

Rule R1-17. FILING OF INCREASED RATES, APPLICATION FOR AUTHORITY TO ADJUST RATES.

(a) Application of Rule. — This rule does not apply to the establishment of a rate or charge for a new service, nor to an adjustment or a change of a particular rate or charge for the purpose of eliminating inequities, preferences, or discriminations. It does apply to all applications for or filings of a general increase in rates, fares, or charges for revenue purposes or to increase the rate of return on investment or to change transportation rates, fares, etc. All Class A and B electric, telephone, natural gas, water, and sewer utilities shall file written letters of intent to file general rate applications with the Commission thirty (30) days in advance of any filing thereof.

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(l) Procedure for Rate Adjustments Under G.S. 62-133.16.

- a. Purpose. The purpose of this Section (l) of Rule R1-17 is to set forth the procedures by which electric public utility companies can file to adjust their rates pursuant to G.S. 62-133.16.
- b. Definitions. As used in this Section (l) of Rule R1-17, the following definitions shall apply:
 - i. "Decoupling rate-making mechanism" means a rate-making mechanism intended to break the link between an electric public utility's revenue and the level of consumption of electricity on a per customer basis by its residential customers.
 - ii. "Earnings sharing mechanism" means an annual rate-making mechanism that shares surplus earnings between the electric public utility and customers over the period of time covered by a MYRP.
 - iii. "Multiyear rate plan" or "MYRP" means a rate-making mechanism under which the Commission sets base rates for a multiyear period that includes authorized periodic changes in base rates without the need for the electric public utility to file a subsequent general rate application pursuant to G.S. 62-133, along with an earnings sharing mechanism.
 - iv. "Performance-based regulation" or "PBR" means an alternative rate-making approach that includes decoupling, one or more performance incentive mechanisms, and a multiyear rate plan, including an earnings sharing mechanism, or such other alternative regulatory mechanisms as may be proposed by an electric public utility.
 - v. "Performance incentive mechanism" or "PIM" means a rate-making mechanism that links electric public utility revenue or earnings to electric public utility performance in targeted areas consistent with policy goals, as that term is defined by this section, approved by the Commission, and includes specific performance metrics and targets against which electric public

- utility performance is measured.
- vi. "Policy goal" means the expected or anticipated achievement of operational efficiency, cost-savings, or reliability of electric service that is greater than that which already is required by State or federal law or regulation, including standards the Commission has established by order prior to and independent of a PBR application, provided that, with respect to environmental standards, the Commission may not approve a policy goal that is more stringent than is established by (i) State law, (ii) federal law, (iii) the Environmental Management Commission pursuant to G.S. 143B-282, or (iv) the United States Environmental Protection Agency.
 - vii. "Rate year" means the year of the MYRP for which base rates are effective.
 - viii. "Tracking metric" means a methodology for tracking and quantitatively measuring and monitoring outcomes or electric public utility performance.
 - ix. "Test Year" or "Rate Year One" shall mean the fully historic 12-month period consistent with Section R1-17(b)(8) above.
 - x. "Rate Year Two" shall mean the 12-month period following Rate Year One covered by an MYRP.
 - xi. "Rate Year Three" shall mean the 12-month period following the Rate Year Two covered by an MYRP.
 - xii. "Annual Reconciliation Filing" shall mean the annual filing to be submitted by the utility after each concluded Rate Year, consistent with Section (e) below.
- c. Filing Requirements.
- i. An electric utility's PBR application must be consistent with the rules otherwise prescribed in R1-17 unless otherwise noted in this Section.
 - ii. A utility's filing or application may include:
 - 1. A decoupling rate-making mechanism,
 - 2. One or more PIMs and identification of the quantitative and qualitative benefits and costs associated with meeting the PIM's targets; at least three years of historical baseline data; and identification of any investments contained in the utility's MYRP that are expected to enhance performance in the area addressed by the PIM.
 - 3. An MYRP containing the proposed revenue requirements for the Rate Year One, Rate Year Two, Rate Year Three, and an earnings sharing mechanism. The revenue requirements for Rate Year Two and Rate

- Year Three must be based on projected incremental Commission-authorized capital investments that will be used and useful during the rate year and associated expenses, net of operating benefits, including operation and maintenance savings, and depreciation of rate base associated with the capital investments, that are incurred or realized during each rate year of the MYRP period; provided that the amount of increase in Rate Year Two and Rate Year Three shall not exceed four percent (4%) of the utility's North Carolina retail jurisdictional revenue requirement for the first year of the MYRP excluding any revenue requirement for the capital spending projects to be placed in service during the first rate year.
4. Calculations of Rate Base, as included in each rate year's revenue requirements, based on a 13-month average balance for each rate year.
 5. Documentation regarding the need for all proposed capital projects, referencing the utility's integrated resource plan, integrated distribution plan, or internal capital investment plan where appropriate, and documentation regarding alternatives considered.
 6. Prioritization of the utility's proposed capital projects.
 7. A cost benchmarking study using data from peer utilities.
 8. A proposal for returning any under-spend to customers through a rider or other mechanism.
 9. A detailed description of the utility's proposed methodology for calculating whether the utility's weather-normalized earnings exceed the authorized rate of return on equity during the MYRP.
 10. A description and example of the annual reconciliation reports the utility will file after the conclusion of each rate year to be used to determine the prudence of the utility's investments and any material cost deviations from utility forecasts.
- iii. Any application for PIMs shall include one or more of the following:
1. Rewards based on the sharing of savings achieved by meeting or exceeding a specific policy goal.
 2. Rewards or penalties based on differentiated authorized rates of return on common equity to encourage utility investments or operational changes to meet a specific policy goal, which shall not be greater than 25 basis points.
 3. Fixed financial rewards to encourage achievement of

specific policy goals, or fixed financial penalties for failure to achieve policy goals.

d. Annual Reconciliation Proceeding Establishment

- i. Within 60 days of the conclusion of each rate year, the Commission shall establish a proceeding to:
 1. Examine the earnings of the electric public utility during the rate year to determine if the earnings exceeded the authorized rate of return on equity determined by the Commission in the proceeding establishing the PBR. If the weather-normalized earnings exceed the authorized rate of return on equity plus 50 basis points, the excess earnings above the authorized rate of return on equity plus 50 basis points shall be refunded to customers in the rider established by the Commission. If the weather-normalized earnings fall below the authorized rate of return on equity, the electric public utility may file a rate case. Any penalties or rewards from PIM incentives and any incentives related to demand-side management and energy efficiency measures pursuant to G.S. 62-133.9(f) will be excluded from the determination of any refund pursuant to earnings sharing mechanism.
 2. Evaluate the performance of the electric public utility with respect to Commission approved PIMs applicable in the rate year. Any financial rewards shall be collected from customers and any penalties refunded to customers, in each case, through the rider established by the Commission.
 3. Evaluate the decoupling rate-making mechanism, and refund or collect, as applicable, a corresponding amount from residential customers through the rider established by the Commission.

e. Annual Reconciliation Proceeding Filing Requirements

- i. In the Annual Reconciliation Proceeding, the utility shall:
 1. Identify differences between projected investments and actuals, in both cost and quantity, and the reasons for any significant deviations. Project details for all projects shall be provided, including the initial budget, the final cost, and the date each project was booked to plant in-service. In addition, for each project the Company should provide all Company project documents including business cases, capital project expenditure applications, change order forms, project close out reports, and work orders.

2. Report unit cost metrics for subcategories of O&M and capital costs. Unit costs should be reported at a minimum by FERC account, but other relevant categorizations may also be used as necessary. The units for these costs may be in terms of cost per customer or other measure of scale such as cost per mile of line.
- f. Performance Incentive Mechanisms
- i. The policy goal targeted by a PIM shall be clearly defined, measurable with a defined performance metric, and solely or primarily within the electric public utility's control.
 - ii. A PIM shall only be approved if it is likely to provide net benefits to customers such that the benefits associated with meeting or exceeding the PIM target are expected to exceed the costs of doing so, including the costs of any utility rewards.
 - iii. A PIM shall only be approved if it represents an improvement in performance over historical or projected performance levels.
- g. Commission Approval of a PBR Plan
- i. The Commission shall only approve a PBR application that would result in just and reasonable rates, is in the public interest, and is consistent with the criteria established in G.S. 62-133.16
 - ii. In determining whether a PBR application would result in just and reasonable rates and is in the public interest, the Commission shall consider whether the PBR application:
 1. Assures that no customer or class of customers is unreasonably harmed and that the rates are fair both to the electric public utility and to the customer.
 2. Reasonably assures the continuation of safe and reliable electric service.
 3. Will not unreasonably prejudice any class of electric customers and result in sudden substantial rate increases or "rate shock" to customers.
 - iii. In its evaluation of the reasonableness of rates proposed in a PBR application, the Commission shall consider:
 1. Whether the PBR plan is more likely than current regulation to advance the goals of utility cost control, lower rates, and reduced administrative burden.
 2. Whether post-test year cost increases exceed forecasts of regional public utility cost escalation rates, such as those developed by IHS Global Insight.
 3. Whether the utility appropriately considered and

- evaluated alternatives to its proposed investments, including third-party provided solutions.
4. Whether average customer rates (by class) and bills (for residential customers) will be within a reasonable range of peer utilities' rates and bills during and at the conclusion of the rate plan.
- h. Procedure for Curing Deficiencies in a PBR Application
- i. If the Commission rejects a PBR application, the Commission, at its sole discretion, may allow a utility to address the Commission's reasons for rejection of the PBR application and cure any deficiencies.
- ii. If the Commission allows a utility to attempt to cure deficiencies in the application and refile, the utility must:
1. Demonstrate that it has satisfactorily addressed each of the Commission's identified deficiencies
 2. Refile its modified PBR application, including all supporting schedules, and provide testimony discussing the changes made to address the Commission's identified deficiencies.
- iii. The Commission shall then open a period for discovery requests and responses from intervenors regarding the modifications, followed by testimony from intervenors regarding the modifications.