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. *Active Load Management* is the process by which Duke Energy utilizes any combination of voluntary demand side management programs or measures that allow for the aggregated control or management of distributed energy resources or controllable electrical devices at the grid edge, whether directly by the utility or by a third party under contract with the utility, to enhance or maintain resource adequacy, reduce grid congestion, efficiently manage variable renewable energy output, and shape utility loads at a locational or aggregate level to benefit the utility system. Active Load Management shall be eligible for recovery of prudently incurred program costs and Utility incentive earned.

2. ~~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.

3. ~~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.

4. ~~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~~to be provided specifically to ~~low-income~~ customers~~.~~ that meet program eligibility criteria associated with an income qualification requirement used to determine eligibility of a low-income program participant. At the time of requesting Commission approval of new Low-Income Programs or Measure additions to existing low-income programs with different eligibility criteria from those included in existing approved low-income programs, the Company shall clearly delineate the specific income qualification criteria proposed to be used to determine eligibility to participate in the Programs or Measures. Appropriate customer income qualification criteria may include the following: (a) income level based on Federal Poverty Guidelines (FPG), (b) participation in other State or Federal income qualified programs, or (c) the participating premise being located in a geographic area meeting certain income related criteria.

If a proposed income qualification criteria differs from those used in Low-Income Programs approved prior to 2024, such as 200% of the FPG, the Company's filing shall: (a) explain the rationale for changing the proposed income qualification eligibility criteria, (b) explain how it will increase opportunities for the Company's low-income customers to participate in DSM or EE programs, and (c) address any potential impacts on existing Low-Income Programs and Measures and the customers they target. If the proposed income qualification criteria include provisions that are intended to target or have the effect of targeting a significant number of customers that are above 200% of the FPG, the Company's filing shall: (a) demonstrate that exceeding 200% of the FPG or other eligibility thresholds contained in existing approved Low-Income Programs will allow the Company to utilize available government funding opportunities aimed to assist low-income customers; and (b) explain how increasing the applicable thresholds will not decrease opportunities for customers at or below 200% of the FPG to participate in DSM or EE programs.

Beginning with the Company's 2026 annual DSM/EE rider filing, the Company shall include an exhibit clearly showing the following for each vintage year beginning with 2025: (a) the number of premises/customers that participated in one of the Company's low income programs; (b) the energy and capacity savings achieved through each low income program; (c) the total revenue requirement (program costs, net lost revenues, and PPI/PRI) included in the Rider associated with low income programs; (d) the impact to the average residential customer's bill of providing low-income DSM/EE programs to low income customers; (e) the system benefits generated by the energy and capacity savings associated with low income programs; and (f) the actual UCT cost effectiveness score produced during the vintage year.

During the next mechanism review, the parties shall evaluate the effectiveness and cost impacts of utilizing multiple low-income eligibility criteria, adhering to the statutory requirement that no public utility shall make or grant any unreasonable preference or advantage to any person or subject any person to any unreasonable prejudice or disadvantage.

5. ~~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).

6. ~~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.

7. ~~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.

8. ~~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~~9 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.

9. ~~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.

10. ~~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.

11. *Non-Energy Benefits* (NEBS) means a variety of positive and negative effects to utilities, participants, and society beyond electric savings realized due to program interventions. The identification and valuation of the NEBS will be consistent with the April 25, 2023, report by Skumatz Economic Research Associates, Inc., entitled “Non-Energy Benefits/ Non-Energy Impacts (NEBS/NEIS) for Selected Programs in the Duke Energy Carolinas and Duke Energy Progress Portfolios.” The NEBS Multipliers are located on Page 11 of the report in Figure ES.7: Estimated Multiplicative “Adders” by Perspective for the Programs - (Ratio of NEBs/NEIs) over Program Bill Savings. The NEBS values will be utilized until the next NEBS analysis is ordered by the Commission. Any subsequent NEBS study will continue to estimate NEBS associated with the TRC, as well as continue to evaluate any potential NEBS that could be applicable to the UCT.

12. ~~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.

13. ~~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.¶

14. ~~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 associated with EE Programs is also subject to ~~certain limitations as further set forth in this Mechanism~~a Measure Life Adjustment Factor determined by comparing the weighted average measure units life of EE measures for Vintage Year with the weighted average measure unit life of EE measures installed in Vintage 2023. PPI excludes ~~Net Lost Revenues~~NLR.¶

15. ~~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~~excludes NLR.¶

16. ~~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~~will be ~~considered~~used in the determination of TRC results beginning in Vintage 2025. The value of NEBs for all programs not specifically targeting low income customers will be calculated by applying the weighted average utility system NEBS multiplier of 1.98 to the value of energy savings in the numerator of the cost-effectiveness test. The value of NEBs for all programs specifically targeting low income customers will be calculated by applying a NEBS Multiplier Value of 2.22 (the average of the DEC IQ NES and DEC IQ Wx

multipliers) to the value of energy savings in the numerator of the cost-effectiveness test. 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.

17. ~~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).

18. ~~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

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

Application for Approval of Programs

20. ~~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.

21. ~~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.¶

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22. ¶

(a) ~~20.~~ With the exception of Low-Income Programs or other ~~non-cost-effective~~ programs ~~with similar societal benefits as approved by the Commission~~explicitly identified at the time of the application for their approval, all ~~programs~~DSM/EE Programs submitted for approval will have ~~an~~a ~~estimated~~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-7, Sub 1130 and E-7, Sub 1164,~~ the Company shall use projected ~~avoided~~system capacity and energy ~~benefits specifically calculated for the program~~benefit values, as derived from the underlying resource plan, production cost model results, and ~~cost~~ inputs that generated the ~~avoided capacity and avoided energy credits~~system benefits reflected in and subject to 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~~'s most recently adopted CPIRP.
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(b) The projected EE portfolio hourly shape~~, rather than the assumed 24x7 100 MW reduction typically used to represent a qualifying facility. For~~ is used for the purposes of determining the system energy benefit against the Commission's most recently adopted CPIRP; however, system benefit inputs used for purposes of evaluating cost~~-~~ effectiveness~~, estimated incremental EM&V costs attributable to each program shall be included in program costs. Duke Energy Carolinas~~ of DSM/EE Programs associated with avoiding system energy recognizes the benefit of a load modifying resource that has the effect of reducing emissions from supply side resources. The benefit associated with reducing emissions from DSM/EE Programs will be designated as a Clean Energy Proxy Value for DSM/EE Resources (CEPV) and will be included as an incremental value to the system energy benefit value. The CEPV is approximated based on a levelized value of the currently available federal production tax credit associated with clean energy supply side resources as listed in Section 45Y of the Inflation Reduction Act, inclusive of the wage and apprenticeship bonus adder. The CEPV and the Companies' ability to develop, promote, and deploy cost effective DSM/EE Programs will be evaluated for the appropriateness in the next Mechanism review.

(c) For the purposes of determining system capacity benefit values used for DSM/EE Programs, a capacity resource which the Company can dispatch on an economic basis shall have its costs levelized over the operational life of the asset/resource approved in the most recently-adopted CPIRP as of December 31 of the year preceding the date of the annual DSM/EE rider filing. A simple cycle combustion turbine that has been designated as a likely resource to be built by the Companies in the Commission approved resource plan, including fixed O&M and intrastate fuel transportation costs, will be utilized as this capacity resource at this time.

(d) The system capacity benefit inputs associated with system capacity benefits from non-legacy demand side management resources (i.e., those demand-side resources not included as a resource in the Company's approved 2018 IRP) shall be based on the seasonal allocation from the resource adequacy plan used in the Company's most recently-approved CPIRP or biennial avoided cost proceeding as of December 31 of the year preceding the date of the annual DSM/EE rider filing.

(e) DEC will comply, however, with Commission Rule R8-~~-~~60(i)(6)(iii), which requires ~~that Duke Energy Carolinas'~~DEC to include in its biennial ~~Integrated Resource Plan~~CPIRP, revised as applicable in its annual report, ~~include~~ certain information regarding the ~~m~~Measures and ~~p~~Programs that it evaluated but rejected.

(f) The system energy values calculated from the production cost modeling, the capacity value calculation, as well as the CEPV applied in the determination of energy benefit will be values developed for purposes of DSM/EE program evaluation and are specific to assessment of DSM/EE Programs only.

(g) Moreover, because energy efficiency is modeled as a load modifier in the CPIRP, for the Calculation of the underlying system capacity benefit input values, when authorized pursuant to Commission Rule R8-69(c) and unless the Commission determines otherwise in a G.S. 62-133.9 DSM/EE Rider proceeding, the Company shall be permitted to recognize the impact of the Reserve Margin Adjustment Factor used in the determination of the PPI and PRI values for its energy efficiency programs.¶

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(h) The Reserve Margin Adjustment Factor is equivalent to (1 + Reserve Margin) / (Performance Adjustment Factor) and will be applied to the system capacity benefit input values of all energy efficiency programs.¶

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(i) The Reserve Margin used shall be based upon the reserve margin target established in the most recent Commission adopted CPIRP proceeding as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing. ¶

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(j) The Performance Adjustment Factor (PAF) used shall be based upon value reflected in the most recent Commission approved Biennial Avoided Cost proceeding as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing.¶

23. ~~21.~~ If a program fails the economic test in Paragraph 2~~0~~1 above, Duke Energy Carolinas will determine if certain measures can be removed from the program to satisfy the criteria established in Paragraph 2~~0~~1.¶

24. ~~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 other than the DSM/EE Innovation Program described below in Paragraph 32. 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. Specifically, the Company's filings shall clearly identify the proposed baseline category to be used to determine energy savings for all Programs and Measures, including the measures for which the Company proposes to determine impacts utilizing an "as found" baseline; the

measures for which it proposes to use the existing efficiency standard as the baseline; and the measures for which it proposes to use a de facto baseline determined through market research. The Company shall provide the rationale supporting the use of its proposed baseline for the applicable Program or Measures. For any such Programs or Measures, the filing will also detail the specific EM&V protocols that will be utilized to appropriately measure and verify the impacts. 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.

25. ~~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

26. ~~24.~~ In each annual DSM/EE cost recovery filing, Duke Energy Carolinas shall ~~(a)~~
(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.

27. ~~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~~utility system capacity and energy benefits specifically calculated for ~~each~~the program, as derived from the underlying resource plan, production cost model, and cost inputs that generated ~~the avoided capacity and avoided energy credits~~system benefits reflected in the ~~most recent~~ Commission~~-approved Biennial Determination of Avoided Cost Rates for Electric Utility Purchases from Qualifying Facilities~~'s most recently adopted CPIRP as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing. ~~However,~~The projected EE portfolio hourly shape is used for the ~~calculation~~purposes of determining the ~~underlying~~ avoided energy ~~credits to be used to derive the program- specific~~benefit; however, to ensure that energy efficiency is primarily avoiding marginal fossil fuel generation, future incremental renewable energy resources are removed from the CPIRP for purposes of determining the avoided energy benefit. For the purposes of determining avoided capacity benefits for DSM/EE resources, the ~~calculation~~20- year levelized costs of a dispatchable clean-energy pure capacity resource are used. Beginning in 2025, a Hydrogen-Capable Advanced Class CT, including fixed O&M and intrastate fuel transportation costs, will be ~~based on~~utilized as the ~~projected EE portfolio hourly shape, rather than the assumed 24x7 100 MW reduction typically used to represent a qualifying facility~~ pure capacity resource until an alternative dispatchable clean-energy pure capacity resource is identified in future CPIRPs; and~~,~~

(b) Evaluating each cost-effectiveness test using projections of participation, savings, program costs, and benefits for the upcoming vintage year.

28. ~~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 2~~4~~6 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.

29. ~~27.~~ For programs that demonstrate a prospective UCT, determined pursuant to Paragraph 2~~4~~6 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.

30. ~~28.~~ For programs that demonstrate a prospective UCT, determined pursuant to Paragraph 2~~4~~6 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.

31. ~~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.¶

DSM/EE Innovation Program¶

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32. Beginning in Vintage 2025, the Company's DSM/EE Portfolio shall include a DSM/EE Innovation Program. This Program will have an annual budget that shall not exceed $1 million, which shall be utilized by the Company to test and evaluate new energy efficiency technologies and equipment and program designs in a rapid manner. ¶

¶

a) The DSM/EE Innovation Program is not subject to Commission Rule R8-68.¶

¶

b) The Company shall ensure that all tests, pilots, and projects included in the DSM/EE Innovation Program that directly involve customers are equitable and not unreasonably discriminatory. ¶

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c) Beginning with the Company's projection of Vintage 2025 in its annual DSM/EE rider filing, the Company will provide an explanation of potential tests, projects or pilots that the Company will perform during the Vintage Year. The explanation shall describe each project, including the following details:¶

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1) The targeted customer class and purpose or learning objective of the project;¶
2) The proposed metrics to be measured and evaluated;¶
3) The estimated cost of the project;¶
4) The proposed duration of the project; and¶
5) The potential number of customers involved in the project.¶

¶

d) The Company will file Notification with the Commission of the following:¶

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1) If the Company seeks to add or cancel any tests, pilots or projects to the DSM/EE Innovation Program for a particular Vintage Year. ¶
2) If the forecasted cost of any test, pilot or project within a Vintage Year increase by more than 25%.¶

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e) During the course of the Vintage Year 2025, the Company will provide updates regarding the projects funded through the DSM/EE Innovation Program at least two meetings of the Collaborative.¶

¶

f) Beginning with the Company's first applicable Annual DSM/EE Rider filing and in future annual DSM/EE Rider filings, the Company will provide a summary of the progress of the different projects included in the DSM/EE Innovation Program that will include the following:

1) The purpose or learning objective of the project;
2) The proposed metrics to be measured and evaluated;
3) The estimated cost of the project;
4) The proposed duration of the project;
5) The potential number of customers involved in the project; and
6) Any plans to utilize the results of the projects as the basis for future stand-alone DSM/EE pilots and programs.

g) The DSM/EE Innovation Program will be considered a new energy efficiency program included in the Company's portfolio and prudently incurred costs will be reviewed and eligible for cost recovery through the annual DSM/EE Rider but will not be eligible for recovery of net lost revenues and PPI or PRI, because the program is not subject to cost effectiveness screening.

h) While the DSM/EE Innovation Program annual expenditures shall not exceed the annual vintage year budget of $1 million dollars, the actual program expenditures will be reconciled as part of the reconciliation process for the vintage year in the Company's annual DSM/EE Rider filing.

i) No direct costs associated with any tests, pilots, and projects included in the DSM/EE Innovation Program will be eligible for cost recovery through any means or mechanism beyond their inclusion within the Company's annual DSM/EE Rider.

Program Modifications

33. ~~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.

34. ~~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.

35. ~~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.¶

36. ~~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.¶

37. ~~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¶

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38.

(a) ~~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.¶

¶

(b) In order to create transparency related to the development of EM&V plans, in its annual DSM/EE Rider filing, the Company will provide testimony detailing all of the projected EM&V plans anticipated to be developed in the calendar year in which the rider filing is made. Additionally, prior to implementing any new EM&V plans or making material modifications to existing EM&V Plans, the Company will share the EM&V plans or modifications with the Public Staff and will share them with other stakeholders upon request. The Public Staff and any stakeholder electing to receive the EM&V plan may provide feedback on the EM&V Plans or major modifications within 10 days of receiving the EM&V plan, and the Companies shall notify a party within 10 days of receipt of the feedback of what actions, if any, they intend to take in response to the feedback, and justification if the Companies disagree with the feedback.¶

39. ~~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 and portfolios, but updates to NTG estimates will not be applied retrospectively to measures that have ~~already~~ been installed or ~~programs~~program participation that ~~have already~~has been ~~completed~~recognized prior to the completion of the EM&V report. 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 Smart$aver 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. The Company agrees to vet with the Public Staff any EM&V associated with DSM/EE Programs targeting non-residential customers that would incorporate a Non-Participant Spillover (NPSO) analysis. Additionally, in advance of initiating EM&V, the Company will work with Public Staff to vet the methodology and the appropriateness of the NPSO in an EM&V. To the extent that the application of the NPSO benefits are not mutually agreed to by both parties both parties maintain the right to challenge the inclusion or exclusion of those benefits in the Company's PPI and calculation.¶

40. ~~38.~~ EM&V for the Non-Residential Smart$aver 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¶

41. ~~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.¶

42. ~~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.

43. ~~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.

44. ~~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

45. ~~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.

46. ~~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~~To facilitate ~~the discussions~~expeditious advancement of new programs and enhancements, the Collaborative will convene focused l working groups of interested parties to further investigate initiatives and topics. The Company will report to the Collaborative on the progress of all established working groups and will provide an annual update to the Commission, on establishment and progress of any working groups convened during a vintage year in the Annual DSM/EE Rider filing. 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.

The Company will send the agenda for each bimonthly Collaborative meeting to all interested parties, including attorneys acting as legal counsel, 21 days before the meeting to allow potential participants to select an appropriate attendee. Parties who are unable to attend the bimonthly Collaborative meeting can provide feedback on agenda topics in advance of such meeting. Within 24 hours of the meeting concluding, the Company will send the slide deck representing all the topics discussed in the meeting, along with a summary of each agenda item. If attorneys acting as legal counsel find that any of the topics in the agenda are relevant to the organization(s) they represent and warrant additional discussion, they may request and the Company will schedule an informal working group before the next bimonthly Collaborative meeting. The company will make all reasonable efforts to engage all interested parties prior to scheduling the bimonthly meetings when possible.

47. ~~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. As part of regularly scheduled EM&V updates to Collaborative, the Company will provide updates on the creation of new EM&V plans and any material modifications to existing EM&V plans and will make the new EM&V plans and modified EM&V plans available at the request of any stakeholder.

48. ~~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.

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

General Structure of Riders

50. ~~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.~~ 50A. 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.~~ 50B. 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

51. ~~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 and for the DSM/EE Innovation Program, as outlined in Paragraph 32 of this Mechanism. 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.

52. ~~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.

53. Beginning with Vintage Year 2025, true-ups to Program Costs, PPI, NLR, and any other associated costs will be limited to a maximum of five years from the current Vintage Year. When these true-up corrections are necessary, the identified true-up corrections are to be completed in the identified Vintage Year and the corrections should not be split across multiple Vintage Years.

54. ~~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.¶

55. ~~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.¶

56. ~~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. ~~(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. ~~(b)~~ For DSM programs, the aggregated costs of DSM programs will be allocated based on the ~~annual summer coincident peak~~production demand ~~of~~allocation method approved for North Carolina and South Carolina retail customers, as reflected in the annual cost of service studies.¶

57. ~~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 trued 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.¶

58. ~~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 truing up the class assignments and allocations will be the same as practiced for jurisdictional allocations.

Net Lost Revenues

59. ~~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.

60. ~~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.

61. ~~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.

62. ~~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.

63. ~~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.¶

64. ~~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.¶

65. ~~62.~~ Total Net Lost Revenues as measured for the 36-month period identified in paragraph ~~57~~60 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~~8 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.¶

66. ~~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. ~~(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. ~~(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. ~~(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. ~~(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. ~~(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.

f. Beginning with the projection of Vintage Year 2026 in the Company's 2025 Annual DSM/EE Rider filing, to the extent a Revenue Decoupling Mechanism (RDM) is in effect for customers served by the Company, the recoverable residential NLR based on kWh sales reductions for the months within any Vintage Years that align with the RDM shall be implicitly recovered through the RDM and will not be included for recovery in the Annual DSM/EE Rider filing. The applicable NLRs will be included in the RDM by not subtracting them in the RDM template calculation. If an RDM is only in effect for a partial DSM/EE vintage year (rate period), the parties will engage in good faith discussions to determine the appropriate DSM/EE rider or revenue decoupling rider proceeding in which the Company will recover residential NLR.

g. The Company will continue to calculate residential NLRs in the manner consistent with the methodology used in the 2023 DSM/EE Annual rider proceeding and report this information in its annual DSM/EE rider proceeding.

h. Beginning with the projection of Vintage Year 2027 in the Company's 2026 Annual DSM/EE Rider filing and in any subsequent Annual DSM/EE Rider filings under this Mechanism, if an RDM is pending before the Commission at the time of the DSM/EE rider filing, the Company will include in that filing projections of DSM/EE rates reflecting recovery both with and without NLR for the months and rate schedules subject to the RDM.

67. ~~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)

68. ~~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.

69. ~~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.

70. ~~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.

71. ~~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.

72. ~~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.

73. ~~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.

74. ~~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~~based upon the following performance scale

determined by the energy savings achieved during the Vintage Year as a percent of eligible retail sales (sales to retail customers not opted-out of participating in the Company's EE programs) for the Vintage Year:

PPI Performance Scale		
Savings Percentage of Eligible Retail Sales	Utility PPI (Duke's Share of UCT Net Benefit)	Customers Share of UCT Net Benefits
< 0.50%	3.50%	96.50%
≥ 0.50% & < 0.75%	5.50%	94.50%
≥ 0.75% & < 1.00%	7.50%	92.50%
≥ 1.00% & < 1.25%	9.50%	90.50%
≥ 1.25% & < 1.50%	10.50%	89.50%
≥ 1.50% & < 1.75%	11.50%	88.50%
≥ 1.75%	12.50%	87.50%

The UCT Net Benefit shall be 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.

75. ~~72.~~ Beginning with Vintage Year 202~~2~~5, the dollar amount of the pre-tax PPI associated with EE Programs ultimately allowed for each Vintage Year, after true-up pursuant to Paragraph 8~~3~~6 of this Mechanism, shall be ~~no greater than the dollar amount that produces a~~subject to a Measure Life Adjustment Factor (MLAF) determined by comparing the weighted average measure unit life of EE measures for Vintage Year with the weighted average measure unit life of EE measures installed for Vintage 2023 (MLAF Baseline). If the weighted average measure unit life of EE Measures in a Vintage Year decreases by more than 1~~9.5~~0% ~~margin over the aggregate pre-tax Program Costs for~~or increases by more than 20% when compared to the MLAF Baseline, that Vintage Year will replace Vintage 2023 as the new Vintage Year ~~of those programs~~used 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~~MLAF Baseline. The MLAF shall be applied during the true-up of a Vintage Year PPI and will be based on the following ~~margins over the aggregate pre-tax Program Costs for~~table until the Vintage Year ~~of those programs~~used in the ~~Portfolio that are eligible for the PPI.~~MLAF Baseline is updated or next Mechanism review:

~~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.~~

Measure Life Adjustment Factor Matrix for PPI						
	Baseline	PPI Adjustment Thresholds				
	Weighted Average Measure Life of EE Measures Installed for Vintage 2023	> 10% Decrease in Weighted Average Measure Life	> 5% Decrease in Weighted Average Measure Life	< 5% Decrease or < 10% Increase in Weighted Average Measure Life	> 10% Increase in Weighted Average Measure Life	> 20% Increase in Weighted Average Measure Life
DEC	6.81	6.129	6.4695		7.491	8.172
PPI Multiplier		0.95	0.975	1	1.025	1.05

76. ~~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 trued up. Levelized annual payments applicable to Programs in prior vintage periods will continue until all such amounts are recovered.¶

77. ~~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.¶

78. ~~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.¶

79. ~~76.~~ The percentage used to determine the estimated PRI for each Vintage Year shall be ~~10~~9.~~60~~5%. 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, DE~~P~~C shall utilize the best and most accurate estimate of the UCT and the resulting PRI percentage it can determine at that time.¶

80. ~~77.~~ For the PPI and PRI for Vintage Years 20~~19~~25 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~~system and per kWh ~~avoided~~system 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~~system benefits reflected in the ~~most recent~~ Commission~~-approved Biennial Determination of Avoided Cost Rates for Electric Utility Purchases from Qualifying Facilities~~'s most recently adopted CPIRP as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing. ~~However,~~The projected EE portfolio hourly shape is used for the purposes of determining the avoided energy benefit; however, to ensure that energy efficiency is primarily avoiding marginal fossil fuel generation, future incremental renewable energy resources are removed from the CPIRP for ~~the calculation~~purposes of determining the ~~underlying~~ avoided energy ~~credits to be used to derive the program-specific~~benefit. For the purposes of determining avoided ~~energy~~capacity benefits for DSM/EE resources, the ~~calculation~~20- year

levelized costs of a dispatchable clean-energy pure capacity resource are used. Beginning in 2025, a Hydrogen-Capable Advanced Class CT, including fixed O&M and intrastate fuel transportation costs, will be ~~based on~~utilized as the ~~projected EE portfolio hourly shape, rather than the assumed 24x7 100 MW reduction typically used to represent a qualifying facility~~ pure capacity resource until an alternative dispatchable clean-energy pure capacity resource is identified in future CPIRPs.¶

81. ~~78.~~ No later than December 31, 202~~1~~4, Duke Energy Carolinas and the Public Staff will jointly review the ~~issue of the appropriate~~ avoided transmission and avoided distribution (avoided T&D) ~~costs~~benefits to be used in the Company's prospective calculations of cost-effectiveness and achieved net dollar savings~~, and, if appropriate, recommend~~ utilizing the agreed upon process that was jointly developed with the Public Staff in 2022. As described in Paragraph 82 below, any updates to the avoided T&D benefits would be applied for the projection of Vintage Year 2026 in the Company's ~~annual~~2025 Annual DSM/EE ~~rider proceeding adjustments to the avoided T&D cost rates~~Rider Filing.¶

82. ~~79.~~ The per kW avoided ~~transmission and avoided distribution (avoided~~ T&D~~)~~ ~~costs~~benefits used to calculate net savings for a Vintage Year shall be ~~based on the study update~~reviewed and updated at least every three years ~~only if~~. In its initial testimony for its Annual DSM/EE Rider, the ~~study~~Company shall update ~~results in a 20%~~the Commission on the change ~~from the prior study's~~in avoided T&D ~~costs~~benefits.¶

83. ~~80. Unless~~With the ~~Stipulating Parties agree otherwise~~exception of a one-time reconciliation of Vintage 2025, Duke Energy Carolinas shall not be allowed to update ~~its avoided~~the system benefit values associated with both capacity ~~costs~~ and ~~avoided~~ energy ~~costs~~savings after filing its annual cost and incentive recovery application for purposes of determining the DSM/EE and DSM/EE EMF riders in that proceeding.¶

84. ~~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.¶

85. ~~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.¶

86. ~~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. ~~(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. ~~(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. ~~(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~~Company 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.¶

d. ~~(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.¶

e. ~~(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.¶

87. ~~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.¶

88. ~~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.¶

89. ~~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¶

90. ~~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.~~As further incentive to motivate the

Company to aggressively pursue savings from income qualified EE programs, the Company will be eligible to receive an "Other Incentive" for a Vintage Year based on its ability to increase the percentage of the annual kWh saved by the Company's Residential EE Programs that are derived from income qualified EE Programs. The baseline Vintage Year for determining the change in the percentage of Residential EE kWh savings being derived from income qualified EE Programs will be Vintage Year 2024. The Company's ability to earn PRI will not be impacted based on its ability to earn an Other Incentive.

	Baseline	Other Incentive Performance Tiering				
	Vintage 2024 Percentage Residential kWh Savings from Income Qualified Programs	≥ 5% Increase Percentage Residential kWh Savings from Income Qualified Programs	≥ 6% Increase Percentage Residential kWh Savings from Income Qualified Programs	≥ 7% Increase Percentage Residential kWh Savings from Income Qualified Programs	≥ 8% Increase Percentage Residential kWh Savings from Income Qualified Programs	≥ 10% Increase Percentage Residential kWh Savings from Income Qualified Programs
Other Incentive		**$ 100,000**	**$ 200,000**	**$ 300,000**	**$ 400,000**	**$ 500,000**

91. Beginning in 2025, Duke Energy will begin to identify and implement up to 20 MW of capacity under Active Load Management. If the Company applies for Commission approval of a new program or a modification to an existing program that the Company intends to be included in the initial 20 MW of capacity under this paragraph, the Company shall (i) explicitly notify the Commission of that intention at the time of application for approval of such new program or modification and (ii) communicate that intention to the Collaborative. The cost effectiveness and PPI of the initial 20 MW of Active Load Management will be evaluated consistent with the system benefits valuation of DSM/EE programs. The Company will utilize the EM&V results associated with the initial 20 MW of Active Load Management to determine the actual system benefits associated with reducing emissions, reducing the need for system balancing resources, and integrating variable renewable resources while reliably and cost-effectively managing the grid. After the Commission determines the actual benefits and the appropriate valuation for Active Load Management, the Company will earn a utility incentive of 30% of the net system benefits as determined under the new valuation for all future Active Load Management, with 70% of the net system benefits retained by customers. Any energy and demand savings attributed to a measure incentivized under an energy efficiency or demand side-management program will not also be counted in the system benefits attributed to the same measure leveraged in Active Load Management to avoid the potential for double counting.

Financial Reporting Requirements

92. ~~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, PRI, and Net Lost Revenue incentives (net of the NLRs that are being returned to customers through the annual revenue decoupling mechanism), 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 and PRI; (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

93. ~~89.~~ The terms and conditions of this Mechanism shall be reviewed by the Commission every four years, meaning the next review shall occur no later than December 31, 2028, and continuing every four years thereafter, 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. Public Staff and the Company agree that no later than 60 days prior to the commencement of the next formal DSM/EE Mechanism review, the Companies will provide a comparative PPI analysis between the projected system benefit associated with energy and capacity savings used in the prospective Vintage year in the most recently approved DSM/EE rider proceeding as a baseline for comparison of any potential future changes in the methodology for determining system benefit from energy and capacity savings considered as part of the next Mechanism review to evaluate the potential impacts to PPI. This analysis will include, but will not be limited to changes in system benefits, program costs, and participation forecasts and other system benefits. The Company and the Public Staff agree to work together, for discussion purposes in determining any potential changes that may be necessary to the PPI structure, to establish prior to the beginning of the proceeding a "baseline PPI" which would reflect a levelized PPI for comparison to the 2023/2024 Mechanism Review PPI structure after accounting for the impact of the changes in the net system benefits (NPV of system benefits less NPV of program costs) that underlies the determination of projected cost effectiveness and PPI earned by the Company.

No Precedential Effect

94. ~~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 Paragraphs 8~~7~~9 and 90, shall not be considered precedential for any purpose other than their application to eligible DSM/EE Programs and costs 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 CAROLINAS, LLC, FOR DEMAND-SIDE MANAGEMENT AND ENERGY EFFICIENCY PROGRAMS

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. *Active Load Management* is the process by which Duke Energy utilizes any combination of voluntary demand side management programs or measures that allow for the aggregated control or management of distributed energy resources or controllable electrical devices at the grid edge, whether directly by the utility or by a third party under contract with the utility, to enhance or maintain resource adequacy, reduce grid congestion, efficiently manage variable renewable energy output, and shape utility loads at a locational or aggregate level to benefit the utility system. Active Load Management shall be eligible for recovery of prudently incurred program costs and Utility incentive earned.

2. *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.

3. *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.

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 customers that meet program eligibility criteria associated with an income qualification requirement used to determine eligibility of a low-income program participant. At the time of requesting Commission approval of new Low-Income Programs or Measure additions to existing low-income programs with different eligibility criteria from those included in existing approved low-income programs, the Company shall clearly delineate the specific income qualification criteria proposed to be used to determine eligibility to participate in the Programs or Measures. Appropriate customer income qualification criteria may include the following: (a) income level based on Federal Poverty Guidelines (FPG), (b) participation in other State or Federal income qualified programs, or (c) the participating premise being located in a geographic area meeting certain income related criteria.

If a proposed income qualification criteria differs from those used in Low-Income Programs approved prior to 2024, such as 200% of the FPG, the Company's filing shall: (a) explain the rationale for changing the proposed income qualification eligibility criteria, (b) explain how it will increase opportunities for the Company's low-income customers to participate in DSM or EE programs, and (c) address any potential impacts on existing Low-Income Programs and Measures and the customers they target. If the proposed income qualification criteria include provisions that are intended to target or have the effect of targeting a significant number of customers that are above 200% of the FPG, the Company's filing shall: (a) demonstrate that exceeding 200% of the FPG or other eligibility thresholds contained in existing approved Low-Income Programs will allow the Company to utilize available government funding opportunities aimed to assist low-income customers; and (b) explain how increasing the applicable thresholds will not decrease opportunities for customers at or below 200% of the FPG to participate in DSM or EE programs.

Beginning with the Company's 2026 annual DSM/EE rider filing, the Company shall include an exhibit clearly showing the following for each vintage year beginning with 2025: (a) the number of premises/customers that participated in one of the Company's low income programs; (b) the energy and capacity savings achieved through each low income program; (c) the total revenue requirement (program costs, net lost revenues, and PPI/PRI) included in the Rider associated with low income programs; (d) the impact to the average residential customer's bill of providing low-income DSM/EE programs to low income customers; (e) the system benefits generated by the energy and capacity savings associated with low income programs; and (f) the actual UCT cost effectiveness score produced during the vintage year.

During the next mechanism review, the parties shall evaluate the effectiveness and cost impacts of utilizing multiple low-income eligibility criteria, adhering to the statutory requirement that no public utility shall make or grant any unreasonable preference or advantage to any person or subject any person to any unreasonable prejudice or disadvantage.

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 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).

6. *Measurement unit* means the basic unit that is used to measure and track the (a) incurred costs; (b) Net Lost Revenues; and (c) net 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.

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 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 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. 9 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.

9. *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.

10. *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.

11. *Non-Energy Benefits* (NEBS) means a variety of positive and negative effects to utilities, participants, and society beyond electric savings realized due to program interventions. The identification and valuation of the NEBS will be consistent with the April 25, 2023, report by Skumatz Economic Research Associates, Inc., entitled "Non-Energy Benefits/ Non-Energy Impacts (NEBS/NEIS) for Selected Programs in the Duke Energy Carolinas and Duke Energy Progress Portfolios." The NEBS Multipliers are located on Page 11 of the report in Figure ES.7: Estimated Multiplicative "Adders" by Perspective for the Programs - (Ratio of NEBs/NEIs) over Program Bill Savings. The NEBS values will be utilized until the next NEBS analysis is ordered by the Commission. Any subsequent NEBS study will continue to estimate NEBS associated with the TRC, as well as continue to evaluate any potential NEBS that could be applicable to the UCT.

12. *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.

13. *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.

14. *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 associated with EE Programs is also subject to a Measure Life Adjustment Factor determined by comparing the weighted average measure units life of EE measures for Vintage Year with the weighted average measure unit life of EE measures installed in Vintage 2023. PPI excludes NLR.

15. *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. PRI excludes NLR.

16. *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, will be used in the determination of TRC results beginning in Vintage 2025. The value of NEBs for all programs not specifically targeting low income customers will be calculated by applying the weighted average utility system NEBS multiplier of 1.98 to the value of energy savings in the numerator of the cost-effectiveness test. The value of NEBs for all programs specifically targeting low income customers will be calculated by applying a NEBS Multiplier Value of 2.22 (the average of the DEC IQ NES and DEC IQ Wx multipliers) to the value of energy savings in the numerator of the cost-effectiveness test. 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.

17. *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).

18. *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

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

Application for Approval of Programs

20. 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.

21. 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.

22.

(a) With the exception of Low-Income Programs or other programs explicitly identified at the time of the application for their approval, all DSM/EE 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, the Company shall use projected system capacity and energy benefit values, as derived from the underlying resource plan, production cost model results, and inputs that generated the system benefits reflected in and subject to the Commission's most recently adopted CPIRP.

(b) The projected EE portfolio hourly shape is used for the purposes of determining the system energy benefit against the Commission's most recently adopted CPIRP; however, system benefit inputs used for purposes of evaluating cost effectiveness of DSM/EE Programs associated with avoiding system energy recognizes the benefit of a load modifying resource that has the effect of reducing emissions from supply side resources. The benefit associated with reducing emissions from DSM/EE Programs will be designated as a Clean Energy Proxy Value for DSM/EE Resources (CEPV) and will be included as an incremental value to the system energy benefit value. The CEPV is approximated based on a levelized value of the currently available federal production tax credit associated with clean energy supply side resources as listed in Section 45Y of the Inflation Reduction Act, inclusive of the wage and apprenticeship bonus adder. The CEPV and the Companies' ability to develop, promote, and deploy cost effective DSM/EE Programs will be evaluated for the appropriateness in the next Mechanism review.

(c) For the purposes of determining system capacity benefit values used for DSM/EE Programs, a capacity resource which the Company can dispatch on an economic basis shall have its costs levelized over the operational life of the asset/resource approved in the most recently-adopted CPIRP as of December 31 of the year preceding the date of the annual DSM/EE rider filing. A simple cycle combustion turbine that has been designated as a likely resource to be built by the Companies in the Commission approved resource plan, including fixed O&M and intrastate fuel transportation costs, will be utilized as this capacity resource at this time.

(d) The system capacity benefit inputs associated with system capacity benefits from non-legacy demand side management resources (i.e., those demand-side resources not included as a resource in the Company's approved 2018 IRP) shall be based on the seasonal allocation from the resource adequacy plan used in the Company's most recently-approved CPIRP or biennial avoided cost proceeding as of December 31 of the year preceding the date of the annual DSM/EE rider filing.

(e) DEC will comply, however, with Commission Rule R8-60(i)(6)(iii), which requires DEC to include in its biennial CPIRP, revised as applicable in its annual report, certain information regarding the Measures and Programs that it evaluated but rejected.

(f) The system energy values calculated from the production cost modeling, the capacity value calculation, as well as the CEPV applied in the determination of energy benefit will be values developed for purposes of DSM/EE program evaluation and are specific to assessment of DSM/EE Programs only.

(g) Moreover, because energy efficiency is modeled as a load modifier in the CPIRP, for the Calculation of the underlying system capacity benefit input values, when authorized pursuant to Commission Rule R8-69(c) and unless the Commission determines otherwise in a G.S. 62-133.9 DSM/EE Rider proceeding, the Company shall be permitted to recognize the impact of the Reserve Margin Adjustment Factor used in the determination of the PPI and PRI values for its energy efficiency programs.

(h) The Reserve Margin Adjustment Factor is equivalent to (1 + Reserve Margin) / (Performance Adjustment Factor) and will be applied to the system capacity benefit input values of all energy efficiency programs.

(i) The Reserve Margin used shall be based upon the reserve margin target established in the most recent Commission adopted CPIRP proceeding as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing.

(j) The Performance Adjustment Factor (PAF) used shall be based upon value reflected in the most recent Commission approved Biennial Avoided Cost proceeding as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing.

23. If a program fails the economic test in Paragraph 21 above, Duke Energy Carolinas will determine if certain measures can be removed from the program to satisfy the criteria established in Paragraph 21.

24. 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 other than the DSM/EE Innovation Program described below in Paragraph 32. 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. Specifically, the Company's filings shall clearly identify the proposed baseline category to be used to determine energy savings for all Programs and Measures, including the measures for which the Company proposes to determine impacts utilizing an "as found" baseline; the measures for which it proposes to use the existing efficiency standard as the baseline; and the measures for which it proposes to use a de facto baseline determined through market research. The Company shall provide the rationale supporting the use of its proposed baseline for the applicable Program or Measures. For any such Programs or Measures, the filing will also detail the specific EM&V protocols that will be utilized to appropriately measure and verify the impacts. 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.

25. 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

26. 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.

27. 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 utility system capacity and energy benefits specifically calculated for the program, as derived from the underlying resource plan, production cost model, and cost inputs that generated system benefits reflected in the Commission's most recently adopted CPIRP as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing. The projected EE portfolio hourly shape is used for the purposes of determining the avoided energy benefit; however, to ensure that energy efficiency is primarily avoiding marginal fossil fuel generation, future incremental renewable energy resources are removed from the CPIRP for purposes of determining the avoided energy benefit. For the purposes of determining avoided capacity benefits for DSM/EE resources, the 20- year levelized costs of a dispatchable clean-energy pure capacity resource are used. Beginning in 2025, a Hydrogen-Capable Advanced Class CT, including fixed O&M and intrastate fuel transportation costs, will be utilized as the pure capacity resource until an alternative dispatchable clean-energy pure capacity resource is identified in future CPIRPs; and

    (b) Evaluating each cost-effectiveness test using projections of participation, savings, program costs, and benefits for the upcoming vintage year.

28. 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 26 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.

29. For programs that demonstrate a prospective UCT, determined pursuant to Paragraph 26 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.

30. For programs that demonstrate a prospective UCT, determined pursuant to Paragraph 26 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.

31. 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.

DSM/EE Innovation Program

32. Beginning in Vintage 2025, the Company's DSM/EE Portfolio shall include a DSM/EE Innovation Program. This Program will have an annual budget that shall not exceed $1 million, which shall be utilized by the Company to test and evaluate new energy efficiency technologies and equipment and program designs in a rapid manner.

    a) The DSM/EE Innovation Program is not subject to Commission Rule R8-68.

    b) The Company shall ensure that all tests, pilots, and projects included in the DSM/EE Innovation Program that directly involve customers are equitable and not unreasonably discriminatory.

    c) Beginning with the Company's projection of Vintage 2025 in its annual DSM/EE rider filing, the Company will provide an explanation of potential tests, projects or pilots that the Company will perform during the Vintage Year. The explanation shall describe each project, including the following details:

1) The targeted customer class and purpose or learning objective of the project;
2) The proposed metrics to be measured and evaluated;
3) The estimated cost of the project;
4) The proposed duration of the project; and
5) The potential number of customers involved in the project.

d) The Company will file Notification with the Commission of the following:

1) If the Company seeks to add or cancel any tests, pilots or projects to the DSM/EE Innovation Program for a particular Vintage Year.
2) If the forecasted cost of any test, pilot or project within a Vintage Year increase by more than 25%.

e) During the course of the Vintage Year 2025, the Company will provide updates regarding the projects funded through the DSM/EE Innovation Program at least two meetings of the Collaborative.

f) Beginning with the Company's first applicable Annual DSM/EE Rider filing and in future annual DSM/EE Rider filings, the Company will provide a summary of the progress of the different projects included in the DSM/EE Innovation Program that will include the following:

1) The purpose or learning objective of the project;
2) The proposed metrics to be measured and evaluated;
3) The estimated cost of the project;
4) The proposed duration of the project;
5) The potential number of customers involved in the project; and
6) Any plans to utilize the results of the projects as the basis for future stand-alone DSM/EE pilots and programs.

g) The DSM/EE Innovation Program will be considered a new energy efficiency program included in the Company's portfolio and prudently incurred costs will be reviewed and eligible for cost recovery through the annual DSM/EE Rider but will not be eligible for recovery of net lost revenues and PPI or PRI, because the program is not subject to cost effectiveness screening.

h) While the DSM/EE Innovation Program annual expenditures shall not exceed the annual vintage year budget of $1 million dollars, the actual program expenditures will be reconciled as part of the reconciliation process for the vintage year in the Company's annual DSM/EE Rider filing.

i) No direct costs associated with any tests, pilots, and projects included in the DSM/EE Innovation Program will be eligible for cost recovery through any means or mechanism beyond their inclusion within the Company's annual DSM/EE Rider.

Program Modifications

33. 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.

34. 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.

35. 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.

36. 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.

37. 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

38.

(a) 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.

(b) In order to create transparency related to the development of EM&V plans, in its annual DSM/EE Rider filing, the Company will provide testimony detailing all of the projected EM&V plans anticipated to be developed in the calendar year in which the rider filing is made. Additionally, prior to implementing any new EM&V plans or making material modifications to existing EM&V Plans, the Company will share the EM&V plans or modifications with the Public Staff and will share them with other stakeholders upon request. The Public Staff and any stakeholder electing to receive the EM&V plan may provide feedback on the EM&V Plans or major modifications within 10 days of receiving the EM&V plan, and the Companies shall notify a party within 10 days of receipt of the feedback of what actions, if any, they intend to take in response to the feedback, and justification if the Companies disagree with the feedback.

39. 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 and portfolios, but updates to NTG estimates will not be applied retrospectively to measures that have been installed or program participation that has been recognized prior to the completion of the EM&V report. 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. 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 Smart$aver 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. The Company agrees to vet with the Public Staff any EM&V associated with DSM/EE Programs targeting non-residential customers that would incorporate a Non-Participant Spillover (NPSO) analysis. Additionally, in advance of initiating EM&V, the Company will work with Public Staff to vet the methodology and the appropriateness of the NPSO in an EM&V. To the extent that the application of the NPSO benefits are not mutually agreed to by both parties both parties maintain the right to challenge the inclusion or exclusion of those benefits in the Company's PPI and calculation.

40. EM&V for the Non-Residential Smart$aver 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

41. 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.

42. 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.

43. 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.

44. 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

45. 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.

46. 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. To facilitate expeditious advancement of new programs and enhancements, the Collaborative will convene focused I working groups of interested parties to further investigate initiatives and topics. The Company will report to the Collaborative on the progress of all established working groups and will provide an annual update to the Commission, on establishment and progress of any working groups convened during a vintage year in the Annual DSM/EE Rider filing. 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.

The Company will send the agenda for each bimonthly Collaborative meeting to all interested parties, including attorneys acting as legal counsel, 21 days before the meeting to allow potential participants to select an appropriate attendee. Parties who are unable to attend the bimonthly Collaborative meeting can provide feedback on agenda topics in advance of such meeting. Within 24 hours of the meeting concluding, the Company will send the slide deck representing all the topics discussed in the meeting, along with a summary of each agenda item. If attorneys acting as legal counsel find that any of the topics in the agenda are relevant to the organization(s) they represent and warrant additional discussion, they may request and the Company will schedule an informal working group before the next bimonthly Collaborative meeting. The company will make all reasonable efforts to engage all interested parties prior to scheduling the bimonthly meetings when possible.

47. 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. As part of regularly scheduled EM&V updates to Collaborative, the Company will provide updates on the creation of new EM&V plans and any material modifications to existing EM&V plans and will make the new EM&V plans and modified EM&V plans available at the request of any stakeholder.

48. 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.

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

General Structure of Riders

50. 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.

50A. 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.

50B. 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

51. 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 and for the DSM/EE Innovation Program, as outlined in Paragraph 32 of this Mechanism. 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.

52. 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.

53. Beginning with Vintage Year 2025, true-ups to Program Costs, PPI, NLR, and any other associated costs will be limited to a maximum of five years from the current Vintage Year. When these true-up corrections are necessary, the identified true-up corrections are to be completed in the identified Vintage Year and the corrections should not be split across multiple Vintage Years.

54. 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.

55. 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.

56. 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 production demand allocation method approved for North Carolina and South Carolina retail customers, as reflected in the annual cost of service studies.

57. 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 trued 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.

58. 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 truing up the class assignments and allocations will be the same as practiced for jurisdictional allocations.

Net Lost Revenues

59. 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.

60. 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.

61. 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.

62. 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.

63. 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.

64. 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.

65. Total Net Lost Revenues as measured for the 36-month period identified in paragraph 60 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 8 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.

66. 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.

f. Beginning with the projection of Vintage Year 2026 in the Company's 2025 Annual DSM/EE Rider filing, to the extent a Revenue Decoupling Mechanism (RDM) is in effect for customers served by the Company, the recoverable residential NLR based on kWh sales reductions for the months within any Vintage Years that align with the RDM shall be implicitly recovered through the RDM and will not be included for recovery in the Annual DSM/EE Rider filing. The applicable NLRs will be included in the RDM by not subtracting them in the RDM template calculation. If an RDM is only in effect for a partial DSM/EE vintage year (rate period), the parties will engage in good faith discussions to determine the appropriate DSM/EE rider or revenue decoupling rider proceeding in which the Company will recover residential NLR.

g. The Company will continue to calculate residential NLRs in the manner consistent with the methodology used in the 2023 DSM/EE Annual rider proceeding and report this information in its annual DSM/EE rider proceeding.

h. Beginning with the projection of Vintage Year 2027 in the Company's 2026 Annual DSM/EE Rider filing and in any subsequent Annual DSM/EE Rider filings under this Mechanism, if an RDM is pending before the Commission at the time of the DSM/EE rider filing, the Company will include in that filing projections of DSM/EE rates reflecting recovery both with and without NLR for the months and rate schedules subject to the RDM.

67. 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)

68. 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.

69. 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.

70. 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.

71. 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.

72. 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.

73. 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.

74. 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 based upon the following performance scale determined by the energy savings achieved during the Vintage Year as a percent of eligible retail sales (sales to retail customers not opted-out of participating in the Company's EE programs) for the Vintage Year:

PPI Performance Scale		
Savings Percentage of Eligible Retail Sales	Utility PPI (Duke's Share of UCT Net Benefit)	Customers Share of UCT Net Benefits
< 0.50%	3.50%	96.50%
≥ 0.50% & < 0.75%	5.50%	94.50%
≥ 0.75% & < 1.00%	7.50%	92.50%
≥ 1.00% & < 1.25%	9.50%	90.50%
≥ 1.25% & < 1.50%	10.50%	89.50%
≥ 1.50% & < 1.75%	11.50%	88.50%
≥ 1.75%	12.50%	87.50%

The UCT Net Benefit shall be 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.

75. Beginning with Vintage Year 2025, the dollar amount of the pre-tax PPI associated with EE Programs ultimately allowed for each Vintage Year, after true-up pursuant to Paragraph 86 of this Mechanism, shall be subject to a Measure Life Adjustment Factor (MLAF) determined by comparing the weighted average measure unit life of EE measures for Vintage Year with the weighted average measure unit life of EE measures installed for Vintage 2023 (MLAF Baseline). If the weighted average measure unit life of EE Measures in a Vintage Year decreases by more than 10% or increases by more than 20% when compared to the MLAF Baseline, that Vintage Year will replace Vintage 2023 as the new Vintage Year used in the MLAF Baseline. The MLAF shall be applied during the true-up of a Vintage Year PPI and will be based on the following table until the Vintage Year used in the MLAF Baseline is updated or next Mechanism review:

Measure Life Adjustment Factor Matrix for PPI

	Baseline	**PPI Adjustment Thresholds**				
	Weighted Average Measure Life of EE Measures Installed for Vintage 2023	≥ 10% Decrease in Weighted Average Measure Life	≥ 5% Decrease in Weighted Average Measure Life	< 5% Decrease or < 10% Increase in Weighted Average Measure Life	≥ 10% Increase in Weighted Average Measure Life	≥ 20% Increase in Weighted Average Measure Life
DEC	**6.81**	6.129	6.4695		7.491	8.172
PPI Multiplier		**0.95**	**0.975**	**1**	**1.025**	**1.05**

76. 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 trued up. Levelized annual payments applicable to Programs in prior vintage periods will continue until all such amounts are recovered.

77. 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.

78. 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.

79. The percentage used to determine the estimated PRI for each Vintage Year shall be 9.5%. 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, DEC shall utilize the best and most accurate estimate of the UCT and the resulting PRI percentage it can determine at that time.

80. For the PPI and PRI for Vintage Years 2025 and afterwards, the program-specific per kW system and per kWh system energy benefits will be derived from the underlying resource plan, production cost model, and cost inputs that generated system benefits reflected in the Commission's most recently adopted CPIRP as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing. The projected EE portfolio hourly shape is used for the purposes of determining the avoided energy benefit; however, to ensure that energy efficiency is primarily avoiding marginal fossil fuel generation, future incremental renewable energy resources are removed from the CPIRP for purposes of determining the avoided energy benefit. For the purposes of determining avoided capacity benefits for DSM/EE resources, the 20- year levelized costs of a dispatchable clean-energy pure capacity resource are used. Beginning in 2025, a Hydrogen-Capable Advanced Class CT, including fixed O&M and intrastate fuel transportation costs, will be utilized as the pure capacity resource until an alternative dispatchable clean-energy pure capacity resource is identified in future CPIRPs.

81. No later than December 31, 2024, Duke Energy Carolinas and the Public Staff will jointly review the avoided transmission and avoided distribution (avoided T&D) benefits to be used in the Company's prospective calculations of cost-effectiveness and achieved net dollar savings utilizing the agreed upon process that was jointly developed with the Public Staff in 2022. As described in Paragraph 82 below, any updates to the avoided T&D benefits would be applied for the projection of Vintage Year 2026 in the Company's 2025 Annual DSM/EE Rider Filing.

82. The per kW avoided T&D benefits used to calculate net savings for a Vintage Year shall be reviewed and updated at least every three years. In its initial testimony for its Annual DSM/EE Rider, the Company shall update the Commission on the change in avoided T&D benefits.

83. With the exception of a one-time reconciliation of Vintage 2025, Duke Energy Carolinas shall not be allowed to update the system benefit values associated with both capacity and energy savings after filing its annual cost and incentive recovery application for purposes of determining the DSM/EE and DSM/EE EMF riders in that proceeding.

84. 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.

85. 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.

86. 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 Company will make all reasonable efforts to ensure that all vintages are fully trued-up within 24 months of the vintage program year.

d. 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.

e. 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.

87. 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.

88. 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.

89. 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

90. As further incentive to motivate the Company to aggressively pursue savings from income qualified EE programs, the Company will be eligible to receive an “Other Incentive” for a Vintage Year based on its ability to increase the percentage of the annual kWh saved by the Company’s Residential EE Programs that are derived from income qualified EE Programs. The baseline Vintage Year for determining the change in the percentage of Residential EE kWh savings being derived from income qualified EE Programs will be Vintage Year 2024. The Company’s ability to earn PRI will not be impacted based on its ability to earn an Other Incentive.

	Baseline	**Other Incentive Performance Tiering**				
	Vintage 2024 Percentage Residential kWh Savings from Income Qualified Programs	≥ 5% Increase Percentage Residential kWh Savings from Income Qualified Programs	≥ 6% Increase Percentage Residential kWh Savings from Income Qualified Programs	≥ 7% Increase Percentage Residential kWh Savings from Income Qualified Programs	≥ 8% Increase Percentage Residential kWh Savings from Income Qualified Programs	≥ 10% Increase Percentage Residential kWh Savings from Income Qualified Programs
Other Incentive		**$ 100,000**	**$ 200,000**	**$ 300,000**	**$ 400,000**	**$ 500,000**

91. Beginning in 2025, Duke Energy will begin to identify and implement up to 20 MW of capacity under Active Load Management. If the Company applies for Commission approval of a new program or a modification to an existing program that the Company intends to be included in the initial 20 MW of capacity under this paragraph, the Company shall (i) explicitly notify the Commission of that intention at the time of application for

approval of such new program or modification and (ii) communicate that intention to the Collaborative. The cost effectiveness and PPI of the initial 20 MW of Active Load Management will be evaluated consistent with the system benefits valuation of DSM/EE programs. The Company will utilize the EM&V results associated with the initial 20 MW of Active Load Management to determine the actual system benefits associated with reducing emissions, reducing the need for system balancing resources, and integrating variable renewable resources while reliably and cost-effectively managing the grid. After the Commission determines the actual benefits and the appropriate valuation for Active Load Management, the Company will earn a utility incentive of 30% of the net system benefits as determined under the new valuation for all future Active Load Management, with 70% of the net system benefits retained by customers. Any energy and demand savings attributed to a measure incentivized under an energy efficiency or demand side-management program will not also be counted in the system benefits attributed to the same measure leveraged in Active Load Management to avoid the potential for double counting.

Financial Reporting Requirements

92. 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, PRI, and Net Lost Revenue incentives (net of the NLRs that are being returned to customers through the annual revenue decoupling mechanism), 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 and PRI; (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

93. The terms and conditions of this Mechanism shall be reviewed by the Commission every four years, meaning the next review shall occur no later than December 31, 2028, and continuing every four years thereafter, 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. Public Staff and the Company agree that no later than 60 days prior to the commencement of the next formal DSM/EE Mechanism review, the Companies will provide a comparative PPI analysis between the projected system benefit associated with energy and capacity savings used in the prospective Vintage year in the most recently approved DSM/EE rider proceeding as a baseline for comparison of any potential future changes in the methodology for determining system benefit from energy and capacity savings considered as part of the next Mechanism review to evaluate the potential impacts to PPI. This analysis will include, but will not be limited to changes in system benefits, program costs, and participation forecasts and other system benefits. The Company and the Public Staff agree to work together, for discussion purposes in determining any potential changes that may be necessary to the PPI structure, to establish prior to the beginning of the proceeding a "baseline PPI" which would reflect a levelized PPI for comparison to the 2023/2024 Mechanism Review PPI structure after accounting for the impact of the changes in the net system benefits (NPV of system benefits less NPV of program costs) that underlies the determination of projected cost effectiveness and PPI earned by the Company.

No Precedential Effect

94. The terms of this Mechanism, including the methods and results of determining the PPI, PRI, as well as the other incentives outlined in Paragraphs 89 and 90, shall not be considered precedential for any purpose other than their application to eligible DSM/EE Programs and costs and utility incentive recovery associated with those Programs, and only until those terms are next partially or wholly reviewed.