BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1273

In the Matter of		
Application of Duke Energy Progress, LLC, for Approval of Demand-Side Management and Energy Efficiency Cost Recovery Rider Pursuant to N.C.G.S. § 62-133.9 and Commission Rule R8-69	))))))	TESTIMONY OF MICHAEL C. MANESS PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION

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Testimony of Michael C. Maness

On Behalf of the Public Staff

North Carolina Utilities Commission

September 9, 2021

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

A. My name is Michael C. Maness. My business address is 430 North Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am the Director of the Accounting Division of the Public Staff – North Carolina Utilities Commission (Public Staff).

Q. BRIEFLY STATE YOUR QUALIFICATIONS AND DUTIES.

A. A summary of my qualifications and duties is set forth in Appendix B of this testimony.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to present my recommendations regarding the Demand-Side Management (DSM) and Energy

Efficiency (EE) cost and incentive recovery rider (DSM/EE Rider),[1] proposed by Duke Energy Progress, LLC (DEP or the Company), in its Application filed in this docket on June 15, 2021 (Application). The DSM/EE Rider is authorized by N.C. Gen. Stat. § 62-133.9 and implemented pursuant to Commission Rule R8-69.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony begins with a review of the regulatory framework for DSM/EE cost recovery by electric utilities and the historical background of DEP's Application in this docket. I then discuss the Company's proposed billing rates and other aspects of its filing. Following a summary of my investigation, I present my conclusions and recommendations regarding the proposed billing rates and the overall DSM/EE Rider.

THE PROCESS FOR SETTING DEP'S DSM/EE REVENUE REQUIREMENTS

Q. PLEASE DESCRIBE THE BASIS FOR THE COMPANY'S FILING.

A. N.C.G.S. § 62-133.9(d) allows a utility to petition the Commission for approval of an annual rider to recover (1) the reasonable and prudent costs of new DSM and EE measures; and (2) other incentives to the utility for adopting and implementing new DSM and EE measures.

[1] The DSM/EE Rider is comprised of various class-based DSM, EE, DSM Experience Modification Factor (DSM EMF), and Energy Efficiency Experience Modification Factor (EE EMF) billing rates.

However, N.C.G.S. § 62-133.9(f) allows industrial and certain large commercial customers to opt out of participating in the power supplier's DSM/EE programs or paying the DSM/EE rider, if each such customer notifies its electric power supplier that it has implemented or will implement, at its own expense, alternative DSM and EE measures. Commission Rule R8-69, which was adopted by the Commission pursuant to N.C.G.S. § 62-133.9(h), sets forth the general parameters and procedures governing approval of the annual rider, including, but not limited to: (1) provisions for both (a) a DSM/EE rider to recover the estimated costs and utility incentives applicable to the "rate period" in which that DSM/EE rider will be in effect; and (b) a DSM/EE experience modification factor (EMF) rider to recover the difference between the DSM/EE rider in effect for a given test period (plus a possible extension) and the actual recoverable amounts incurred during that test period; and (2) provisions for interest or return on amounts deferred and on refunds to customers.

In this proceeding, DEP has calculated its proposed DSM/EE Rider (incorporating both prospective and EMF DSM and EE billing rates) using, for vintage years prior to 2022, the Cost Recovery and Incentive Mechanism for Demand-Side Management and Energy Efficiency Programs approved by the Commission in Docket No. E-2, Sub 931 (Sub 931), on January 20, 2015, in its *Order Approving*

Revised Cost Recovery and Incentive Mechanism and Granting Waivers (2015 Sub 931 Order), as subsequently revised by the Commission in its August 23, 2017 *Order Approving DSM/EE Rider and Requiring Filing of Proposed Customer Notice* (Sub 1145 Order), issued in the Company's 2017 DSM/EE rider proceeding in Docket No. E-2, Sub 1145 (Sub 1145).[2] This revised mechanism is referred to herein as the 2017 Mechanism. However, on October 20, 2020, also in Sub 931, the Commission issued its *Order Approving Revisions to Demand-Side Management and Energy Efficiency Cost Recovery Mechanisms* (2020 Sub 931 Order), approving a revised Cost Recovery and Incentive Mechanism of Duke Energy Progress, LLC, for Demand-Side Management and Energy Efficiency Programs, to be effective January 1, 2022 (2020 Mechanism).[3] Therefore, the billing rates related to estimated Vintage Year 2022 costs and utility incentives have been calculated in this proceeding by use of the 2020 Mechanism.

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[2] Certain billing factor components consisting of costs incurred or incentives earned prior to January 1, 2016, but being carried forward to or amortized as part of the billing factors proposed in this proceeding, were determined pursuant to the Cost Recovery and Incentive Mechanism for Demand-Side Management and Energy Efficiency Programs (Initial Mechanism) approved by the Commission on June 15, 2009, in its *Order Approving Agreement and Stipulation of Partial Settlement, Subject to Certain Commission-Required Modifications*, in Docket No. E-2, Sub 931, as modified by the Commission's November 25, 2009, *Order Granting Motions for Reconsideration in Part*, in the same docket.

[3] In the same order, which was also issued in Docket No. E-7, Sub 1032, the Commission also approved a revised DSM/EE Cost Recovery and Incentive Mechanism for Duke Energy Carolinas, LLC (DEC).

In the following paragraphs, I will describe the essential characteristics of the 2017 and 2020 Mechanisms; however, each Mechanism includes and is subject to many additional and more detailed criteria than are set forth in this testimony.

Q. PLEASE DESCRIBE THE DEVELOPMENT OF THE 2017 AND 2020 MECHANISMS AND THEIR MAJOR COMPONENTS.

A. In the 2015 Sub 931 Order, the Commission approved a revised mechanism agreed to by DEP, the Public Staff, and certain other intervenors,[4] and filed by DEP on October 29, 2014. However, as the result of discussions that took place during the Sub 1145 proceeding, the Company and the Public Staff recommended certain changes to Paragraphs 18, 22, and 70 of the mechanism, and the addition of new Paragraphs 22A through 22D and 70A. These revisions were set forth in Maness Exhibit II, filed with my affidavit in Sub 1145, and were approved as set forth therein by the Commission in the Sub 1145 Order.

The overall purpose of the 2017 Mechanism was to: (1) allow DEP to recover all reasonable and prudent costs incurred for adopting and implementing new DSM and new EE measures; (2) establish the terms, conditions, and methodology for the recovery of certain utility

[4] The parties agreeing to the revised mechanism were DEP, the Natural Resources Defense Council, the Southern Alliance for Clean Energy, and the Public Staff.

incentives – Net Lost Revenues (NLR) and a Portfolio Performance Incentive (PPI) - to reward DEP for adopting and implementing DSM and EE measures and programs; (3) provide for an additional incentive to further encourage kilowatt-hour (kWh) savings achievements; and (4) establish certain requirements and guidelines to guide requests by DEP for approval, monitoring, and management of DSM and EE programs. The 2017 Mechanism included many provisions that indirectly influenced the ratemaking process for DSM and EE costs and incentives, including provisions that addressed program approval, management, and modification; evaluation, measurement, and verification (EM&V) of program results; operation of a Stakeholder Collaborative; procedural matters and the general structure of the DSM/EE billing rates; allocation methodologies; reporting requirements; and provisions for the term and future review of the Revised Mechanism itself, as well as provisions directly affecting the calculation of the DSM/EE and DSM/EE EMF riders. A summary of these provisions is set forth in Appendix A of this testimony.

The purpose of the 2020 Mechanism remains largely the same as the 2017 Mechanism. However, the 2020 Mechanism, as approved by the Commission, also includes the following new characteristics:

1. Addition of a Program Return Incentive (PRI) – The PRI is an incentive to encourage 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 costs savings achieved by those DSM and 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 utilized fall below 2.65% or rise above 13.25%.

2. Reduction of PPI Percentage – Beginning with Vintage Year 2022, the PPI percentage is reduced from 11.75% to 10.60%.

3. Cap and Floor on PPI - 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.

4. Clarification of the Criteria for Bundling Measures within Programs – Measures bundled within a DSM/EE program must be consistent with and related to the measure technologies or delivery channels of the program, unless otherwise ordered by the Commission.

5. Use of the Utility Cost Test (UCT) – The test used to calculate the prospective cost-effectiveness of new and ongoing programs is changed from the Total Resource Cost (TRC) Test to the UCT.

6. Review of Avoided Transmission and Distribution (T&D) Costs – The Public Staff and DEP will review 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%.

7. 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 the four-year period of 2022-2025, it 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, it will reduce its EE revenue requirement by $500,000.

8. Non-Energy Benefits - The definition of the TRC Test is revised to provide that non-energy benefits, as approved by the Commission, may be considered in the determination of TRC results.

9. Amortization of operations and maintenance (O&M) expenses – For vintage years prior to 2021, DEP amortized DSM/EE O&M expenses for recovery over various periods extending from one to ten years. Under the 2020 Mechanism, beginning with Vintage Year 2022, the amortization period for O&M expenses that have previously been greater than three years may be reduced to three years, although previous years' expenses will continue to use their previously allowed amortization periods.[5] In the next Mechanism review, the parties shall consider whether or not the minimum three-year amortization period should be further reduced.

10. PPI Recovery - Under the 2017 Mechanism and previous DSM/EE mechanisms, DEP has converted the PPI earned for each program in each vintage year into a stream of levelized

[5] O&M expenses incurred in Vintage Year 2021 will be amortized utilizing the same amortization periods as utilized for Vintage Year 2020 costs for the same Program, unless otherwise approved by the Commission.

annual payments with an equivalent present value, to be recovered over no more than ten years. Beginning with Vintage Year 2022, the PPI earned in any vintage year will be levelized over the same period as O&M expenses for that same vintage year are amortized, although levelized annual payments from prior vintages will continue to be recovered as previously set.

In addition to the above, the 2020 Sub 1032 Order requires, consistent with the recommendation of the parties to the 2020 Stipulation, 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. . . . [U]pon 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."[6]

The entire text of the 2020 Mechanism is attached to the 2020 Sub 931 Order as Attachment B.[7]

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[6] Additional details regarding the performance of the study are included in the body of the 2020 Sub 931 Order.

[7] The revisions to the Mechanism recommended by the Public Staff were also supported by DEC, DEP, the North Carolina Sustainable Energy Association, the Southern Alliance for Clean Energy, the South Carolina Coastal Conservation League, the Natural Resources Defense Council, the Sierra Club, and the North Carolina Attorney General's Office.

THE COMPANY'S PROPOSED BILLING RATES

Q. PLEASE DESCRIBE THE BILLING FACTORS, VINTAGE YEARS, RATE PERIOD, AND TEST PERIOD BEING CONSIDERED IN THIS PROCEEDING.

A. In its Application in this proceeding, DEP requested approval of prospective and EMF DSM and EE billing rates that would result in annual North Carolina retail revenue of approximately $190.0 million [including a revenue adder for the North Carolina Regulatory Fee (regulatory fee)]. DEP's request would be an increase of approximately $8.1 million from the annual revenues that would be produced by the rates currently in effect. These proposed billing factors are set forth on DEP witness Listebarger's Exhibit 1. The factors (rates), as applicable to each class, are proposed by the Company to be charged to all participating North Carolina retail customers [i.e., those who have not opted out pursuant to N.C.G.S. § 62-133.9(f)] served during the rate period.

The increase in the monthly bill of a Residential customer using 1,000 kilowatt-hours of energy resulting from this revenue requirement decrease would be $0.67. The change in a Non-Residential customer's bill would depend on the particular Vintage Years of DSM and/or EE rates for which the customer is opted out or opted in.

The rate period for this proceeding is the twelve-month period from January 1, 2022, through December 31, 2022. This is the period over which the prospective DSM and EE billing rates and the DSM and EE EMF billing rates determined in this proceeding will be charged. It is also the period for which the estimated revenue requirements (program costs, NLR, and PPI) to be recovered through the prospective DSM/EE rates are determined.

The test period applicable to this proceeding is the twelve-month period ended December 31, 2020. This is the period for which the under- or overrecovery of DSM/EE revenue requirements as compared to actual DSM/EE rider revenues is measured for purposes of determining the DSM and EE EMF billing rates (although the Commission Rules do allow the true-up to be extended to cover additional months, subject to review and adjustment in next year's proceeding). Actual program costs considered for true-up in this proceeding are either costs actually incurred during the test period, or further true-ups and/or corrections related to previous test periods. For purposes of recovery, actual program costs may be amortized over periods ranging from one to ten years. A return is also calculated on program costs deferred during the test year and on over-recoveries of total revenue requirements after the date the rates change. NLR and PPI reflected in the EMF revenue requirements being set in this proceeding are associated with kWh and dollar savings achieved during Vintage Year 2020 (which is also the test year), as well as true-ups associated with prior vintage years. The PPI revenue requirement may also be amortized on a levelized basis over several years.

Q. WHAT ARE SOME OF THE CHARACTERISTICS OF DEP'S PROPOSED DSM/EE BILLING FACTORS IN THIS SPECIFIC PROCEEDING?

A. The prospective DSM and EE billing rates incorporate several cost recovery elements as estimated for the rate period, including amortizations of operations and maintenance and administrative and general (A&G) costs, capital costs of the Demand Side Distribution Response program (DSDR), carrying costs (return on deferred costs), NLR, and levelized PPI incentives. The test period true-up DSM and EE EMF billing rates contain test period actual amounts of the same types of costs and incentives as do the prospective rates. The DSM and EE EMF billing rates also include adjustments to the 2017, 2018, and 2019 NLR, and 2019 PPI, a reduction for the DSM/EE billing rate amounts billed during the test period, and interest on over-collections and under-collections.

NLR amounts included in the DSM and EE billing rates have also been affected by the Company's two most recently concluded general rate cases, Docket No. E-2, Subs 1142 and 1219. In the case of Sub 1142, the revenue requirement filed by the Company took into account DEP's total net revenue losses through December 31, 2016, and further residential losses through October 31, 2017. The effective date of the rates set in the case was March 16, 2018. Therefore, NLR being requested in this proceeding exclude, effective March 16, 2018, any net revenue losses due to DSM/EE measures installed or implemented on or prior to December 31, 2016, for all customers, and on or prior to October 31, 2017, for residential customers. These excluded losses include a portion of the test year 2020 lost sales first experienced in Vintage Year 2017.

In the case of Sub 1219, the revenue requirement filed by the Company took into account DEP's total net revenue losses through May 31, 2020. The effective date of the rates set in the case was September 1, 2020. Therefore, NLR being requested in this proceeding exclude, effective September 1, 2020, any net revenue losses due to DSM/EE measures installed or implemented on or prior to May 31, 2020. These excluded losses include a portion of the test period 2020 lost sales first experienced in Vintage Years 2017 through 2020, and also a portion of the estimated rate period 2022 lost sales first experienced in Vintage Years 2019 and 2020.

Q. WILL THERE BE FUTURE TRUE-UPS OF THE DSM/EE REVENUE REQUIREMENTS?

A. The finalization of the true-ups of NLR and PPI sometimes tends to lag behind the true-ups of program costs and A&G expenses subject to amortization. This feature of the true-up process is due to the fact that while cost amounts are typically known and determinable very soon after they are incurred, it can take several months to complete the applicable EM&V process and to refine and adjust the cost savings results for a given vintage year so that the final actual incentives payable to the utility can be determined. Therefore, while the cost amounts to be trued up as part of the test period DSM/EE EMF revenue requirement in a given annual proceeding typically correspond very closely to the actual costs incurred during the test period, the test period revenue requirement often contains incentives related to more than one vintage year. Additionally, certain components of the revenue requirements related to prior years will remain subject to prospective update adjustments and retrospective true-ups in the future, as participation and EM&V analyses are finalized, reviewed, and perhaps refined.

INVESTIGATION AND CONCLUSIONS

Q. PLEASE DESCRIBE YOUR INVESTIGATION OF DEP'S FILING.

A. My investigation of DEP's filing in this proceeding focused on determining whether the proposed DSM/EE Rider (a) was calculated in accordance with the 2017 or 2020 Mechanism, as applicable, and

(b) otherwise adhered to sound ratemaking concepts and principles. The procedures I and other members of the Public Staff's Accounting Division acting under my supervision utilized included a review of the Company's filing, relevant prior Commission proceedings and orders, and workpapers and source documentation used by the Company to develop the proposed billing rates. Performing the investigation required the review of responses to written and verbal data requests, as well as discussions with Company personnel. As part of its investigation, the Accounting Division performed a review of the actual DSM/EE program costs incurred by DEP during the 12-month period ended December 31, 2020. To accomplish this, the Accounting Division selected and reviewed samples of source documentation for test year costs included by the Company for recovery through the DSM/EE Rider. Review of this sample, which is still underway as of the date of pre-filing of this testimony, is intended to test whether the actual costs included by the Company in the DSM and EE billing rates are either valid costs of approved DSM and EE programs or administrative costs supporting those programs.

My investigation, including the sampling of source documentation, concentrated primarily on costs and incentives related to the January through December 2020 test period, which will begin to be trued up through the DSM and EE EMF billing rates approved in this proceeding. The Public Staff also performed a more general review of the prospective billing rates proposed to be charged for Vintage Year 2022, which are subject to true-up in future proceedings.

Q. WHAT ARE YOUR FINDINGS AND CONCLUSIONS?

A. With the exception of items specifically described later in this testimony, as well as subject to the outcome of the Public Staff's program cost review described above, I am of the opinion that the Company has calculated its proposed DSM, EE, DSM EMF, and EE EMF billing rates in a manner consistent with N.C.G.S. § 62-133.9, Commission Rule R8-69, the 2017 and 2020 Mechanisms (and the Commission Orders with which they are associated), and other relevant Commission Orders. However, this conclusion is subject to the caveat that the Public Staff is still in the process of reviewing certain data responses recently received from the Company, including documentation of costs selected for review in the Public Staff's sample; once this review is complete, the Public Staff will file with the Commission any findings not already set forth in testimony.

I would like to note the following regarding the Public Staff's investigation:

1. <u>Review of Vintage Year 2020 Program Costs</u> – The Public Staff's review of the selected sample items from the population of 2020 DSM/EE program costs has resulted in

one matter of concern, to date. This matter is further discussed below.

Q. PLEASE EXPLAIN FURTHER THE CONCERNS YOU HAVE REGARDING THE PUBLIC STAFF'S REVIEW OF 2020 DSM/EE PROGRAM COSTS.

A. As described in my testimony in DEC's 2021 DSM/EE Rider proceeding (Docket No. E-7, Sub 1249), and as is discussed in Public Staff witness Williamson's testimony in that proceeding and this proceeding, DEP operates a referral channel (entitled "FinditDuke" for marketing purposes). This referral channel enables DEP customers, as well as non-DEP customers located within or surrounding the Duke Energy service territory, to locate contractors who may be able to provide certain services. The contractors pay a fee to DEP for performing referrals, and this fee is used to offset program costs of the Company's Residential SmartSaver EE program. The referable services include those that are associated with measures under the Residential SmartSaver Program, but have been expanded since the referral channel began to include other Residential and non-Residential services, including electrical, residential solar, and tree services that are unrelated to DSM/EE. While some of these services could result in higher efficiency measures being installed, the remaining do not appear to be related to DEP's currently approved DSM/EE programs. Furthermore, it appears possible that some of the services that could be referred through FinditDuke are services that are not regulated by the Commission. Thus, DEP may be operating a referral service that includes referrals for non-regulated services to be performed by third parties.

Mr. Williamson testifies in this proceeding that it appears that some of the revenues received through the FinditDuke program should be recorded to accounts not related to the Company's DSM/EE programs, in that the related services are not part of the Company's DSM/EE efforts, and that they may be related to services provided to non-customers of DEC. He recommends that the Company work to refine its accounting so that the only revenues that are credited as offsets against DSM/EE program cost accounts are those that are attributable to referrals that are actually related to DSM/EE measures that are installed as a result of the referral.

I believe that the principles elucidated by Mr. Williamson with regard to the revenues associated with FinditDuke are equally appropriate with regard to the <u>costs</u> of administering and operating the referral effort. Therefore, I recommend that the Company refine its referral channel accounting to also properly assign, apportion, or allocate costs to DSM/EE, and non-DSM/EE efforts, working in conjunction with third party vendor-managers where appropriate. While such assignment may require estimates and approximations of the appropriate assignments and allocations, the effort is highly likely to produce a better result than the current approach of simply assigning 100% of all the revenues and costs to the Residential SmartSaver Program. Otherwise, the current practice could result in distorted cost-effectiveness results for the program as well as over- or underpayments of PPI and PRI utility incentives to the Company.

Since the filing of the Company's application in this proceeding, the Public Staff and DEP have reached an agreement regarding the FindItDuke Program. The Public Staff and DEP have agreed to work to resolve the Public Staff's concerns with the FindItDuke program in the coming months and report on these efforts in their testimony filed in the 2022 DSM/EE Rider proceeding. Thus, for the purposes of this proceeding, the Public Staff and DEP have agreed that DEP should not be required to make any changes to its accounting related to FindItDuke costs or revenues at this time. This is subject to the caveat that the Public Staff is still in the process of reviewing data responses received from the Company regarding FindItDuke costs, and that once this review is complete, the Public Staff will file with the Commission any findings related to the program not already set forth in testimony.

From an accounting perspective, this review should take into account the sizable up-front investments in advertising and promotion spend, noted both in our program cost review for this proceeding as well as during the course of our review in Docket No. E-7, Sub 1249. In addition, we need to examine the allocation of marketing costs across utility jurisdictions.

Q. WHAT OTHER IMPACTS DOES THE TESTIMONY OF PUBLIC STAFF WITNESS WILLIAMSON HAVE ON YOUR CONCLUSIONS REGARDING THE DSM/EE RIDERS IN THIS PROCEEDING?

A. Mr. Williamson has also filed testimony in this proceeding discussing several other topics related to the Company's filing. None of the matters discussed by Mr. Williamson necessitate an adjustment in this particular proceeding to the Company's billing factor calculations, although some of them may affect the determination of the factors in future proceedings.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING THE COMPANY'S PROPOSED BILLING FACTORS.

A. In summary, although we have general concerns regarding FinditDuke accounting that we believe should be followed up, the Public Staff has found no errors or other issues necessitating an adjustment to the Company's proposed billing factors, subject to completion of our program cost sample review.

RECOMMENDATION

Q. WHAT IS YOUR RECOMMENDATION IN THIS PROCEEDING?

A. Based on the results of the Public Staff's investigation (subject to completion of its review of 2020 program costs), I recommend that the billing factors proposed by the Company, as set forth in Listebarger Exhibit 1, be approved by the Commission. These factors should be approved subject to any true-ups in future cost recovery proceedings consistent with the 2017 and 2020 Mechanisms and the Commission Orders with which they are associated, as well as other relevant orders of the Commission, including the Commission's final order in this proceeding. Most specifically, I recommend that the application of the 2020 Mechanism to the estimated costs and utility incentives associated with Vintage Year 2022 not be considered final until those costs and utility incentives are trued up in future rider proceedings.

In making this recommendation, the Public Staff notes that reviewing the calculation of the DSM/EE rider is a process that involves reviewing numerous assumptions, inputs, and calculations, and its recommendation with regard to this proposed rider is not intended to indicate that the Public Staff will not raise questions in future proceedings regarding the same or similar assumptions, inputs, and calculations.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

SUMMARY OF CERTAIN PORTIONS OF DEP'S 2017 DSM/EE MECHANISM[1]

1. 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. Beginning on January 1, 2016, separate DSM and EE billing rates became available to Non-Residential opt-out-eligible customers. A customer receiving program incentives from either a DSM or an EE program will be required to pay the respective portion(s) of the DSM/EE and DSM/EE EMF billing rates for a period of not less than 36 months.

2. In general, DEP shall be allowed to recover, through the DSM/EE and DSM/EE EMF rates, all reasonable and prudent costs of Commission-approved DSM/EE programs. However, any of the Stipulating Parties may propose a procedure for the deferral and amortization over a maximum of ten years of all or a portion of DEP's non-capital program costs to the extent those costs are intended to produce future benefits, and may propose to defer and amortize related non-incremental administrative and general (A&G) costs over a maximum of three years. Deferred program and A&G costs shall be allowed to accrue a return at the overall weighted average net-of-tax rate of return approved in DEP's most recent general rate case (net of income taxes). 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.

3. DEP shall be allowed to recover NLR as an incentive (with the exception of those amounts related to research and development or the promotion of general awareness and education of EE and DSM activities), but shall be limited for each measurement unit installed in a given vintage year to those dollar amounts resulting from kWh sales reductions experienced during the first 36 months after the installation of the measurement unit. NLR related to pilot programs are subject to additional qualifying criteria.

4. The eligibility of kWh sales reductions to generate recoverable NLR during the applicable 36-month period will cease upon the implementation of a Commission-approved alternative recovery mechanism that accounts for NLR, or new rates approved by the Commission in a general rate case or comparable proceeding that account for NLR.

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[1] For a summary of revisions made to the 2017 Mechanism by the 2020 Mechanism, please see the testimony accompanying this Appendix.

5. NLR will be reduced by net found revenues, as defined in the Revised Mechanism, occurring in the same 36-month period. Net found revenues will be determined according to the “Decision Tree” process included in the Revised Mechanism.

6. DEP shall be allowed to recover a PPI per vintage year for its DSM and EE portfolio based on a sharing of actually achieved and verified energy and peak demand savings (excluding those related to general programs and measures and research and development activities). The inclusion of pilot programs in any PPI calculation is subject to additional qualifying criteria. Unless the Commission determines otherwise in an annual DSM/EE rider proceeding, the amount of the pre-income-tax PPI to be recovered for the entire allowable DSM/EE portfolio for a vintage year shall be equal to 11.75% multiplied by the present value of the estimated net dollar savings associated with the DSM/EE portfolio installed in that vintage year (as determined by the UCT). Low-income programs or other programs approved with expected UCT results less than 1.00 shall not be included in the portfolio for purposes of the PPI calculation; nor shall the Demand Side Distribution Response (DSDR) program. The PPI for each vintage year shall ultimately be trued up based on net dollar savings as verified by the EM&V process and approved by the Commission. Unless the Commission determines otherwise, the PPI shall be converted into a stream of no more than ten levelized annual payments, incorporating the overall weighted average net-of-tax rate of return approved in DEP's most recent general rate case as the appropriate discount rate.

7. For Vintage Years 2019 and afterwards, the program-specific per kilowatt (kW) avoided capacity benefits and per kWh avoided energy benefits used for the initial estimate of the PPI and any PPI 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 as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing, but using, for program-specific avoided energy benefits, the projected EE portfolio hourly shape rather than an assumed 24x7 100 megawatt (MW) reduction.

8. If the Company achieves incremental energy savings of 1% of its prior year’s system retail electricity sales in any year during the five-year 2015-2019 period, the Company will receive a bonus incentive of $400,000 for that year.

QUALIFICATIONS AND EXPERIENCE

MICHAEL C. MANESS

I am a graduate of the University of North Carolina at Chapel Hill with a Bachelor of Science degree in Business Administration with Accounting. I am a Certified Public Accountant and a member of both the North Carolina Association of Certified Public Accountants and the American Institute of Certified Public Accountants.

As Director of the Accounting Division of the Public Staff, I am responsible for the performance, supervision, and management of the following activities: (1) the examination and analysis of testimony, exhibits, books and records, and other data presented by utilities and other parties under the jurisdiction of the Commission or involved in Commission proceedings; and (2) the preparation and presentation to the Commission of testimony, exhibits, and other documents in those proceedings. I have been employed by the Public Staff since July 12, 1982.

Since joining the Public Staff, I have filed testimony or affidavits in a number of general, fuel, and demand-side management/energy efficiency rate cases of the utilities currently organized as Duke Energy Carolinas, LLC, Duke Energy Progress, LLC., and Virginia Electric and Power Company (Dominion Energy North Carolina) as well as in several water and sewer general rate cases.

I have also filed testimony or affidavits in other proceedings, including applications for certificates of public convenience and necessity for the construction of generating facilities, applications for approval of self-generation deferral rates, applications for approval of cost and incentive recovery mechanisms for electric utility demand-side management and energy efficiency (DSM/EE) efforts, and applications for approval of cost and incentive recovery pursuant to those mechanisms.

I have also been involved in several other matters that have come before this Commission, including the investigation undertaken by the Public Staff into the operations of the Brunswick Nuclear Plant as part of the 1993 Carolina Power & Light Company fuel rate case (Docket No. E-2, Sub 644), the Public Staff's investigation of Duke Power's relationship with its affiliates (Docket No. E-7, Sub 557), and several applications for business combinations involving electric utilities regulated by this Commission. Additionally, I was responsible for performing an examination of Carolina Power & Light Company's accounting for the cost of Harris Unit 1 in conjunction with the prudence audit performed by the Public Staff and its consultants in 1986 and 1987.

I have had supervisory or management responsibility over the Electric Section of the Accounting Division since 1986, and also was assigned management duties over the Water Section of the Accounting Division during the 2009-2012 time frame. I was promoted to Director of the Accounting Division in late December 2016.