideration of an opt-out reporting requirement is beyond the scope of this proceeding. The opt-out provision is a factor in determinations by industrial and large commercial customers about whether to participate in the utilities' DSM/EE programs. But it has little or nothing to do with the guidelines by which the utilities recover their DSM/EE costs and the incentives they receive for successfully operating such programs. Further, the Commission is not persuaded that there is any basis for reviewing or modifying its decision in the SB 3 Rules Order declining to adopt a reporting requirement.

Joint Commenters further recommended that the Commission initiate a generic proceeding to investigate the adoption of rate decoupling. The Public Staff opined that rate decoupling is more appropriately a matter for the General Assembly. In that context, the Commission notes that HB 624 on multi-year rate plans for electric utilities, presently pending in the General Assembly, has received considerable debate. The Commission concludes that if the legislature is inclined to do so it could include consideration of decoupling in its deliberations on major changes in electric rate structures.

Finally, Joint Commenters recommended that the Commission initiate an investigation into whether an EERS should be adopted in North Carolina. As the Public Staff noted, performance targets are included in the revised Mechanisms but, unlike an EERS, performance targets do not mandate that DEC and DEP achieve a particular level of DSM/EE savings. An EERS would have rate-making implications that go beyond the guidelines for DEC's and DEP's recovery of costs and incentives under N.C.G.S. § 62-133.9. Indeed, Joint Commenters' concerns about a high percentage of large-load commercial and industrial customers opting out of utility-sponsored DSM/EE programs would be exacerbated by an EERS mandate absent a corresponding ability to equitably spread the costs among all ratepayer classes. As a result, the Commission is not persuaded that an investigation into an EERS would be a wise use of the Public Staff's and the Commission's resources at this time.

## CONCLUSION

Based on the foregoing and the record, the Commission finds and concludes that the revised Mechanisms proposed by the Joint Parties provide a workable and reasonable methodology for DEC's and DEP's recovery of DSM/EE program costs and appropriate incentives. In addition, the Commission finds and concludes that the revised Mechanisms will result in just and reasonable rates and will serve the public interest. Therefore, the Commission concludes that the revised Mechanisms should be approved.

IT IS, THEREFORE, ORDERED as follows:

1. That the revised DEC and DEP Mechanisms proposed by the Joint Parties, attached hereto as Appendices A and B, respectively, shall be, and are hereby, approved;
2. That the attached Mechanisms shall be effective for DSM and EE costs and utility incentives associated with time periods beginning on and after January 1, 2022;
3. That the DSM/EE Collaborative shall study ways to implement a step approach to the incentive/penalty structure adopted by the Joint Parties to potentially achieve even greater annual energy savings and in the next Mechanism review the Public Staff shall include in its initial filing a report on the discussions and conclusions reached by the Collaborative on this matter;
4. That the DSM/EE Collaborative shall study the concept of a low-risk discount rate in assessing the cost effectiveness of the electric public utilities' DSM/EE programs, and in the next Mechanism review the Public Staff shall include in its initial filing a report on the discussions and conclusions reached by the Collaborative on this matter;
5. That DEC and DEP shall work with the DSM/EE Collaborative to develop a scope for a one-time study on the market penetration of EE programs with low and moderate income customers to be performed by qualified independent third-party EM&V providers, as more fully described in the body of this Order. DEC and DEP shall seek to file an initial scope and budget for the work with their 2020 rider filings, and upon Commission approval for recovery of study costs, they shall have the study completed prior to the cost recovery Mechanism modifications approved herein taking effect in 2022; and
6. That the Public Staff shall initiate a joint formal review of DEC's and DEP's Mechanisms not later than May 1, 2024, unless requested to do so earlier by the Commission, DEC or DEP, or another interested party. The Public Staff's review should specifically address whether the incentives in the Commission-approved Mechanisms are producing significant DSM and EE results; whether the customer rate impacts from the DSM/EE rider are

reasonable and appropriate; whether overall portfolio performance targets should be adopted or revised; and any other relevant issues that may be identified during the review process.

ISSUED BY ORDER OF THE COMMISSION.

This the 20th day of October, 2020.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in black ink that reads "Kimberley A. Campbell". The signature is written in a cursive style with a large initial 'K'.

Kimberley A. Campbell, Chief Clerk

Commissioners Daniel G. Clodfelter and Jeffrey A. Hughes concur in a separate opinion.

Commissioner Floyd B. McKissick, Jr., did not participate in this decision.

**DOCKET NO. E-2, SUB 931**  
**DOCKET NO. E-7, SUB 1032**

**Commissioner Daniel G. Clodfelter, concurring:** I support the Commission's Order so far as it goes. The adjustments agreed upon and proposed by the Joint Parties are useful, albeit modest. We are now approximately thirteen years out from the enactment of N.C.G.S. § 62-133.9, and for myself I think a more substantial review and revision of the DSM/EE mechanisms is due. In particular, I believe it would have been valuable for the Commission in these dockets to have given serious consideration to adopting the recommendation of the Attorney General's expert, Strategen Consulting. Several commenters have noted that the success of the energy efficiency and demand side management programs proposed and approved to date does not necessarily portend equivalent future success. Put differently, they say the "low-hanging fruit" has by now substantially all been harvested. I am concerned they will prove to be correct. In Paragraph 6 of its Order the Commission directs that the next formal review of the DSM/EE mechanisms is to be initiated "not later than" May 1, 2024, subject to the condition that the Commission may initiate such a review sooner on its own motion or upon motion of an interested party. For me, I say sooner rather than later.

/s/ Daniel G. Clodfelter

Commissioner Daniel G. Clodfelter

**Commissioner Jeffrey A. Hughes, concurring:**

Like Commissioner Clodfelter, I support the Commission's Order. I join with Commissioner Clodfelter in his concurrence, and emphasize his statements about conducting a more substantial review of the DSM/EE mechanisms sooner rather than later.

/s/ Jeffrey A. Hughes

Commissioner Jeffrey A. Hughes



**COST RECOVERY AND INCENTIVE MECHANISM OF DUKE ENERGY CAROLINAS, LLC, FOR DEMAND-SIDE MANAGEMENT AND ENERGY EFFICIENCY PROGRAMS**

*(Docket No. E-7, Sub 1032, as Modified by the Commission, to be Effective January 1, 2022)*

The purpose of this Mechanism is to (1) allow Duke Energy Carolinas, LLC (Duke Energy Carolinas or the Company), to recover all reasonable and prudent costs incurred for adopting and implementing new demand-side management (DSM) and new energy efficiency (EE) measures in accordance with N.C. Gen. Stat. § 62-133.9, Commission Rules R8-68 and R8-69, prior Orders of the Commission, and the additional principles set forth below; (2) establish certain requirements, in addition to those of Commission Rule R8-68, for requests by Duke Energy Carolinas for approval of DSM and EE programs; (3) establish the terms and conditions for the recovery of Net Lost Revenues and a Portfolio Performance Incentive (PPI) to reward Duke Energy Carolinas for adopting and implementing new DSM and EE measures and programs in cases where the Commission deems such recovery and reward appropriate, and (4) provide for an additional incentive to further encourage kilowatt-hour (kWh) savings achievements. The definitions set out in N.C. Gen. Stat. § 62-133.8 and N.C. Gen. Stat. § 62-133.9 and Commission Rules R8-68 and R8-69 apply to this Mechanism. For purposes of this Mechanism, the definitions listed below also apply.

Changes in the terms and conditions of this Mechanism shall be applied prospectively only, to vintage years following any Commission order amending these terms and conditions. Approved programs and measures shall continue to be subject to the terms and conditions that were in effect when they were approved with respect to the recovery of reasonable and prudent costs and Net Lost Revenues. With respect to the recovery of the PPI, 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. *Common costs* are costs that are not attributable or reasonably assignable or allocable to specific DSM or EE programs but are necessary to design, implement, and operate the programs collectively.
2. *Costs* include program costs (including those of pilot programs approved by the Commission for inclusion in the Mechanism), common costs, and, subject to Rule R8-69(b), any other costs approved by the Commission for inclusion in the Mechanism. *Costs* include only those expenditures appropriately allocable to the North Carolina retail jurisdiction.
3. *Low-Income Programs or Low-Income Measures* are DSM or EE programs, or DSM or EE measures approved by the Commission as programs or measures provided specifically to low-income customers.

4. *Measure* means, with respect to EE, an "energy efficiency measure," as defined in N.C. Gen. Stat. § 62-133.8(a)(4), that is new under G.S. 62-133.9(a); and, with respect to DSM, an activity, initiative, or equipment, physical, or program change, that is new under N.C. Gen. Stat. § 62-133.9(a) and satisfies the definition of "demand-side management" as set forth in N.C. Gen. Stat. § 62-133.8(a)(2).
5. *Measurement unit* means the basic unit that is used to measure and track the (a) incurred costs; (b) Net Lost Revenues; and (c) net kilowatt (kW), kWh, and dollar savings net of Net-to-Gross (NTG) for DSM or EE measures installed in each vintage year. A measurement unit may consist of an individual measure or bundles of measures. Measurement units shall be requested by Duke Energy Carolinas and established by the Commission for each program in the program approval process, and shall be subject to modification by the Commission when appropriate. If measurement units have not been established for a particular program, the measurement units for that program shall be the individual measures, unless the Commission determines otherwise.
6. *Measurement unit's life* means the estimated number of years that equipment or customer treatment associated with a measurement unit will operate if properly maintained or activities associated with the measurement unit will continue to be cost-effective, and produce energy (kWh) or peak demand (kW) savings, unless the Commission determines otherwise.
7. *Net Found Revenues* means any increases in revenues resulting from any activity by Duke Energy Carolinas' public utility operations that causes a customer to increase demand or energy consumption, whether or not that activity has been approved pursuant to Rule R8-68. The dollar value of Net Found Revenues will be determined in a manner consistent with the determination of the dollar value of NLR provided in Paragraph No. 8 below. In determining which activities constitute Net Found Revenues, the "decision tree" adopted by Order in Docket No. E-7, Sub 831 on February 8, 2011, should be applied. Net Found Revenues may be reduced, if such reduction is approved as reasonable and appropriate by the Commission, by a decrease in revenues resulting from an activity by Duke Energy Carolinas' public utility operations that causes a customer to reduce demand or energy consumption (negative found revenues). To be approved, it must be demonstrated that the activity producing the negative found revenues reduces the profitability of the Company. Additionally, the total amount of Net Found Revenues for a given vintage year will not be reduced to a level below zero by the inclusion of negative found revenues.
8. *Net Lost Revenues* means Duke Energy Carolinas' revenue losses, net of marginal costs avoided at the time of the lost kWh sale(s), or in the case of

purchased power, in the applicable billing period, incurred by Duke Energy Carolinas' public utility operations as the result of a new DSM or EE measure. A PPI shall not be considered in the calculation of Net Lost Revenues or Net Lost Revenue recovery.

9. *Net-to-gross (NTG) factor* means an adjustment factor used to compute the net kW/kWh savings by accounting for but not limited to such behavioral effects as rebound, free ridership, moral hazard, free drivers, and spillover.
10. *Program* means a collection of new DSM or EE measures with similar objectives that have been consolidated for purposes of delivery, administration, and cost recovery, and that have been or will be adopted on or after January 1, 2007, including subsequent changes and modifications.
11. *Program costs* are costs that are attributable to specific DSM or EE programs and include all appropriate capital costs (including cost of capital and depreciation expenses), common costs, reasonably assignable or allocable administrative and general costs, implementation costs, incentive payments to program participants, operating costs, and evaluation, measurement, and verification (EM&V) costs, net of any grants, tax credits, or other reductions in cost received by the utility from outside parties.
12. *Portfolio Performance Incentive (PPI)* means a utility incentive payment to Duke Energy Carolinas as a bonus or reward for adopting and implementing new (as defined in N.C. Gen. Stat. § 62-133.9(a)) EE or DSM measures and/or Programs. The PPI is based on the sharing of avoided cost savings, net of Program Costs, achieved by those DSM and EE Programs in the aggregate. The PPI is also subject to certain limitations as further set forth in this Mechanism. PPI excludes Net Lost Revenues.
13. *Program Return Incentive (PRI)* means a utility incentive payment to Duke Energy Carolinas for adopting and implementing programs that fail to pass the Utility Cost Test, but are approved by the Commission due to the societal benefit they provide, such as low-income programs. For this type of programs, the PRI will be based on a percentage of the net present value of the avoided costs savings achieved by those DSM and EE Programs. The PRI is subject to certain additional factors and limitations, as further set forth in this Mechanism.
14. *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 or on behalf of participants). The benefits for the TRC test are avoided supply costs, i.e., the reduction in generation capacity costs, transmission and distribution costs, and energy costs caused by 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. Non-energy benefits, as approved by the Commission, may be considered in the determination of TRC results. The costs for the TRC test are the net program or portfolio costs incurred by the utility and participants, and the increased supply costs for any periods in which load is increased. All costs of equipment, installation, operation and maintenance (O&M), removal (less salvage value), and administration, no matter who pays for them, are included in this test. Any tax credits are considered a reduction to costs in this test.

15. *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 avoided supply costs, i.e., the reduction in generation capacity costs, transmission and distribution costs, and energy costs caused by 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 net program or portfolio costs incurred by the utility 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, O&M, installation, program administration, incentives paid to participants and participant dropout and removal of equipment (less salvage value).
16. *Vintage year* means an identified 12-month period in which a specific DSM or EE measure is installed for an individual participant or group of participants.

#### **Term**

17. This Mechanism shall continue until terminated pursuant to Order of the Commission.

#### **Application for Approval of Programs**

18. In evaluating potential DSM/EE measures and programs for selection and implementation, Duke Energy Carolinas will first perform a qualitative measure screening to ensure measures are:
  - (a) Commercially available and sufficiently mature.
  - (b) Applicable to the Duke Energy Carolinas service area demographics and climate.
  - (c) Feasible for a utility DSM/EE program.

19. Duke Energy Carolinas will then further screen EE and DSM measures for cost-effectiveness. For purposes of this screening, estimated incremental EM&V costs attributable to the measures shall be included in the measures' costs. With the exception of measures included in Low-Income Programs or other non-cost-effective programs with similar societal benefits as approved by the Commission, an EE or DSM measure with an estimated UCT 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. Measures under consideration for bundling, whether as part of a new Program or into an existing Program, should, unless otherwise approved by the Commission, be consistent with and related to the measure technologies, and/or delivery channels currently offered in the existing Program or to be otherwise offered in the new Program.
20. With the exception of Low-Income Programs or other non-cost-effective programs with similar societal benefits as approved by the Commission, all programs submitted for approval will have an estimated UCT result greater than 1.00. Additionally, for purposes of calculating cost-effectiveness for program approval, consistent with the Commission's Orders in Docket Nos. E-7, Sub 1130 and E-7, Sub 1164, the Company shall use projected avoided capacity and energy benefits specifically calculated for the program, as derived from the underlying resource plan, production cost model, and cost inputs that generated the avoided capacity and avoided energy credits reflected in the most recent Commission-approved Biennial Determination of Avoided Cost Rates for Electric Utility Purchases from Qualifying Facilities as of the date of the filing for the new program approval. However, for the calculation of the underlying avoided energy credits to be used to derive the program-specific avoided energy benefits, the calculation will be based on the projected EE portfolio hourly shape, rather than the assumed 24x7 100 MW reduction typically used to represent a qualifying facility. For purposes of determining cost-effectiveness, estimated incremental EM&V costs attributable to each program shall be included in program costs. Duke Energy Carolinas will comply, however, with Rule R8-60(i)(6)(iii), which requires that Duke Energy Carolinas' biennial Integrated Resource Plan, revised as applicable in its annual report, include certain information regarding the measures and programs that it evaluated but rejected.
21. If a program fails the economic test in Paragraph 20 above, Duke Energy Carolinas will determine if certain measures can be removed from the program to satisfy the criteria established in Paragraph 20.
22. Nothing in this Mechanism relieves Duke Energy Carolinas from its obligation to comply with Commission Rule R8-68 when filing for approval

of DSM or EE measures or programs. As specifically required by Rule R8-68(c)(3)(iii), Duke Energy Carolinas shall, in its filings for approval of measures and programs, describe in detail the industry-accepted methods to be used to collect and analyze data; measure and analyze program participation; and evaluate, measure, verify, and validate estimated energy and peak demand savings. Duke Energy Carolinas shall provide a schedule for reporting the results of this EM&V process to the Commission. The EM&V process description should describe not only the methodologies used to produce the impact estimates utilized, but also any methodologies the Company considered and rejected. Additionally, if Duke Energy Carolinas plans to use an independent third party for purposes of EM&V, it shall identify the third party and include all third-party costs in its filing.

23. For those programs first approved in Duke Energy Carolinas' South Carolina jurisdiction and subsequently in its North Carolina jurisdiction, net dollar savings achieved in the South Carolina jurisdiction will be eligible for consideration of inclusion in the determination of the incentive to be approved by the Commission.

### **Program Management**

24. In each annual DSM/EE cost recovery filing, Duke Energy Carolinas shall (a) perform prospective cost-effective test evaluations for each of its approved DSM and EE programs, (b) perform prospective aggregated portfolio-level cost-effectiveness test evaluations for its approved DSM/EE programs (including any common costs not reasonably assignable or allocable to individual programs), and (c) include these prospective cost-effectiveness test results in its DSM/EE rider application.
25. Consistent with the Commission's Orders in Docket Nos. E-7, Sub 1130 and E-7, Sub 1164, for purposes of calculating prospective cost-effectiveness in each DSM/EE rider proceeding to be used to determine whether a program should remain in the portfolio, the Company shall assess each program by:
  - (a) Using projected avoided capacity and energy benefits specifically calculated for each program, as derived from the underlying resource plan, production cost model, and cost inputs that generated the avoided capacity and avoided energy credits reflected in the most recent Commission-approved Biennial Determination of Avoided Cost Rates for Electric Utility Purchases from Qualifying Facilities as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing. However, for the calculation of the underlying avoided energy credits to be used to derive the program-specific avoided energy benefits, the calculation will be based on the projected EE portfolio hourly shape, rather than the assumed 24x7

100 MW reduction typically used to represent a qualifying facility;  
and,

- (b) Evaluating each cost-effectiveness test using projections of participation, savings, program costs, and benefits for the upcoming vintage year.
26. The parties acknowledge that prospective cost-effectiveness evaluations are snapshots of the program's performance, and that ongoing cost-effectiveness is impacted by many factors outside the Company's control, including but not limited to market and economic conditions, avoided costs, and government mandates. The parties shall continue to work to maintain the cost-effectiveness of its portfolio and individual programs. However, for any program that initially demonstrates a UCT, determined pursuant to Paragraph 24 above of less than 1.00, the Company shall include a discussion in its annual DSM/EE rider proceeding of the actions being taken to maintain or improve cost-effectiveness, or alternatively, its plans to terminate the program.
  27. For programs that demonstrate a prospective UCT, determined pursuant to Paragraph 24 above, of less than 1.00 in a second DSM/EE rider proceeding, the Company shall include a discussion of what actions it has taken to improve cost-effectiveness. Fluctuations of UCT above and below 1.0 should be addressed on a case by case basis.
  28. For programs that demonstrate a prospective UCT, determined pursuant to Paragraph 24 above, of less than 1.00 in a third DSM/EE rider proceeding, the Company shall terminate the program effective at the end of the year following the DSM/EE rider order, unless otherwise ordered by the Commission.
  29. The Company will seek to leverage available state and federal funds to operate effective efficiency programs. Its application for such funds will be transparent with respect to the cost, operation, and profitability of programs operated with those funds in a manner consistent with its authorized revenue recovery mechanism. Use of such funds helps offset the participant's project costs and is supplemental to Duke Energy Carolinas' incentives to participants. As such, these funds will not change the impacts or cost-effectiveness of Duke Energy Carolinas' programs as calculated using the UCT. Further, the amount of avoided costs recognized by the Company will not be reduced if participants also use state or federal funds to offset any portion of their project costs.

### **Program Modifications**

30. Modifications to Commission-approved DSM/EE programs will be made using the Flexibility Guidelines filed on February 6, 2012, in Docket No. E-7, Sub 831, and approved July 16, 2012, by the Commission. Modifications filed with the Commission for approval will be evaluated under the same guidelines and parameters used in DEC's most recently filed DSM/EE rider proceeding.
31. If under the Flexibility Guidelines Commission approval of a modification is required, the Company shall file a petition prior to the implementation of the program change no later than 30 days prior to the proposed effective date, pursuant to Commission Rule R8-68.
32. If under the Flexibility Guidelines advance notice is required, Duke Energy Carolinas shall file all program changes no later than 45 days prior to the proposed effective date of the change using the Advance Notice Program Modifications Reporting Template (Template). If any party has concern about the proposed program modification, it shall file comments with the Commission within 25 days of the Company's filing.
33. The Company shall file on a quarterly basis using the Template a notification of all program changes that have been made without Commission preapproval or advance notice.
34. Whenever a change in a program or measure goes into effect, the baseline cost effectiveness test results should be reset for the purposes of applying the Flexibility Guidelines to subsequent modifications.

### **Evaluation, Measurement and Verification**

35. EM&V of programs, conducted by an independent third-party using a nationally recognized protocol, will be performed to ensure that programs remain cost-effective. This protocol may be modified with approval of the Commission to reflect the evolution of best practices.
36. EM&V will also include updates of any net-to-gross (NTG) factors related to previous NTG estimates for programs and measures. All of the updated information will be used in evaluating the continued cost-effectiveness of existing programs, but updates to NTG estimates will not be applied retrospectively to measures that have already been installed or programs that have already been completed. If it becomes apparent during the implementation of a program that NTG factors are substantially different than anticipated, the Company will file appropriate program adjustments with the Commission.



37. Pursuant to the EM&V Agreement approved by the Commission in Docket No. E-7, Sub 979, for the Company's EE programs, with the exception of the Non-Residential SmartSaver Custom Rebate Program, initial EM&V results shall be applied retrospectively to the beginning of the program offering to replace initial estimates of impacts. For the purposes of the vintage true-ups, these initial EM&V results will be considered actual results for a program until the next EM&V results are received. The new EM&V results will then be considered actual results going forward and applied prospectively for the purposes of truing up vintages from the first day of the month immediately following the month in which the study participation sample for the EM&V was completed. This EM&V will then continue to apply and be considered actual results until it is superseded by new EM&V results, if any.
38. EM&V for the Non-Residential SmartSaver Custom Rebate Program does not apply retrospectively and this program shall be trued up based on the actual participants and actual projects undertaken.

#### **Opt-Outs for Industrial Customers and Certain Commercial Customers**

39. Pursuant to Commission Rule R8-69(d), commercial customers with annual consumption of 1,000,000 kWh or greater in the billing months of the prior calendar year and all industrial customers may, by meeting certain requirements, elect not to participate in DSM/EE measures for which cost recovery is allowed through the DSM/EE rider and the DSM/EE EMF rider. For purposes of application of this option, a customer is defined as a metered account billed under a single application of a Company rate tariff. For commercial accounts, once one account meets the opt-out eligibility requirement, all other accounts billed to the same entity with lesser annual usage located on the same or contiguous properties are also eligible to opt out of the DSM/EE rider and the DSM/EE EMF rider.
40. Pursuant to the Commission's Orders in Docket No. E-7, Sub 938, eligible non-residential customers may opt out of either or both of the DSM and EE categories of programs for one or more vintage years, as well as opt back into either or both the categories for a later vintage year. If a customer opts back into the DSM category, it cannot opt out again for three years; however, a customer has the freedom to opt in or out of the EE category for each vintage year. Additionally, if a customer opts out of paying the Rider for a vintage year after one or more in which the customer was "opted in"; the Company can charge the customer subsequent DSM/EE and DSM/EE EMF Riders only for those vintage years in which the customer actually participated in a DSM/EE program.
41. Eligible customers may opt out of the Company's EE or DSM programs each calendar year during the annual two-month enrollment period between

November 1 and December 31 immediately prior to a new DSM/EE rider becoming effective on January 1. Eligible new customers have sixty days after beginning service to opt out.

42. In addition to the two month opt out period between November 1 and December 31 prior to the new DSM/EE rider becoming effective, during the first week of March (5 business days), customers who have previously opted out may elect to opt in and participate in EE and/or DSM programs during the remainder of the vintage year. Any customer choosing to opt in during the March window would be back-billed for the rider amount that they would have paid had the chosen to participate during the November/December enrollment period.

### **Collaborative**

43. Duke Energy Carolinas will continue to conduct quarterly collaborative stakeholder meetings for the purpose of collaborating on new program ideas, reviewing modifications to existing programs, ensuring an accurate public understanding of the programs and funding, reviewing the EM&V process, giving periodic status reports on program progress, helping to set EM&V priorities, providing recommendations for the submission of applications to revise or extend programs and rate structures, and guiding efforts to expand cost-effective programs for low-income customers.
44. The Collaborative should continue to be comprised of a broad spectrum of regional stakeholders that represent a balanced interest in the Company's DSM/EE effort and its impacts, as well as national EE advocates and experts. A third party may facilitate the discussions. The collaborative will continue to determine its own rules of operation, including the process for setting the agendas and activities of the group, consistent with these terms. Members agree to participate in the advisory group in good faith consistent with mutually agreed upon rules of participation. Meetings are open to additional parties who agree to the participation rules.
45. Duke Energy Carolinas will provide information related to the development of EE and DSM to stakeholders in a transparent manner. The Company agrees to disclose program-related data at a level of detail similar to that which it has disclosed in other states or as disclosed by other regulated utilities in the Carolinas. The Company will share all aspects of the development and evaluation of programs, including the EM&V process.
46. At its discretion, the Company may require confidentiality agreements with members who wish to review confidential data or any calculations that could be used to determine the data. Disclosure of this data would harm Duke Energy Carolinas competitively and could result in financial harm to its customers.

47. Participation in the advisory group shall not preclude any party from participating in any Commission proceedings.

### **General Structure of Riders**

48. All DSM/EE and DSM/EE EMF riders shall be calculated and charged to customers based on the revenue requirements for each separate vintage year. Separate DSM/EE and DSM/EE EMF riders shall be calculated for the Residential customer class and those rate schedules within the Non-Residential customer class that have Duke Energy Carolinas DSM/EE program options in which they can participate. One integrated (prospective) DSM/EE rider and one integrated DSM/EE EMF rider shall be calculated for the Residential class, to be effective each rate year. The integrated Residential DSM/EE EMF rider shall include all true-ups for each vintage year appropriately considered in each proceeding. Pursuant to the Commission's Orders in Docket No. E-7, Sub 938, separate DSM and EE billing factors shall be calculated for the Non-Residential class. Additionally, the Non-Residential DSM and EE EMF billing factors shall be determined separately for each vintage year appropriately considered in each proceeding, so that the factors can be appropriately charged to Non-Residential customers based on their opt-in/out status and participation for each vintage year.
- 48A. The annual filing date of DEC's DSM/EE rider application, supporting testimony, and exhibits will be no later than 98 days prior to the hearing date prescribed by Commission Rule (currently the first Tuesday of June of each calendar year). Should the Company become aware prior to filing of a determined or possible change in the hearing date, the Company shall strive to file its application and associated documents no later than 98 days prior to the changed hearing date.
- 48B. DEC shall not request that the annual hearing to consider the proposed DSM/EE and DSM/EE EMF riders be held sooner than 98 days after the filing date of the Company's application, supporting testimony, and Exhibits.

### **Cost Recovery**

49. As provided in Rule R8-69 and N.C. Gen. Stat. § 62-133.9(d), Duke Energy Carolinas shall be allowed to recover, through the DSM/EE rider, all reasonable and prudent costs reasonably and appropriately estimated to be incurred in expenses during the current rate period for DSM and EE programs that have been approved by the Commission under Rule R8-68. As permitted by N.C. Gen. Stat. § 62-133.9(d), any of the Stipulating Parties may propose a procedure for the deferral and amortization in future DSM/EE riders of all or a portion of Duke Energy Carolinas' reasonable and

prudent costs to the extent those costs are intended to produce future benefits.

50. The DSM/EE EMF rider shall reflect the difference between the reasonable and prudent costs incurred during the applicable test period (vintage year) and the revenues actually realized during such test period under the DSM/EE rider then in effect.
51. The cost and expense information filed by Duke Energy Carolinas pursuant to Commission Rules R8-68(c) and R8-69(f) shall be categorized by measurement unit or program, as applicable, and vintage year, consistent with the presentation included in the Company's application.
52. In accordance with Commission Rule R8-69(b)(6), Duke Energy Carolinas may implement deferral accounting for over- and under recoveries of costs that are eligible for recovery through the annual DSM/EE rider. The balance in the deferral account(s), net of deferred income taxes, may accrue a return at the net-of-tax rate of return approved in Duke Energy Carolinas' then most recent general rate case. The methodology used for the calculation of interest shall be the same as that typically utilized for the Company's Existing DSM Program rider proceeding (taking into account any extensions of the EMF measurement period pursuant to Commission Rule R8-69(b)(2)). Pursuant to Commission Rule R8-69(c)(3), the Company is not allowed to accrue a return on Net Lost Revenues or the PPI.
53. For purposes of cost recovery through the DSM/EE and DSM/EE EMF riders, system-level costs shall be allocated to the North Carolina retail jurisdiction by use of the North Carolina and South Carolina allocation determinants in the following manner (no costs of any approved DSM or EE program will be allocated to the wholesale jurisdiction):
  - (a) For EE programs, the costs of each program will be allocated based on the annual energy requirements of North Carolina and South Carolina retail customers (grossed up for line losses), as reflected in the annual cost of service studies.
  - (b) For DSM programs, the aggregated costs of DSM programs will be allocated based on the annual summer coincident peak demand of North Carolina and South Carolina retail customers, as reflected in the annual cost of service studies.
54. The allocation factors and inputs used to allocate the estimated rate period costs of DSM and EE programs shall be those drawn from the most recently filed cost of service study at the time the annual cost recovery filing is made. The allocations of costs shall be trued up at the time that finalized and trued-up costs for a given test period are initially passed through the DSM/EE

EMF, using the most recently filed cost of service study at the time the filing is made (but for no later year than the vintage year being true'd up). For subsequent true-ups of that vintage year, the cost of service study used will be the same as that used for the initial true-up.

55. For purposes of recovery through the DSM/EE and DSM/EE EMF riders, the Company's North Carolina retail jurisdictional costs for approved DSM and EE programs and measures shall be assigned or allocated to North Carolina retail customer classes as follows. For EE programs offered to Residential or Non-Residential customers, the North Carolina retail jurisdictional costs will be directly assigned to the customer group to which the program is offered. For DSM programs, the aggregated North Carolina retail jurisdictional cost of those programs will be allocated to the Residential and Non-Residential classes based on the contribution of each class to the North Carolina retail jurisdictional peak demand used to make the jurisdictional allocation. The process of estimating and true'ing up the class assignments and allocations will be the same as practiced for jurisdictional allocations.

#### **Net Lost Revenues**

56. Unless otherwise ordered by the Commission, when authorized pursuant to Rule R8-69(c), Duke Energy Carolinas shall be permitted to recover, through the DSM/EE and DSM/EE EMF riders, Net Lost Revenues associated with the implementation of approved DSM or EE measurement units, subject to the restrictions set out below.
57. The North Carolina retail kWh sales reductions that result from an approved measurement unit installed in a given vintage year shall be eligible for use in calculating Net Lost Revenues eligible for recovery only for the first 36 months after the installation of the measurement unit. Thereafter, such kWh sales reductions will not be eligible for calculating recoverable Net Lost Revenues for that or any other vintage year.
58. 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.
59. In order to recover estimated Net Lost Revenues associated with a pilot program or measure, Duke Energy Carolinas must, in its application for program or measure approval, demonstrate (a) that the program or measure is of a type that is intended to be developed into a full-scale, Commission-approved program or measure, and (b) that it will implement an EM&V plan based on industry-accepted protocols for the program or measure. No pilot program or measure will be eligible for Net Lost Revenue

recovery upon true-up unless it (a) is ultimately proven to have been cost-effective, and (b) is developed into a full-scale, commercialized program.

60. Notwithstanding the allowance of 36 months' Net Lost Revenues associated with eligible kWh sales reductions, the kWh sales reductions that result from measurement units installed shall cease being eligible for use in calculating Net Lost Revenues as of the effective date of (a) a Commission-approved alternative recovery mechanism that accounts for the eligible Net Lost Revenues associated with eligible kWh sales reductions, or (b) 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 the Net Lost Revenues associated with those kWh sales reductions.
61. Recoverable Net Lost Revenues shall be calculated in a manner that appropriately reflects the incremental revenue losses suffered by the Company, net of avoided fuel and non-fuel variable O&M expenses.
62. Total Net Lost Revenues as measured for the 36-month period identified in paragraph 57 above shall be reduced by Net Found Revenues during the same periods (offset by any negative found revenues found appropriate and reasonable by the Commission pursuant to the provisions of Paragraph 7 of this Mechanism and other factors deemed applicable by the Commission). The "decision tree" adopted by Order in Docket No. E-7, Sub 831 on February 8, 2011, should be applied for determining what constitutes Net Found Revenues. Duke Energy Carolinas shall closely monitor its utility activities to determine if they are causing a customer to increase demand or consumption, and shall identify and track all such activities with the aid of the "decision tree," so that they may be evaluated by intervening parties and the Commission as potential Net Found Revenues. Net found revenues shall be calculated in an appropriate and reasonable manner that mirrors the calculation used to determine Net Lost Revenues.
63. Recoverable Net Lost Revenues shall ultimately be based on kWh sales reductions and kW savings verified by the EM&V process and approved by the Commission. Recoverable Net Lost Revenues shall be estimated and trued-up, on a vintage year basis, as follows:
  - (a) As part of the DSM/EE rider approved in each annual cost and incentive recovery proceeding, Duke Energy Carolinas shall be allowed to recover the appropriate and reasonable level of recoverable Net Lost Revenues associated with each applicable program and vintage year (subject to the limitations set forth in this Mechanism), estimated to be experienced during the rate period for which the DSM/EE rider is being set.

- (b) Net lost revenues related to any given program/measure and vintage year shall be trued-up through the DSM/EE EMF rider in subsequent annual cost and incentive recovery proceedings based on the Commission-approved results of the appropriate EM&V studies related to the program/measure and vintage year, as determined pursuant to the EM&V Agreement.
  - (c) The true-up shall be calculated based on the difference between projected and actual recoverable Net Lost Revenues for each measurement unit and vintage year under consideration, accounting for any differences derived from the completed and reviewed EM&V studies, including: (1) the projected and actual number of installations per measurement unit; (2) the projected and actual net kWh and 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.
  - (d) The reduction in Net Lost Revenues due to Net Found Revenues (offset by any approved and applicable negative found revenues) shall be trued up in a manner consistent with the true-up of Net Lost Revenues.
  - (e) The combined total of all vintage year true-ups calculated in a given year's Rule R8-69 proceeding shall be incorporated into the appropriate DSM/EE EMF billing factor.
64. Recoverable Net Lost Revenues shall be directly assigned to the program and vintage year with which they are associated.

**Portfolio Performance Incentive (PPI) and Program Return Incentive (PRI)**

- 65. When authorized pursuant to Rule R8-69(c), Duke Energy Carolinas shall be allowed to collect a PPI and PRI, as each is applicable, for its DSM/EE portfolio for each vintage year, separable into Residential, Non-Residential DSM, and Non-Residential EE categories. The PPI and PRI, as applicable, shall be subject to the restrictions set out below.
- 66. 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 to be included in the portfolio for purposes of the PPI or PRI calculations.
- 67. Unless (a) the Commission approves Duke Energy Carolinas' specific request that a pilot program or measure be eligible for PPI or PRI inclusion when Duke Energy Carolinas seeks approval of that program or measure,

and (b) the pilot is ultimately commercialized, pilot programs or measures are ineligible for and the benefits and costs associated with those pilots will not be factored into the calculation of the PPI or PRI.

68. In its annual filing, pursuant to Commission Rule R8-69(f), Duke Energy Carolinas shall file an exhibit that indicates, for each Program or Measure for which it seeks a PPI or PRI, 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, consistent with the UCT, related to the applicable Vintage Year installations that it requests the Commission to approve. Upon its review, the Commission will make findings based on Duke Energy Carolinas' annual filing for each Program or Measure that is included in an estimated or trued-up PPI or PRI calculation for any given Vintage Year.
69. Low-Income programs and other specified societal programs approved with expected UCT results less than 1.00 and other non-cost-effective programs with similar societal benefits as approved by the Commission shall not be included in the portfolio for purposes of the PPI calculation until they demonstrate UCT results greater than 1.00. However, such programs will be eligible for the PRI, if so approved by the Commission, until they demonstrate UCT results greater than 1.00.
70. The PPI shall be based on net dollar savings for Duke Energy Carolinas' DSM/EE portfolio, as calculated using the UCT, on a total system basis. The North Carolina retail jurisdictional and class portions of the system-basis net dollar savings shall be determined in the same manner as utilized to determine the North Carolina retail jurisdictional and class portions of recoverable system costs.
71. Unless the Commission determines otherwise in an annual DSM/EE rider proceeding, and subject to the factors and limitations set forth elsewhere in this Mechanism, beginning for Vintage Year 2022, the amount of the pre-income-tax PPI initially to be recovered for the entire DSM/EE portfolio for a vintage year shall be equal to 10.60% multiplied by the present value of the estimated net dollar savings associated with the DSM/EE portfolio installed in that vintage year, calculated by DSM/EE program using the UCT (and excluding Low -Income Programs and other specified societal programs). The present value of the estimated net dollar savings shall be the difference between the present value of the annual lifetime avoided cost savings for measurement units projected to be installed in that vintage year and the present value of the annual lifetime program costs for those measurement units. The annual lifetime avoided cost savings for measurement units installed in the applicable vintage year shall be calculated by multiplying the number of each specific type of measurement



unit projected to be installed in that vintage year by the most current estimates of each lifetime year's per installation kW and kWh savings and by the most current estimates of each lifetime year's per kW and kWh avoided costs. In calculating the forecasted initial PPI it will be assumed that projections will be achieved.

72. Beginning with Vintage Year 2022, the dollar amount of the pre-tax PPI ultimately allowed for each Vintage Year, after true-up pursuant to Paragraph 83 of this Mechanism, shall be no greater than the dollar amount that produces a 19.50% margin over the aggregate pre-tax Program Costs for the Vintage Year of those programs in the Portfolio that are eligible for the PPI. Likewise, the dollar amount of the pre-tax PPI ultimately allowed for each Vintage Year, after true-up pursuant to Paragraph 83 of this Mechanism, shall be no less than the dollar amount that produces the following margins over the aggregate pre-tax Program Costs for the Vintage Year of those programs in the Portfolio that are eligible for the PPI.

Vintage Year 2022:	10.00%
Vintage Year 2023:	6.00%
Vintage Year 2024:	2.50%
Vintage Year 2025 and afterwards, until the next Mechanism review is completed:	2.50%

When making its initial estimates of the PPI pursuant to this Mechanism, Duke Energy Carolinas shall utilize the best and most accurate estimate of the margin and the resulting PPI percentage it can determine at that time.

73. At the outset of the application of this Mechanism, the entire PPI related to a vintage year shall be recoverable in the rate period covering that vintage year (subject to true-up). However, any of the Stipulating Parties may propose a procedure to convert a vintage year PPI into a stream of levelized annual payments not to exceed ten years through Vintage Year 2021,, accounting for and incorporating Duke Energy Carolinas' overall weighted average net-of-tax rate of return approved in Duke Energy Carolinas' most recent general rate case as the appropriate discount rate. After Vintage Year 2021, the PPI will be recovered in the proceedings in which the applicable Vintage Year's revenue requirements are estimated or trueed up. Levelized annual payments applicable to Programs in prior vintage periods will continue until all such amounts are recovered.

74. The PRI shall be based on the gross avoided costs of those programs eligible for the PRI. The North Carolina retail jurisdictional and class portions of the system-basis gross dollar savings shall be determined in the same manner as utilized to determine the North Carolina retail jurisdictional and class portions of recoverable system costs.
75. Unless the Commission determines otherwise in an annual N.C. Gen. Stat. § 62-133.9 DSM/EE rider proceeding, and subject to the factors and limitations set forth in this Mechanism, beginning for Vintage Year 2022 the amount of the pre-income-tax PRI initially to be recovered for Low Income Programs and other specified societal programs not eligible for a PPI shall be a percentage, as determined pursuant to this Mechanism, multiplied by the present value of the estimated gross dollar avoided cost savings associated with the applicable DSM/EE Programs installed in that Vintage Year, used in determination of the UCT. The present value of the estimated gross dollar savings shall be determined in the same manner as used for Programs eligible for the PPI.
76. The percentage used to determine the estimated PRI for each Vintage Year shall be 10.60%. This percentage will be multiplied by the Vintage Year avoided costs projected to be generated by each approved PRI-eligible program. When making its initial estimates of the PRI, DEP shall utilize the best and most accurate estimate of the UCT and the resulting PRI percentage it can determine at that time.
77. For the PPI and PRI for Vintage Years 2019 and afterwards, consistent with the Commission's Orders in Docket Nos. E-7, Sub 1130 and E-7, Sub 1164, the program-specific per kW avoided capacity benefits and per kWh avoided energy benefits used for the initial estimate of the PPI and PRI and any PPI or PRI true-up will be derived from the underlying resource plan, production cost model, and cost inputs that generated the avoided capacity and avoided energy credits reflected in the most recent Commission-approved Biennial Determination of Avoided Cost Rates for Electric Utility Purchases from Qualifying Facilities as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing. However, for the calculation of the underlying avoided energy credits to be used to derive the program-specific avoided energy benefits, the calculation will be based on the projected EE portfolio hourly shape, rather than the assumed 24x7 100 MW reduction typically used to represent a qualifying facility.
78. No later than December 31, 2021, Duke Energy Carolinas and the Public Staff will jointly review the issue of the appropriate avoided T&D costs to be used in the Company's prospective calculations of cost-effectiveness and achieved net dollar savings, and, if appropriate, recommend in the Company's annual DSM/EE rider proceeding adjustments to the avoided T&D cost rates.

79. The per kW avoided transmission and avoided distribution (avoided T&D) costs used to calculate net savings for a Vintage Year shall be based on the study update at least every three years only if the study update results in a 20% change from the prior study's avoided T&D costs.
80. Unless the Stipulating Parties agree otherwise, Duke Energy Carolinas shall not be allowed to update its avoided capacity costs and avoided energy costs after filing its annual cost and incentive recovery application for purposes of determining the DSM/EE and DSM/EE EMF riders in that proceeding.
81. When Duke Energy Carolinas files for its annual cost recovery under Rule R8-69, it shall comply with the filing requirements of Rule R8-69(f)(1)(iii), reporting all final measurement and verification data to assist the Commission and Public Staff in their review and monitoring of the impacts of the DSM and EE measures.
82. Duke Energy Carolinas bears the burden of proving all dollar savings and costs included in calculating the PPI and PRI. As provided in Rule R8-68(c)(3)(iii), Duke Energy Carolinas shall be responsible for the EM&V of energy and peak demand savings consistent with its EM&V plan.
83. The PPI and PRI for each vintage year shall ultimately be based on net or gross dollar savings, as applicable, as verified by the EM&V process and approved by the Commission. The PPI and PRI for each vintage year shall be trued-up as follows:
  - (a) As part of the DSM/EE rider approved in each annual cost and incentive recovery proceeding, Duke Energy Carolinas shall be allowed to recover an appropriately and reasonably estimated PPI and PRI (subject to the limitations set forth in this Mechanism) associated with the vintage year covered by the rate period in which the DSM/EE rider is to be in effect.
  - (b) The PPI and PRI related to any given vintage year shall be trued-up through the DSM/EE EMF rider in subsequent annual cost and incentive recovery proceedings based on the Commission-approved results of the appropriate EM&V studies related to the program/measure and vintage year, as determined pursuant to the EM&V Agreement.
  - (c) The PPI amount ultimately to be recovered for a given vintage year shall be based on the present value of the actual net dollar savings derived from all measurement units installed in that vintage year, as associated with each DSM/EE program offered during that year (excluding Low Income Programs and other specified societal

programs), and calculated by DSM/EE program using the UCT. The present value of the actual net dollar savings shall be the difference between the present value of the annual lifetime avoided cost savings for measurement units installed in that vintage year and the present value of the annual lifetime program costs for those measurement units. The annual lifetime avoided cost savings for measurement units installed in the applicable vintage year shall be calculated by multiplying the number of each specific type of measurement unit installed in that vintage year by each lifetime year's per installation kW and kWh savings (as verified by the appropriate EM&V study pursuant to the EM&V agreement) and by each lifetime year's per kW and kWh avoided costs as determined when calculating the initially estimated PPI for the vintage year. The ultimate PPI will also be subject to the additional factors and limitations set forth in this Mechanism. The Stipulating Parties agree to make all reasonable efforts to ensure that all vintages are fully trued-up within 24 months of the vintage program year.

- (d) The amount of the PRI ultimately to be recovered for a given Vintage Year shall be based on the present value of the actual gross dollar savings derived from all Measurement Units installed in that Vintage Year, as associated with each DSM/EE program offered during that year that is eligible for the PRI. Furthermore, the percentage used to determine the final PRI for each Vintage Year will be based on the Company's ability to maintain or improve the cost effectiveness of the PRI-eligible programs. The PRI percentage for each PRI-eligible Program will be determined by comparing (1) the projected UCT ratio for the portfolio of PRI-eligible Programs for the Vintage Year at the time of the Company's DSM Rider filing first estimating that projected Vintage Year UCT ratio to (2) the actual UCT ratio achieved for that portfolio of PRI-eligible Programs as that Vintage Year is trued up in future filings. The ratio (UCT actual/UCT estimate) will then be multiplied by 10.60% to determine the PRI percentage that will be applied to the actual avoided costs generated by each approved PRI-eligible program. At no time will the PRI percentage utilized fall below 2.65% or rise above 13.25%. The present value of the estimated gross dollar savings shall be determined in the same manner as used for determining the recovery of the ultimate PPI. The ultimate PRI will also be subject to the additional factors and limitations set forth in this Mechanism. The Stipulating Parties agree to make all reasonable efforts to ensure that all vintages are fully trued-up within 24 months of the vintage program year.
- (e) A program's eligibility for a PPI or PRI will be determined at the time of filing the projection for a Vintage Year and will continue to be

eligible for the same incentive at the time of the Vintage Year true-up.

- (f) If a program previously eligible for a PRI becomes cost effective under the UCT, it will no longer be eligible to receive a PRI in the next projected Vintage Year for the program, but will be eligible for the PPI.
- 84. The combined total of all vintage year true-ups of the PPI calculated in a given year's Rule R8-69 proceeding shall be incorporated into the appropriate DSM/EE EMF billing factor.
- 85. The PRI will be determined on the basis of the avoided costs employed in the determination of the UCT. PRI amounts will be assigned to the Program in which they were earned.
- 86. The PPI for each vintage year shall be allocated to DSM and EE programs in proportion to the present value net dollar savings of each program for the vintage year, as calculated pursuant to the method described herein.

#### **Other Incentives**

- 87. As further incentive to motivate the Company to aggressively pursue savings from cost-effective EE and DSM Programs, if the Company achieves annual energy savings of 1.0% of the prior year's Duke Energy Carolinas system retail electricity sales, in any year during the four-year 2022-2025 period, the Company will receive an additional incentive of \$500,000 for that year. During that same period, if the Company fails to achieve annual energy savings of 0.5% of retail sales, net of sales associated with customers opting out of the Company's EE programs, the Company will reduce its EE revenue requirement by \$500,000. Verification of this achievement will be obtained through the EM&V process discussed elsewhere in this Mechanism.

#### **Financial Reporting Requirements**

- 88. In its quarterly ES-1 Reports to the Commission, Duke Energy Carolinas shall calculate and present its primary North Carolina retail jurisdictional earnings by including all actual EE and DSM program revenues, including PPI and Net Lost Revenue incentives, and costs. Additionally, the Company shall prepare and present (a) supplementary schedules setting forth its North Carolina retail jurisdictional earnings excluding the effects of the PPI; (b) supplementary schedules setting forth its North Carolina retail jurisdictional earnings excluding the effects of the Company's EE and DSM programs; and (c) supplementary schedules setting forth earnings, including overall rates of return, returns on common equity, and margins

over program costs actually realized from its EE and DSM programs in total and stated separately by program class (program classes are hereby defined to be (i) EE programs and (ii) DSM programs). Detailed workpapers shall be provided for each scenario described above. Such workpapers, at a minimum, shall clearly show actual revenues, expenses, taxes, operating income, rate base/investment, including components, and the applicable capitalization ratios and cost rates, including overall rate of return and return on common equity. Net lost revenues realized (estimated, if not known) for each reporting period shall be clearly disclosed as supplemental information.

### **Review of Mechanism**

89. The terms and conditions of this Mechanism shall be reviewed by the Commission every four years unless otherwise ordered by the Commission. The Company and other parties shall submit any proposed changes to the Commission for approval at the time of the filing of the Company's annual DSM/EE rider filing. During the time of review, the Mechanism shall remain in effect until further order of the Commission revising the terms of the Mechanism or taking such other action as the Commission may deem appropriate.

### **No Precedential Effect**

90. The terms of this Mechanism, including the methods and results of determining the PPI and PRI, as well as the other incentives outlined in Paragraph 87, shall not be considered precedential for any purpose other than their application to eligible DSM/EE Programs and cost and utility incentive recovery associated with those Programs, and only until those terms are next partially or wholly reviewed.

**COST RECOVERY AND INCENTIVE MECHANISM OF DUKE ENERGY PROGRESS, LLC, FOR DEMAND-SIDE MANAGEMENT AND ENERGY EFFICIENCY PROGRAMS**

*(Docket No. E-2, Sub 931, as Modified by the Commission, to be Effective January 1, 2022)*

**Definitions**

1. *Common Costs* are administrative and general, or other, costs that are not attributable or directly assignable to specific demand-side management (DSM) or energy efficiency (EE) Programs but are necessary to design, implement, and operate the Programs collectively.
2. *Costs* include program costs (including those of pilot programs approved by the Commission for inclusion in the Mechanism), common costs, and, subject to Rule R8-69(b), any other costs approved by the Commission for inclusion in the Mechanism. *Costs* include only those expenditures appropriately allocable to the North Carolina retail jurisdiction.
3. *Incremental Program Costs* are utility-incurred costs directly attributable and expended solely for a specific DSM or EE Program, and include all appropriate capital costs (cost of capital, depreciation expenses, property taxes, and other associated costs found reasonable by the Commission), implementation costs, incentive payments to Program participants, other operations and maintenance costs, EM&V costs, and administrative and general costs incurred specifically for the Program, net of any grants, tax credits, or other reductions in cost received by the utility from outside parties and specifically related to the Program.
4. *Low-Income Programs or Low-Income Measures* are DSM or EE Programs or DSM or EE Measures approved by the Commission to be provided specifically to low-income customers.
5. *Measure* means, with respect to EE, an "energy efficiency measure," as defined in N.C. Gen. Stat. § 62-133.8(a)(4), that is new within the meaning of N.C. Gen. Stat. § 62-133.9(a); and, with respect to DSM, an activity, initiative, or Program change, that is new under N.C. Gen. Stat. § 62-133.9(a) and satisfies the definition of "demand-side management" as set forth in N.C. Gen. Stat. § 62-133.8(a)(2).
6. *Measurement Unit* means the basic unit that is used to measure and track the (a) incurred costs; (b) Net Lost Revenues; and (c) kilowatt (kW), kilowatt-hour (kWh), and dollar savings, net of Net-to-gross (NTG) effects for DSM or EE Measures installed in each Vintage Year. A Measurement Unit may consist of an individual Measure or bundle of Measures. Measurement units shall be requested by Duke Energy Progress (DEP) and established by the Commission for each Program in the Program approval

process, and shall be subject to modification by the Commission when appropriate. If Measurement Units have not been established for a particular Program, the Measurement Units for that Program shall be the individual Measures, unless the Commission determines otherwise.

7. *Measurement Unit's Life* means the estimated number of years that equipment or customer treatment associated with a Measurement Unit will operate if properly maintained, or activities (services or customer behavior) associated with the Measurement Unit will continue to be cost-effective, and produce energy (kWh) or peak demand (kW) savings, unless the Commission determines otherwise.
8. *Net Found Revenues* means any increases in revenues resulting from any activity by DEP's public utility operations that causes a customer to increase demand or energy consumption, whether or not that activity has been approved pursuant to Commission Rule R8-68. The dollar value of Net Found Revenues will be determined in a manner consistent with the determination of the dollar value of NLR provided in Paragraph No. 9 below. In determining which activities produce Net Found Revenues, the "Decision Tree" attached to this Mechanism as Attachment C will be applied. Net Found Revenues may be reduced, if such reduction is approved as reasonable and appropriate by the Commission, by a decrease in revenues resulting from an activity by DEP's public utility operations that causes a customer to reduce demand or energy consumption (negative found revenues). To be approved, it must be demonstrated that the activity producing the negative found revenues reduces the profitability of the Company. Additionally, the total amount of Net Found Revenues for a given vintage year will not be reduced to a level below zero by the inclusion of negative found revenues.
9. *Net Lost Revenues (NLR)* means DEP's revenue losses due to new DSM or EE Measures, net of fuel costs and non-fuel variable operating and maintenance expenses avoided at the time of the kilowatt-hour sale(s) lost due to the DSM or EE Measures<sup>10</sup>, or in the case of purchased power, in the applicable billing period incurred by DEP public utility operations as the result of a new DSM or EE Measure. PPIs shall not be considered in the calculation of NLR or NLR recovery.

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<sup>10</sup> Avoided fuel costs would technically be measured at the marginal cost of fuel avoided at the time of the lost kWh sale. However, because fuel costs themselves are subject to true-up, it is administratively easier and results in the same overall revenue requirement outcome to measure fuel costs associated with NLR at the then-current approved prospective fuel and fuel-related cost factor.



10. *Net-to-gross (NTG) factor* means an adjustment factor used to compute the net kW/kWh savings by accounting for behavioral effects, including, but not limited to, free ridership, moral hazard, free drivers, and spillover.
11. *Portfolio Performance Incentive (PPI)* means a utility incentive payment to DEP as a bonus or reward for adopting and implementing new (as defined in N.C. Gen. Stat. § 62-133.9(a)) EE or DSM Measures and/or Programs. The PPI is based on the sharing of avoided cost savings, net of Program Costs, achieved by those DSM and EE Programs in the aggregate. Such Program Costs will be adjusted as discussed elsewhere in this Mechanism. The PPI is also subject to certain limitations as further set forth in this Mechanism. PPI excludes NLR.
12. *Program Return Incentive (PRI)* means a utility incentive payment to DEP for adopting and implementing programs that fail to pass the Utility Cost Test, but are approved by the Commission due to the societal benefit they provide, such as low income programs. For these types of programs, the PRI will be based on a percentage of the NPV of the avoided costs savings achieved by those DSM and EE Programs. The PRI is subject to certain additional factors and limitations, as further set forth in this Mechanism.
13. *Program* means one or more new DSM or EE Measures with similar objectives that have been consolidated for purposes of delivery, administration, and cost recovery, and that have been adopted on or after January 1, 2007, including subsequent changes and modifications.
14. *Program Costs* are costs that are directly attributable or reasonably and appropriately allocable to specific DSM or EE Programs or groups of Programs (for purposes of setting the DSM/EE and DSM/EE EMF riders), and include all appropriate and reasonable Incremental Program Costs, and reasonably assigned or allocated administrative and general expenses and other Common Costs, net of any reasonably assigned or allocated grants, tax credits, Program Cost adjustments as discussed elsewhere in this Mechanism, or other reductions in cost received by the utility from outside parties.
15. *Total Resource Cost (TRC) test* means a cost-effectiveness test that measures the net costs of a DSM or EE Program or portfolio as a resource option based on the incremental costs of the Program or portfolio, including both the participants' costs and the utility's costs (excluding incentives paid by the utility to or on behalf of participants). The benefits for the TRC test are the avoided supply costs (i.e., the reduction in generation capacity costs, transmission and distribution capacity costs, and energy costs caused by a load reduction), valued at marginal cost for the periods when there is a load reduction. The avoided supply costs shall be calculated using net Program or portfolio savings (i.e., savings net of reductions in energy

use (NTG impacts) that would have happened even in the absence of the Program). Non-Energy benefits as approved for use by the Commission may be considered in the determination of TRC results. The costs for the TRC test are the incremental net Program or portfolio costs incurred by the utility and participants, plus the increased supply costs for any periods in which load is increased. All costs of equipment, installation, operation and maintenance (O&M), removal (less salvage value), and administration, no matter who pays for them, are included in this test. However, Common Costs shall not be included in a Program-level TRC test used for program approval purposes, but shall be included in a portfolio-level TRC test. Any grants, tax credits, or other reductions in cost received by the utility or participants from outside parties and specifically related to the Program or portfolio, as applicable, are considered a reduction to costs in this test.

16. *Utility Cost Test (UCT)* means a cost-effectiveness test that measures the net costs of a DSM or EE Program or portfolio as a resource option based on the incremental 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 participants. The benefits for the UCT are the avoided supply costs (i.e., the reduction in generation capacity costs, transmission and distribution capacity costs, and energy costs caused by a load reduction), valued at marginal cost for the periods when there is a load reduction. The avoided supply costs shall be calculated using net Program or portfolio savings (i.e., savings net of reductions in energy use (NTG impacts) that would have happened even in the absence of the Program or portfolio). The costs for the UCT are the net Program or portfolio Costs incurred by the utility and the increased supply costs for any period in which load is increased. Utility costs include initial and annual costs, such as the cost of utility equipment, O&M, installation, Program or portfolio administration, incentives paid to or on behalf of participants, and participant dropout and removal of equipment (less salvage value). However, Common Costs shall not be included in a Program-level UCT test used for program approval purposes, but shall be included in a portfolio-level UCT test. Any grants, tax credits, or other reductions in cost received by the utility from outside parties and specifically related to the Program are considered a reduction to costs in this test.
17. *Vintage Year* means an identified 12-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**

18. In evaluating potential DSM/EE Measures and Programs for selection and implementation, DEP will first perform a qualitative measure screening to ensure Measures are:

- (a) Commercially available and sufficiently mature;
  - (b) Applicable to the DEP service area demographics and climate; and
  - (c) Feasible for a utility DSM/EE Program.
19. DEP will then further screen EE and DSM Measures for cost-effectiveness. For purposes of this screening, estimated incremental EM&V costs attributable to the Measures shall be included in the Measures' costs. With the exception of Measures included in a Low-Income Program, or other Program in which PPI incentives are not requested that may potentially be filed with the Commission for approval, an EE or DSM Measure with a UCT 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. Measures under consideration for bundling, whether as part of a new Program or into an existing Program, should, unless otherwise approved by the Commission, be consistent with and related to the measure technologies, and/or delivery channels currently offered in the existing Program or to be otherwise offered in the new Program. Consistent with DEP's agreement with Piedmont Natural Gas and Public Service Company of NC, with the exception of Low-Income Programs, all EE and DSM Measures associated with an end-use that can be served by natural gas must pass the UCT.
20. With the exception of Low-Income Programs or other programs explicitly identified at the time of the application for their approval, all Programs submitted for approval will have a Program-level UCT result greater than 1.00. Additionally, for purposes of calculating cost-effectiveness for program approval, consistent with the Commission's Orders in Docket Nos. E-2, Sub 1145 and E-2, Sub 1174, the Company shall use projected avoided capacity and energy benefits specifically calculated for the program, as derived from the underlying resource plan, production cost model, and cost inputs that generated the avoided capacity and avoided energy credits reflected in the most recent Commission-approved Biennial Determination of Avoided Cost Rates for Electric Utility Purchases from Qualifying Facilities as of the date of the filing for the new program approval. However, for the calculation of the underlying avoided energy credits to be used to derive the program-specific avoided energy benefits, the calculation will be based on the projected EE portfolio hourly shape, rather than the assumed 24x7 100 MW reduction typically used to represent a qualifying facility. For purposes of determining cost-effectiveness, estimated incremental EM&V costs attributable to each Program shall be included in the Program costs. DEP will comply, however, with Commission Rule R8-60(i)(6)(iii), which requires DEP to include in its biennial Integrated Resource Plan, revised as applicable in its annual report, certain

information regarding the Measures and Programs that it evaluated but rejected.

21. If a Program fails the economic screening in Paragraph 19 above, DEP will determine if certain Measures can be removed from the Program to satisfy the criteria established in Paragraph 19.
22. DEP will provide its Stakeholder Collaborative with information relating to Programs and Measures either currently being considered or planned for future consideration. DEP will also seek suggestions from its Collaborative for additional Programs and Measures for its future consideration.
23. Nothing in this Mechanism relieves DEP from its obligation to comply with Commission Rule R8-68 when filing for approval of DSM or EE Measures or Programs. As specifically required by Commission Rule R8-68(c)(3)(iii), DEP shall, in its filings for approval of Measures and Programs, describe the industry-accepted methods to be used to collect and analyze data; measure and analyze Program participation; and evaluate, measure, verify, and validate the energy and peak demand savings. In its filings, DEP shall also provide a schedule for reporting the results of this EM&V process to the Commission. The EM&V process description should describe not only the methodologies used to produce the impact estimates utilized, but also any methodologies the Company considered and rejected. Additionally, where known, DEP shall identify the independent third party it plans to use for purposes of EM&V, and include an estimate of all third-party costs in its filing. If not known at the time of filing for approval, the information shall be provided at the time of DEP's next annual rider filing.

### **Program Management**

24. In each annual DSM/EE cost recovery filing, DEP shall (a) perform prospective cost-effectiveness test evaluations for each of its approved DSM and EE Programs, (b) perform prospective aggregated portfolio-level cost-effectiveness test evaluations for its approved DSM/EE Programs (including any assigned or allocated administrative and general or other common costs), and (c) include these prospective cost-effectiveness test results in its DSM/EE rider application.
- 24A. Consistent with the Commission's Orders in Docket Nos. E-2, Sub 1145 and E-2, Sub 1174, for purposes of calculating prospective cost-effectiveness in each DSM/EE rider proceeding to be used to determine whether a program should remain in the portfolio, the Company shall assess each program by:
  - (a) Using projected avoided capacity and energy benefits specifically calculated for each program, as derived from the underlying resource plan, production cost model, and cost inputs that generated the

avoided capacity and avoided energy credits reflected in the most recent Commission-approved Biennial Determination of Avoided Cost Rates for Electric Utility Purchases from Qualifying Facilities as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing. However, for the calculation of the underlying avoided energy credits to be used to derive the program-specific avoided energy benefits, the calculation will be based on the projected EE portfolio hourly shape, rather than the assumed 24x7 100 MW reduction typically used to represent a qualifying facility; and,

- (b) Evaluating each cost-effectiveness test using projections of participation, savings, costs, and benefits for the upcoming vintage year.
- 24B. The parties acknowledge that prospective cost-effectiveness evaluations are snapshots of the program's performance, and that ongoing cost-effectiveness is impacted by many factors outside the Company's control, including but not limited to market and economic conditions, avoided costs, and government mandates. The parties shall continue to work to maintain the cost-effectiveness of its portfolio and individual programs. However, for any program that initially demonstrates a UCT, determined pursuant to Paragraph 24A above of less than 1.00, the Company shall include a discussion in its annual DSM/EE rider proceeding of the actions being taken to maintain or improve cost-effectiveness, or alternatively, its plans to terminate the program.
- 24C. For programs that demonstrate a prospective UCT, determined pursuant to Paragraph 24A above, of less than 1.00 in a second DSM/EE rider proceeding, the Company shall include a discussion of what actions it has taken to improve cost-effectiveness. Fluctuations of UCT above and below 1.0 should be addressed on a case by case basis.
- 24D. For programs that demonstrate a prospective UCT, determined pursuant to Paragraph 24A above, of less than 1.00 in a third DSM/EE rider proceeding, the Company shall terminate the program effective at the end of the year following the DSM/EE rider order, unless otherwise ordered by the Commission. However, any party may propose termination of a program prior to a third DSM/EE rider proceeding if earlier information indicates that cost-effectiveness is not likely to reach 1.0 or greater under the UCT test.
25. DEP will seek to leverage available state and federal funds to operate effective efficiency Programs. Its application for such funds will be transparent with respect to the cost, operation, and profitability of Programs operated with those funds in a manner consistent with its authorized revenue recovery mechanism. Use of such funds helps offset the

participant's project costs and is supplemental to DEP's incentives to participants. As such, these funds will not change the impacts or Program- or portfolio-level cost-effectiveness of DEP's Programs as calculated using the UCT. Further, the amount of avoided costs recognized by the Company will not be reduced if participants also use state or federal funds to offset any portion of their project costs.

### **Program Modifications**

- 25A. Modifications to Commission approved DSM/EE Programs will be considered as provided for in Attachment A to this Mechanism.
- 25B. Modifications filed with the Commission for approval will be evaluated under the same guidelines and parameters used in DEP's most recently filed DSM/EE rider proceeding.

### **Stakeholder Collaborative**

- 26. DEP will conduct periodic collaborative stakeholder meetings for the purpose of collaborating on new Program ideas, reviewing modifications to existing Programs, ensuring an accurate public understanding of the Programs and funding, reviewing the EM&V process, giving periodic status reports on Program performance, helping to set EM&V priorities, providing recommendations toward DEP's submission of applications to revise or extend Programs and rate structures, and guiding efforts to expand cost-effective Programs for low-income customers. A third party may facilitate the discussions
- 27. The Carolinas EE Collaborative is an advisory group made up of interested stakeholders from across North and South Carolina representing a wide array of customer groups and interests related to energy efficiency and demand response. The Collaborative should serve as an open forum for the sharing of information and discussion of topics related to energy efficiency including program design and development, program evaluation, regulatory and other market conditions that will impact program performance, specific issues or topics as requested by the North and South Carolina Utilities Commissions in orders regarding DSM and EE matters, and other topics or issues to achieve the most demand and energy savings possible. A third party may facilitate the discussions. The collaborative will continue to determine its own rules of operation, including the process for setting the agendas and activities of the group, consistent with these terms. Members agree to participate in the advisory group in good faith consistent with mutually-agreed upon rules of participation. Meetings are open to additional parties who agree to the participation rules.

28. DEP will provide information related to the development of EE and DSM to stakeholders in a transparent manner. The Company agrees to disclose Program-related data at a level of detail similar to that which it has disclosed in other states or as disclosed by other regulated utilities in the Carolinas. The Company will share all aspects of the development and evaluation of Programs, including the EM&V process.
29. At its discretion, the Company may require confidentiality agreements with members who wish to review confidential data or any calculations that could be used to determine the data. Disclosure of this data would harm DEP competitively and could result in financial harm to its customers. Participation in the advisory group shall not preclude any party from participating in any Commission proceedings.

### **Distribution System Demand Response (DSDR) Program**

30. The DSDR Program is an EE Program defined as “new” pursuant to N.C. Gen. Stat. § 62-133.8 and N.C. Gen. Stat. § 62-133.9, and is eligible for recovery of reasonable and prudent costs, as well as NLR, subject to the terms and conditions of NLR set forth herein. The DSDR Program is not eligible for recovery of a PPI.
31. The rate of return on investment used to determine the DSDR Program capital-related costs included in each annual rider will be based on the then-current capital structure, embedded cost of preferred stock, and embedded cost of debt of the Company (net of appropriate income taxes), and the cost of common equity approved in the Company's then most recent general rate case.

### **Evaluation, Measurement and Verification**

32. The EM&V of Programs will be conducted using a nationally recognized protocol to ensure that Programs remain cost-effective. Except for DEP's DSDR Program, EM&V of Programs will be conducted by an independent third-party. EM&V of the DSDR Program will be conducted by DEP. EM&V protocol may be modified with approval of the Commission to reflect the evolution of best practices.
33. EM&V will be applied in accordance with the provisions of Attachment B to this Mechanism.
34. EM&V will also include updates of any NTG factors related to previous NTG estimates for Programs and Measures. All of the updated information will be used in evaluating the continued cost-effectiveness of existing Programs and portfolio. Updates to NTG estimates will be applied consistent with the application of EM&V results pursuant to Attachment B to this Mechanism,

but updates to NTG estimates will not be applied retrospectively to Measures that have already been installed or Programs that have already been completed. If it becomes apparent during the implementation of a Program that NTG factors are substantially different than anticipated, the Company will file appropriate Program adjustments with the Commission.

### **Opt-Out Eligibility Requirement for Industrial Customers and Certain Commercial Customers**

35. Commercial customers with annual consumption of 1,000,000 kWh or greater in the billing months of the prior calendar year and all industrial customers that implement or will implement alternative DSM/EE Measures may, consistent with Commission Rule R8-69(d), elect to not participate in any utility-offered DSM/EE Measures and, after written notification to the utility, will not be subject to the DSM/EE rider and DSM/EE EMF rider. For purposes of application of this option, a customer is defined to be a metered account billed under a single application of a Company rate tariff. For commercial accounts, once one account meets the opt-out eligibility requirement, all other accounts billed to the same entity with lesser annual usage located on the same or contiguous properties are also eligible to opt-out of the DSM/EE rider and DSM/EE EMF rider. Since these rates are included in the rate tariff charges, customers electing this option shall receive a DSM and/or EE credit on their monthly bill statement.
36. Opt-out eligible customers that have received DSM/EE Program incentives will be subject to the applicable DSM/EE rider and DSM/EE EMF rider billings for a period of no less than 36 months.
37. Eligible non-residential customers may opt out of either or both of the DSM and EE categories of Programs as well as opt back into either or both. If a customer receives Program incentives from a Company DSM or EE Program, that customer must opt-in for a period of no less than 36 months. A customer receiving Program incentives from a DSM Program will be required to pay the DSM portion of the DSM/EE Rider for a period of not less than 36 months. A customer receiving Program incentives from an EE Program will be required to pay the EE portion of the DSM/EE Rider for a period of not less than 36 months.
38. In cases when the DSM rate element of Rider DSM/EE is a credit, any opt-out eligible customer who wishes to opt-in to the DSM portion of the Rider, without participating in a DSM program, will be required to remain opted into the DSM portion of the Rider for the same number of months that they received a bill credit following the last month in which they received a DSM bill credit from the Rider.



39. In cases when the EE rate element of Rider DSM/EE is a credit, any opt-out eligible customer who wishes to opt-in to the EE portion of the Rider, without participating in a EE program, will be required to remain opted into the EE portion of the Rider for the same number of months that they received a bill credit following the last month in which they received a EE bill credit from the Rider.

### **Procedural Matters and General Structure of Riders**

40. The rate period for each proposed DSM/EE Rider will be the next upcoming calendar year at the time of the filing of DEP's annual DSM/EE rider application. The test period used in the development of the DSM/EE EMF Rider will be the most recently concluded calendar year at the time of filing of the application.
41. For purposes of measuring the cost-effectiveness of Programs and for calculation of the PPI and PRI, a Vintage Year will be equivalent to a calendar year.
42. The annual filing date of DEP's DSM/EE rider application, supporting testimony, and exhibits will be no later than 98 days prior to the hearing date prescribed by Commission Rule (currently the first Tuesday of June of each calendar year). Should the Company become aware prior to filing of a determined or possible change in the hearing date, the Company shall strive to file its application and associated documents no later than 98 days prior to the changed hearing date.
43. DEP shall not request that the annual hearing to consider the proposed DSM/EE and DSM/EE EMF riders be held sooner than 98 days after the filing date of the Company's application, supporting testimony, and Exhibits.
44. All DSM/EE and DSM/EE EMF riders shall be calculated and charged to customers based on the annual revenue requirements associated with DSM and EE Programs. Separate DSM/EE and DSM/EE EMF riders shall be calculated for the Residential customer class, the Non-Residential customer classes, and the Lighting class.
45. One integrated (prospective) DSM/EE rider and one integrated DSM/EE EMF rider shall be calculated for the Residential class and the Residential portion of the Lighting class, respectively, to be effective each rate period. The integrated Residential and Lighting class DSM/EE EMF riders shall include all true-ups for each Vintage Year appropriately considered in each proceeding.
46. Separate DSM and EE billing factors will be available to Non-Residential opt-out-eligible customers. Additionally, the Non-Residential DSM and EE

rates and the DSM and EE EMF billing factors will be appropriately considered in each proceeding, so that the factors can be appropriately charged to Non-Residential opt-out eligible customers.

47. For purposes of normalizing or forecasting kWh sales for its annual DSM/EE and DSM/EE EMF rider filing, DEP shall calculate customer growth, weather normalization, and other applicable adjustments on the basis of the test period and/or rate period for each annual filing, as applicable.

### **Allocation Methodologies**

48. Unless the Commission determines otherwise in a N.C. Gen. Stat. § 62-133.9 DSM/EE rider (or other) proceeding:
  - (a) The Program Costs of an approved DSM or EE Program will be allocated to the North Carolina and South Carolina retail jurisdictions and will only be recovered from those customer classes to which the Program is targeted.
  - (b) No Program Costs of any approved DSM or EE Program will be allocated to the wholesale jurisdiction.
  - (c) For EE Programs, the costs of each Program will be allocated based on the annual energy requirements of North Carolina and South Carolina retail customers (at the generator), as reflected in the annual cost of service studies.
  - (d) For DSM Programs, the aggregated costs of DSM Programs will be allocated based on the annual summer coincident peak demand of North Carolina and South Carolina retail customers, as reflected in the annual cost of service studies.
  - (e) The allocation factors and inputs used to allocate the estimated rate period costs of DSM and EE Programs shall be those drawn from the most recently filed cost of service study at the time the annual cost recovery filing is made. The allocations of costs shall be trued up at the time that finalized and trued-up costs for a given test period are initially passed through the DSM/EE EMF, using the most recently filed cost of service study at the time the filing is made (but for no later year than the period being trued up). For subsequent true-ups of that period, the cost of service study used will be the same as that used for the initial true-up.
  - (f) For purposes of recovery through the DSM/EE and DSM/EE EMF riders, the Company's North Carolina retail jurisdictional costs for approved DSM and EE Programs and Measures shall be assigned

or allocated to North Carolina retail customer classes by directly assigning the North Carolina retail jurisdictional costs to the customer group to which the Program is offered. For the DSDR Program, North Carolina retail jurisdictional amounts shall be allocated to customer classes on the basis of the energy requirements of each class, drawn from the most recently filed cost of service study at the time the annual cost recovery filing is made (adjusted to exclude the energy requirements of opted-out customers). The process of estimating and truing up the class assignments and allocations will be the same as practiced for jurisdictional allocations.

### **Cost Recovery**

49. In general, as provided in Commission Rule R8-69 and N.C. Gen. Stat. § 62-133.9(d), but subject to the specific provisions and/or modifications contained elsewhere in this Mechanism, DEP shall be allowed to recover, through the DSM/EE rider, all reasonable and prudent Program Costs reasonably and appropriately estimated to be incurred in expenses, during the current rate period, for DSM and EE Programs that have been approved by the Commission under Rule R8-68. As permitted by N.C. Gen. Stat. § 62-133.9(d), but subject to the specific provisions and/or modifications contained elsewhere in this Mechanism, any of the Stipulating Parties may propose a procedure for the deferral and amortization in future DSM/EE riders of all or a portion of DEP's reasonable and prudent O&M Program Costs to the extent those costs are intended to produce future benefits.
50. Unless the Commission determines otherwise, and subject to the specific provisions and/or modifications contained elsewhere in this Mechanism, DEP shall be allowed to amortize any O&M costs incurred through Vintage Year 2020 deferred pursuant to Paragraph 49 of this Mechanism over a period of time not to exceed 10 years..
51. Beginning with Vintage (calendar) Year 2016, and extending through Vintage Year 2020 (as reflected in its 2019 Rider filing), DEP may recover, subject to approval by the Commission in the annual DSM/EE rider proceedings, Program Costs incurred, without deferral for amortization in future DSM/EE riders, even if Program Costs incurred for the same Program in prior years have been deferred and amortized.
52. With regard to O&M Program Costs incurred prior to January 1, 2016, said costs will be recovered using the amortization rates existing at December 31, 2015, until such time that those deferred costs are recovered, in their entirety, through the DSM/EE cost recovery clause, unless the Parties recommend, and the Commission approves, a different treatment.

53. O&M Program Costs incurred in Vintage Year 2021 will be recovered utilizing the same amortization periods as utilized for Vintage Year 2020 Costs for the same Program, unless otherwise approved by the Commission.
54. Beginning with Vintage Year 2022, unless otherwise ordered by the Commission pursuant to its own motion or at the request of another party, and extending through a Vintage Year as identified in a future Mechanism review, DEP may recover all Program Costs previously recovered through amortization periods exceeding three years over amortization periods of no less than three years.
55. With regard to O&M Program Costs incurred on and subsequent to January 1, 2016 but prior to January 1, 2022, said costs will be recovered using the amortization rates existing at December 31, 2021, until such time that those deferred costs are recovered, in their entirety, through the DSM/EE cost recovery clause, unless the Parties recommend, and the Commission approves, a different treatment.
56. In the next Mechanism review, the parties shall consider whether or not to allow the minimum three-year amortization period designated in Paragraph 54 above to be further reduced, taking into consideration the impact upon customer rates, as well as other relevant factors.
57. Pursuant to Commission Rule R8-69(b)(6), except for administrative and general expenses (addressed in Paragraph No. 58 below), DEP shall be allowed to earn a rate of return at the overall weighted average net-of-tax rate of return approved in DEP's most recent general rate case on all such unamortized deferred costs (net of income taxes). The return so calculated will be adjusted in any rider calculation to reflect necessary recoveries of income taxes. Pursuant to Commission Rule R8-69(c)(3), the Company is not allowed to accrue a return on NLR or the PPI.
58. To the extent DEP chooses to defer and amortize in future DSM/EE riders the Program Costs for a Program pursuant to Paragraph No. 54 above, non-incremental administrative and general costs reasonably assigned or allocated to, but not directly related to, that Program will be deferred and amortized over a period not to exceed three years, unless the Commission determines otherwise. Pursuant to Commission Rule R8-69(b)(6), DEP shall be allowed to earn a rate of return at the overall weighted average net-of-tax rate of return approved in DEP's most recent general rate case on all such unamortized deferred administrative and general costs (net of income taxes). The return so calculated will be adjusted in any rider calculation to reflect necessary recoveries of income taxes. However, irrespective of the prospective treatment of Program Costs in calendar year 2016 or afterwards, previously deferred administrative and general costs will be

recovered using existing amortization rates, until such time that those deferred costs are recovered, in their entirety, through the DSM/EE cost recovery clause, unless the parties recommend, and the Commission approves, a different treatment.

59. The DSM/EE EMF rider shall reflect the difference between the reasonable and prudent Program Costs incurred or amortized during the applicable test period (Vintage Year) and the revenues actually realized during such test period under the DSM/EE rider then in effect.
60. For Program Costs not deferred for amortization in future DSM/EE riders, the accrual of a return on any under-recoveries or over-recoveries of cost will follow the requirements of Commission Rule R8-69(b), subparagraphs (3) and (6), unless the Commission determines otherwise.
61. The cost and expense information filed by DEP pursuant to Commission Rules R8-68(c) and R8-69(f) shall be categorized by Measurement Unit or Program, as applicable, and period, consistent with the presentation included in the Company's application.

#### **Net Lost Revenues (NLR)**

62. When authorized pursuant to Commission Rule R8-69(c) and unless the Commission determines otherwise, DEP shall be permitted to recover, through the DSM/EE and DSM/EE EMF riders, NLR associated with the implementation of approved DSM and EE Measurement Units or Programs, subject to the restrictions set out below.
63. The North Carolina retail kWh sales reductions that result from an approved measurement unit installed in a given Vintage Year shall be eligible for use in calculating NLR eligible for recovery only for the first 36 months after the installation of the Measurement Unit. Thereafter, such kWh sales reductions will not be eligible for calculating recoverable NLR for that or any other Vintage Year.
64. 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 NLR.
65. In order to recover estimated NLR associated with a Pilot Program or Measure, DEP must, in its application for program or measure approval, demonstrate (a) that the program or measure is of a type that is intended to be developed into a full-scale, Commission-approved program or measure, and (b) that it will implement an EM&V plan based on industry-accepted protocols for the program or measure. No pilot program or measure will be eligible for NLR recovery upon true-up unless it (a) is ultimately proven to

have been cost-effective, and (b) is developed into a full-scale, commercialized program.

66. Notwithstanding the allowance of 36 months' NLR associated with eligible kWh sales reductions, the kWh sales reductions that result from measurement units installed shall cease being eligible for use in calculating NLR as of the effective date of (a) a Commission-approved alternative recovery mechanism that accounts for the eligible NLR associated with eligible kWh sales reductions, or (b) 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 the NLR associated with those kWh sales reductions.
67. Recoverable NLR shall be calculated in a manner that appropriately reflects the incremental revenue losses suffered by the Company, net of avoided fuel and non-fuel variable O&M expenses.
68. Overall recoverable NLR as measured for the 36-month period identified in Paragraph 63 above shall be reduced by any increases in Net Found Revenues during the same periods (offset by any negative found revenues found appropriate and reasonable by the Commission pursuant to the provisions of paragraph 8 of this Mechanism and other factors deemed applicable by the Commission). The "decision tree" adopted by Order in Docket No. E-2, Sub 931, on January 20, 2015, should be applied for determining what constitutes Net Found Revenues. DEP shall closely monitor its utility activities to determine if they are causing a customer to increase demand or consumption, and shall identify and track all such activities with the aid of the "decision tree," so that they may be evaluated by intervening parties and the Commission as potential Net Found Revenues. Net Found Revenues shall be calculated in an appropriate and reasonable manner that mirrors the calculation used to determine NLR.
69. Recoverable NLR shall ultimately be based on kWh sales reductions and kW savings verified by the EM&V process and approved by the Commission. Recoverable NLR shall be estimated and trued-up, on a Vintage Year basis, in the following manner:
  - (a) As part of the DSM/EE rider approved in each annual cost and incentive recovery proceeding, DEP shall be allowed to recover the appropriate and reasonable level of recoverable NLR associated with each applicable program and Vintage Year (subject to the limitations set forth in this Mechanism), estimated to be experienced during the rate period for which the DSM/EE rider is being set.

- (b) NLR related to any given program/measure and Vintage Year shall be true-up through the DSM/EE EMF rider in subsequent annual cost and incentive recovery proceedings based on the Commission-approved results of the appropriate EM&V studies related to the program/measure and Vintage Year. The true-up shall be based on verified savings and shall be applied to prospective and past time periods in accordance with the Evaluation, Measurement, and Verification section of this Mechanism.
- (c) The true-up shall be calculated based on the difference between projected and actual recoverable NLR for each Program and period under consideration, accounting for any differences derived from the completed and reviewed EM&V studies, 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.
- (d) The reduction in NLR due to Net Found Revenues (offset by any approved and applicable negative found revenues) shall be true-up in a manner consistent with the true-up of NLR.
- (e) The combined total of all Vintage Year true-ups calculated in a given year's Commission Rule R8-69 proceeding shall be incorporated into the appropriate DSM/EE EMF billing factor.

### **Portfolio Performance Incentive (PPI) and Program Return Incentive (PRI)**

- 70. When authorized pursuant to Commission Rule R8-69(c), DEP shall be allowed to collect a PPI and PRI, as each is applicable, for its DSM/EE portfolio for each Vintage Year, separable into Residential, Lighting, Non-Residential DSM, Non-Residential EE categories. The PPI and PRI, as applicable, shall be subject to the restrictions set out below.
- 71. Programs, Measures, and activities undertaken by DEP with the primary purpose of promoting general awareness of and education about EE and DSM activities, as well as research and development activities, that are not directly associated with a Commission approved EE or DSM Program, are ineligible to be included in the portfolio for purposes of the PPI or PRI calculations.
- 72. Unless (a) the Commission approves DEP's specific request that a pilot program or measure be eligible for PPI or PRI inclusion when DEP seeks approval of that program or measure, and (b) the pilot is ultimately commercialized, pilot programs or measures are ineligible for and the

benefits and costs associated with those pilots will not be factored into the calculation of the PPI.

73. The PPI and PRI for each Vintage Year shall be incorporated into DEP's DSM/EE or DSM/EE EMF billing factors, as appropriate.
74. In its annual filing, pursuant to Commission Rule R8-69(f), DEP shall file an exhibit that indicates, for each Program or Measure for which it seeks a PPI or PRI, 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, consistent with the UCT, related to the applicable Vintage Year installations that it requests the Commission to approve. Upon its review, the Commission will make findings based on DEP's annual filing for each Program or Measure that is included in an estimated or trued-up PPI or PRI calculation for any given Vintage Year.
75. Low-Income Programs and other specified societal programs or other programs explicitly approved with expected UCT results less than 1.00 shall not be included in the portfolio for purposes of the PPI calculation until they demonstrate UCT results greater than 1.00. However, such programs will be eligible for the PRI, if so approved by the Commission, until they demonstrate UCT results greater than 1.00.
76. The PPI shall be based on the net dollar savings of DEP's DSM/EE portfolio, as calculated using the UCT. The North Carolina retail jurisdictional and class portions of the system-basis net dollar savings shall be determined in the same manner as utilized to determine the North Carolina retail jurisdictional and class portions of recoverable system costs.
77. Unless the Commission determines otherwise in an annual N.C. Gen. Stat. § 62-133.9 DSM/EE rider proceeding, and subject to the factors and limitations set forth elsewhere in this Mechanism, beginning for Vintage Year 2022 the amount of the pre-income-tax PPI initially to be recovered for the entire DSM/EE portfolio for a Vintage Year, excluding Programs not eligible for a PPI, shall be equal to 10.60% multiplied by the present value of the estimated net dollar savings associated with the DSM/EE portfolio installed in that Vintage Year, calculated by Program using the UCT (and excluding Low Income Programs and other specified societal programs). The present value of the estimated net dollar savings shall be the difference between the present value of the annual lifetime avoided cost savings for measurement units projected to be installed in that Vintage Year and the present value of the annual lifetime program costs for those measurement units. The annual lifetime avoided cost savings for measurement units installed in the applicable Vintage Year shall be calculated by multiplying the number of each specific type of Measurement Unit projected to be



installed in that Vintage Year by the most current estimates of each lifetime year's per installation kW and kWh savings and by the most current estimates of each lifetime year's per kW and kWh avoided costs. In calculating the forecasted initial PPI it will be assumed that projections will be achieved.

78. Beginning with Vintage Year 2022, the dollar amount of the pre-tax PPI ultimately allowed for each Vintage Year, after true-up pursuant to Paragraph 89 of this Mechanism, shall be no greater than the dollar amount that produces a 19.50% margin over the aggregate pre-tax Program Costs for the Vintage Year of those programs in the Portfolio that are eligible for the PPI. Likewise, the dollar amount of the pre-tax PPI ultimately allowed for each Vintage Year, after true-up pursuant to Paragraph 89 of this Mechanism, shall be no less than the dollar amount that produces the following margins over the aggregate pre-tax Program Costs for the Vintage Year of those programs in the Portfolio that are eligible for the PPI.

Vintage Year 2022:	10.00%
Vintage Year 2023:	6.00%
Vintage Year 2024:	2.50%
Vintage Year 2025 and afterwards, until the next Mechanism review is completed:	2.50%

When making its initial estimates of the PPI pursuant to this Mechanism, DEP shall utilize the best and most accurate estimate of the margin and the resulting PPI percentage it can determine at that time.

79. Unless the Commission determines otherwise in a N.C. Gen. Stat. § 62-133.9 DSM/EE rider proceeding, the PPI for vintage periods subsequent to the approval of this mechanism through Vintage Year 2021 shall be converted into a stream of no more than 10 levelized annual payments, accounting for and incorporating DEP's overall weighted average net-of-tax rate of return approved in DEP's most recent general rate case as the appropriate discount rate. After Vintage Year 2021, the PPI related to any given Vintage Year will be levelized over the same period over which O&M Program Costs for that Vintage Year are amortized. Levelized annual payments applicable to Programs in prior vintage periods will continue until all such amounts are recovered.

80. The PRI shall be based on the gross avoided costs of those programs eligible for the PRI. The North Carolina retail jurisdictional and class portions

of the system-basis gross dollar savings shall be determined in the same manner as utilized to determine the North Carolina retail jurisdictional and class portions of recoverable system costs.

81. Unless the Commission determines otherwise in an annual N.C. Gen. Stat. § 62-133.9 DSM/EE rider proceeding, and subject to the factors and limitations set forth in this Mechanism, beginning for Vintage Year 2022 the amount of the pre-income-tax PRI initially to be recovered for Low Income Programs and other specified societal programs not eligible for a PPI shall be a percentage, as determined pursuant to Paragraph 82 of this Mechanism, multiplied by the present value of the estimated gross dollar avoided cost savings associated with the applicable DSM/EE Programs installed in that Vintage Year, used in determination of the UCT. The present value of the estimated gross dollar savings shall be determined in the same manner as used for Programs eligible for the PPI.
82. The percentage used to determine the estimated PRI for each Vintage Year shall be 10.60%. This percentage will be multiplied by the Vintage Year avoided costs projected to be generated by each approved PRI-eligible program. When making its initial estimates of the PRI, DEP shall utilize the best and most accurate estimate of the UCT and the resulting PRI percentage it can determine at that time.
83. For the PPI and PRI for Vintage Years 2019 and afterwards, consistent with the Commission's Orders in Docket Nos. E-2, Sub 1145 and E-2, Sub 1174, the program-specific per kW avoided capacity benefits and per kWh avoided energy benefits used for the initial estimate of the PPI and PRI and any PPI or PRI true-up will be derived from the underlying resource plan, production cost model, and cost inputs that generated the avoided capacity and avoided energy credits reflected in the most recent Commission-approved Biennial Determination of Avoided Cost Rates for Electric Utility Purchases from Qualifying Facilities as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing. However, for the calculation of the underlying avoided energy credits to be used to derive the program-specific avoided energy benefits, the calculation will be based on the projected EE portfolio hourly shape, rather than the assumed 24x7 100 MW reduction typically used to represent a qualifying facility.
84. No later than December 31, 2021, DEP and the Public Staff will jointly review the issue of the appropriate avoided T&D costs to be used in the Company's calculations of cost-effectiveness and achieved net dollar savings, and, if appropriate, recommend in the Company's annual DSM/EE rider proceeding adjustments to the avoided T&D cost rates.
85. The per kW avoided transmission and avoided distribution (avoided T&D) costs used to calculate net savings for a Vintage Year shall be based on the

study update at least every three years only if the study update results in a 20% change from the prior study's avoided T&D costs.

86. Unless DEP and the Public Staff agree otherwise, DEP shall not be allowed to update its avoided capacity costs and avoided energy costs after filing its annual cost and incentive recovery application for purposes of determining the DSM/EE and DSM/EE EMF riders in that proceeding.
87. When DEP files for its annual cost recovery under Commission Rule R8-69, it shall comply with the filing requirements of Commission Rule R8-69(f)(1)(iii), reporting all measurement and verification data, even if that data is not final, to assist the Commission and the Public Staff in their review and monitoring of the impacts of the DSM and EE Measures.
88. DEP bears the burden of proving all dollar savings and costs included in calculating the PPI and PRI. As provided in Rule R8-68(c)(3)(iii), DEP shall be responsible for the EM&V of energy and peak demand savings consistent with its EM&V plan.
89. The PPI and PRI for each Vintage Year shall ultimately be based on net or gross dollar savings, as applicable, as verified by the EM&V process and approved by the Commission. The PPI and PRI for each Vintage Year shall be trued-up as follows:
  - (a) As part of the DSM/EE rider approved in each annual cost and incentive recovery proceeding, DEP shall be allowed to recover an appropriately and reasonably estimated PPI and PRI (subject to the limitations set forth in this Mechanism) associated with the Vintage Year covered by the rate period in which the DSM/EE rider is to be in effect.
  - (b) The PPI and PRI related to any given Vintage Year shall be trued-up through the DSM/EE EMF rider in subsequent annual cost and incentive recovery proceedings based on the Commission-approved results of the appropriate EM&V studies related to the program/measure and Vintage Year, as determined pursuant to the EM&V Agreement. The true-up shall be based on verified savings and shall be applied to prospective and past time periods in accordance with the Evaluation, Measurement, and Verification section of this Mechanism.
  - (c) The amount of the PPI ultimately to be recovered for a given Vintage Year shall be based on the present value of the actual net dollar savings derived from all Measurement Units installed in that Vintage Year, as associated with each DSM/EE program offered during that year (excluding Low Income Programs and other specified societal

programs), and calculated by DSM/EE program using the UCT. The present value of the actual net dollar savings shall be the difference between the present value of the annual lifetime avoided cost savings for measurement units installed in that Vintage Year and the present value of the annual lifetime program costs for those measurement units. The annual lifetime avoided cost savings for Measurement Units installed in the applicable Vintage Year shall be calculated by multiplying the number of each specific type of Measurement Unit installed in that Vintage Year by each lifetime year's per installation kW and kWh savings (as verified by the appropriate EM&V study pursuant to the EM&V agreement) and by each lifetime year's per kW and kWh avoided costs as determined when calculating the initially estimated PPI for the Vintage Year. The ultimate PPI will also be subject to the additional factors and limitations set forth in this Mechanism. The Stipulating Parties agree to make all reasonable efforts to ensure that all vintages are fully trued-up within 24 months of the vintage program year.

- (d) The amount of the PRI ultimately to be recovered for a given Vintage Year shall be based on the present value of the actual gross dollar savings derived from all Measurement Units installed in that Vintage Year, as associated with each DSM/EE program offered during that year that is eligible for the PRI. Furthermore, the percentage used to determine the final PRI for each Vintage Year will be based on the Company's ability to maintain or improve the cost effectiveness of the PRI-eligible programs. The PRI percentage for each PRI-eligible Program will be determined by comparing (1) the projected UCT ratio for the portfolio of PRI-eligible Programs for the Vintage Year at the time of the Company's DSM Rider filing first estimating that projected Vintage Year UCT ratio to (2) the actual UCT ratio achieved for that portfolio of PRI-eligible Programs as that Vintage Year is trued up in future filings. The ratio (UCT actual / UCT estimate) will then be multiplied by 10.60% to determine the PRI percentage that will be applied to the actual avoided costs generated by each approved PRI-eligible program. At no time will the PRI percentage utilized fall below 2.65% or rise above 13.25%. The present value of the estimated gross dollar savings shall be determined in the same manner as used for determining the recovery of the ultimate PPI. The ultimate PRI will also be subject to the additional factors and limitations set forth in this Mechanism. The Stipulating Parties agree to make all reasonable efforts to ensure that all vintages are fully trued-up within 24 months of the vintage program year.
- (e) A program's eligibility for a PPI or PRI will be determined at the time of filing the projection for a Vintage Year and will continue to be

eligible for the same incentive at the time of the Vintage Year true-up.

- (f) If a program previously eligible for a PRI becomes cost effective under the UCT, it will no longer be eligible to receive a PRI in the next projected Vintage Year for the program, but will be eligible for the PPI.
- 90. The combined total of all Vintage Year true-ups of the PPI and PRI calculated in a given year's Rule R8-69 proceeding shall be incorporated into the appropriate DSM/EE EMF billing factor.
- 91. The PRI will be determined on the basis of the avoided costs employed in the determination of the UCT. PRI amounts will be assigned to the Program in which they were earned.
- 92. The PPI for each Vintage Year shall be allocated to DSM and EE programs in proportion to the present value net dollar savings of each program for the Vintage Year, as calculated pursuant to the method described herein.

### **Other Incentives**

- 93. As further incentive to motivate the Company to aggressively pursue savings from cost-effective EE and DSM Programs, if the Company achieves annual energy savings of 1.0% of the prior year's DEP system retail electricity sales, in any year during the four-year 2022-2025 period, the Company will receive an additional incentive of \$500,000 for that year. During that same period, if the Company fails to achieve annual energy savings of 0.5% of retail sales, net of sales associated with customers opting out of the Company's EE programs, the Company will reduce its EE revenue requirement by \$500,000. Verification of this achievement will be obtained through the EM&V process discussed elsewhere in this Mechanism.

### **Financial Reporting Requirements**

- 94. In its quarterly ES-1 Reports to the Commission, DEP shall calculate and present its primary North Carolina retail jurisdictional earnings by including all actual EE and DSM Program revenues, including PPI and NLR incentives, and costs. Additionally, DEP shall prepare and present (1) supplementary schedules setting forth the Company's North Carolina retail jurisdictional earnings excluding the effects of the PPI; (2) supplementary schedules setting forth the Company's North Carolina retail jurisdictional earnings excluding the effects of its EE and DSM Programs; (3) supplementary schedules setting forth earnings, including overall rates of return and returns on common equity actually realized from DEP's EE and

DSM Programs in total and stated separately by Program Class (Program Classes are hereby defined to be (a) EE Programs and (b) DSM Programs); and (4) supplementary schedules setting forth earnings, including overall rates of return and returns on common equity actually realized from DEP's (a) DSDR Program and (b) all other Programs, collectively, in the EE Program Class. (Show DSDR Program returns and all other collective EE Program returns separately.) Detailed workpapers shall be provided for each scenario described above. Such workpapers, at a minimum, shall clearly show actual revenues; expenses; taxes; operating income; rate base/investment, including components; and the applicable capitalization ratios and cost rates, including overall rate of return and return on common equity.

### **Review of Mechanism**

95. The terms and conditions of this Mechanism shall be reviewed by the Commission every four years unless otherwise ordered by the Commission. However, a Stipulating Party may request the Commission to initiate such a review at any time within the four year period. The Company and other parties shall submit any proposed changes to the Commission for approval at the time of the filing of the Company's annual DSM/EE rider filing. During the time of review, the Mechanism shall remain in effect until further order of the Commission revising the terms of the Mechanism or taking such other action as the Commission may deem appropriate.

### **Term**

96. This Mechanism shall continue until terminated pursuant to Order of the Commission.

### **No Precedential Effect**

97. The terms of this Mechanism, including the methods and results of determining the PPI, PRI, and other Bonus Incentives, shall not be considered precedential for any purpose other than their application to eligible DSM/EE Programs and cost and utility incentive recovery associated with those Programs, and only until those terms are next partially or wholly reviewed.