

**COST RECOVERY AND INCENTIVE MECHANISM FOR DEMAND-SIDE  
MANAGEMENT AND ENERGY EFFICIENCY PROGRAMS**

*(Docket No. E-2, Sub 931, as Modified by the Commission, to be Effective January 1, 2016, and as revised by the Commission in Docket No. E-2, Sub 1145)*

**(NOTE: EXCLUDES ATTACHMENTS)**

The purpose of this Mechanism is (1) to allow Duke Energy Progress, Inc. (DEP or Company), to recover all reasonable and prudent costs incurred for adopting and implementing demand-side management (DSM) and energy efficiency (EE) Measures defined as new under G.S. 62-133.9, Commission Rules R8-68 and R8-69, the Commission's orders, and the additional principles set forth below; (2) to establish the terms, conditions, and methodology to be used for the recovery of Net Lost Revenues (NLR) and a Portfolio Performance Incentive (PPI) to reward DEP for adopting and implementing DSM and EE Measures and Programs, based on the sharing of dollar savings achieved by those Measures and Programs, if the Commission deems such recovery and reward appropriate; (3) to provide for an additional incentive to further encourage kilowatt-hour (kWh) savings achievements; and (4) to establish certain terms, requirements, and guidelines that will govern and/or guide (a) requests by DEP for Commission approval of DSM and EE Programs, (b) Program management and modifications, (c) Evaluation, Measurement, and Verification (EM&V) of Programs, (d) procedural matters and the general structure of the DSM/EE and DSM/EE EMF riders, (e) regulatory reporting requirements, and (f) DEP's Stakeholder Collaborative. The definitions set out in G.S. 62-133.8 and G.S. 62-133.9 and Commission Rules R8-68 and R8-

69 apply to this Mechanism, except as may be otherwise explicitly provided for herein. 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. With respect to the recovery of reasonable and prudent Program Costs and NLRs, except as may be explicitly provided for in the Mechanism, 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 PPIs, except as may be explicitly provided for in the Mechanism, approved Programs and Measures shall continue to be subject to the terms and conditions in effect in the Vintage Year that any applicable Measurement Unit was installed.

### **Definitions**

1. *Common Costs* are administrative and general, or other, costs that are not attributable or directly assignable to specific DSM or EE Programs but are necessary to design, implement, and operate the Programs collectively.
2. *Incremental Program Costs* are utility-incurred costs directly attributable and expended solely for a specific DSM or EE Program, and include all appropriate capital costs (cost of capital, depreciation

expenses, property taxes, and other associated costs found reasonable by the Commission), implementation costs, incentive payments to Program participants, other operations and maintenance costs, EM&V costs, and administrative and general costs incurred specifically for the Program, net of any grants, tax credits, or other reductions in cost received by the utility from outside parties and specifically related to the Program.

3. *Low-Income Programs or Low-Income Measures* are DSM or EE Programs or DSM or EE Measures provided specifically to low-income customers.
4. *Measure* means, with respect to EE, an "energy efficiency measure," as defined in G.S. 62-133.8(a)(4), that is new within the meaning of G.S. 62-133.9(a); and, with respect to DSM, an activity, initiative, or Program change, that is new under G.S. 62-133.9(a) and is undertaken by an electric power supplier or its customers to reduce electricity use during peak demand periods. DSM includes, but is not limited to, load management, electric system equipment and operating controls, direct load control, and interruptible load.
5. *Measurement Unit* means the basic unit that is used to measure and track the (a) incurred costs; (b) NLR; and (c) kilowatt (kW), kilowatt-hour (kWh), and dollar savings, net of net-to-gross effects for DSM or EE Measures installed in each Vintage Year. A Measurement Unit

may consist of an individual Measure or bundle of Measures. Measurement units shall be requested by DEP and established by the Commission for each Program in the Program approval process, and shall be subject to modification by the Commission when appropriate. If Measurement Units have not been established for a particular Program, the Measurement Units for that Program shall be the individual Measures, unless the Commission determines otherwise.

6. *Measurement Unit's Life* means the estimated number of years that equipment associated with a Measurement Unit will operate if properly maintained, or activities (services or customer behavior) associated with the Measurement Unit will continue to be cost-effective, unless the Commission determines otherwise.
7. *Net Found Revenues* means any increases in revenues resulting from any activity by DEP's public utility operations that causes a customer to increase demand or energy consumption, whether or not that activity has been approved pursuant to Commission Rule R8-68. The dollar value of Net Found Revenues will be determined in a manner consistent with the determination of the dollar value of NLR provided in Paragraph No. 8 below. In determining which activities produce Net Found Revenues, the "Decision Tree" attached to this Mechanism as Attachment C will be applied.

8. *Net Lost Revenues (NLR)* means DEP's revenue losses due to new DSM or EE Measures, net of fuel costs and non-fuel variable operating and maintenance expenses avoided at the time of the kilowatt-hour sale(s) lost due to the DSM or EE Measures<sup>1</sup>, or in the case of purchased power, in the applicable billing period incurred by DEP. Portfolio Performance Incentives shall not be considered in the calculation of NLR.
9. *Net-to-gross (NTG) factor* means an adjustment factor used to compute the net kW/kWh savings by accounting for behavioral effects, including, but not limited to, free ridership, moral hazard, free drivers, and spillover.
10. *Portfolio Performance Incentive (PPI)* means a utility incentive payment to DEP as a bonus or reward for adopting and implementing new (as defined in G.S. 62-133.9(a)) EE or DSM Measures and/or Programs. The PPI is based on the sharing of avoided cost savings, net of Program Costs, achieved by those DSM and EE Programs in the aggregate. Such Program Costs will be adjusted as discussed elsewhere in this Mechanism. PPI excludes NLR.

---

<sup>1</sup> Avoided fuel costs would technically be measured at the marginal cost of fuel avoided at the time of the lost kWh sale. However, because fuel costs themselves are subject to true-up, it is administratively easier and results in the same overall revenue requirement outcome to measure fuel costs associated with NLR at the then-current approved prospective fuel and fuel-related cost factor.

11. *Program* means one or more new DSM or EE Measures with similar objectives that have been consolidated for purposes of delivery, administration, and cost recovery, and that were adopted on or after January 1, 2007, including subsequent changes and modifications.
  
12. *Program Costs* are costs that are directly attributable or reasonably and appropriately allocable to specific DSM or EE Programs or groups of Programs (for purposes of setting the DSM/EE and DSM/EE EMF riders), and include all Incremental Program Costs, and reasonably assigned or allocated administrative and general expenses and other Common Costs, net of any reasonably assigned or allocated grants, tax credits, Program Cost adjustments as discussed elsewhere in this Mechanism, or other reductions in cost received by the utility from outside parties.
  
13. *Total Resource Cost (TRC) test* means a cost-effectiveness test that measures the net costs of a DSM or EE Program or portfolio as a resource option based on the incremental costs of the Program or portfolio, including both the participants' costs and the utility's costs (excluding incentives paid by the utility to or on behalf of participants). The benefits for the TRC test are the avoided supply costs (i.e., the reduction in generation capacity costs, transmission and distribution capacity costs, and energy costs), valued at marginal cost for the

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

14. *Utility Cost Test (UCT)* means a cost-effectiveness test that measures the net costs of a DSM or EE Program or portfolio as a resource option based on the incremental costs incurred by the utility (including incentive costs paid by the utility to or on behalf of participants) and excluding any net costs incurred by the participants. The benefits for the UCT are the avoided supply costs (i.e., the reduction in generation capacity costs, transmission and distribution capacity costs, and

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

15. *Vintage Year* means an identified 12-month period in which a specific DSM or EE Measure is installed for an individual participant or group of participants.

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



16. In evaluating potential DSM/EE Measures and Programs for selection and implementation, DEP will first perform a qualitative measure screening to ensure Measures are:
  - (a) Commercially available and sufficiently mature;
  - (b) Applicable to the DEP service area demographics and climate;  
and
  - (c) Feasible for a utility DSM/EE Program.
  
17. DEP will then further screen EE and DSM Measures for cost-effectiveness. For purposes of this screening, estimated incremental EM&V costs attributable to the Measures shall be included in the Measures' costs. With the exception of Measures included in a Low-Income Program, or other Program in which PPI incentives are not requested that may potentially be filed with the Commission for approval, an EE or DSM Measure with a TRC test 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. Consistent with DEP's agreement with Piedmont Natural Gas and Public Service Company of NC, all EE and DSM Measures associated with an end-use that can be served by natural gas must pass the UCT.

18. With the exception of Low-Income Programs or other programs explicitly identified at the time of the application for their approval, all Programs submitted for approval will have a Program-level TRC and UCT test result greater than 1.00. Additionally, for purposes of calculating cost-effectiveness for program approval, the Company shall use projected avoided capacity and energy benefits specifically calculated for the program, as derived from the underlying resource plan, production cost model, and cost inputs that generated the avoided capacity and avoided energy credits reflected in the most recent Commission-approved Biennial Determination of Avoided Cost Rates for Electric Utility Purchases from Qualifying Facilities as of the date of the filing for the new program approval. However, for the calculation of the underlying avoided energy credits to be used to derive the program-specific avoided energy benefits, the calculation will be based on the projected EE portfolio hourly shape, rather than the assumed 24x7 100 MW reduction typically used to represent a qualifying facility. For purposes of determining cost-effectiveness, estimated incremental EM&V costs attributable to each Program shall be included in the Program costs. DEP will comply, however, with Commission Rule R8-60(i)(6)(iii), which requires DEP to include in its biennial Integrated Resource Plan, revised as applicable in its annual report, certain information regarding the Measures and Programs that it evaluated but rejected.

19. If a Program fails the economic screening in Paragraph 18 above, DEP will determine if certain Measures can be removed from the Program to satisfy the criteria established in Paragraph 18.
20. DEP will provide its Stakeholder Collaborative with information relating to Programs and Measures either currently being considered or planned for future consideration. DEP will also seek suggestions from its Collaborative for additional Programs and Measures for its future consideration.
21. Nothing in this Mechanism relieves DEP from its obligation to comply with Commission Rule R8-68 when filing for approval of DSM or EE Measures or Programs. As specifically required by Commission Rule R8-68(c)(3)(iii), DEP shall, in its filings for approval of Measures and Programs, describe the industry-accepted methods to be used to collect and analyze data; measure and analyze Program participation; and evaluate, measure, verify, and validate the energy and peak demand savings. In its filings, DEP shall also provide a schedule for reporting the results of this EM&V process to the Commission. The EM&V process description should describe not only the methodologies used to produce the impact estimates utilized, but also any methodologies the Company considered and rejected. Additionally, where known, DEP shall identify the independent third party it plans to use for purposes of EM&V, and include an estimate

of all third-party costs in its filing. If not known at the time of filing for approval, the information shall be provided at the time of DEP's next annual rider filing.

**Program Management**

22. In each annual DSM/EE cost recovery filing, DEP shall (a) perform prospective cost-effectiveness test evaluations for each of its approved DSM and EE Programs, (b) perform prospective aggregated portfolio-level cost-effectiveness test evaluations for its approved DSM/EE Programs (including any assigned or allocated administrative and general or other common costs), and (c) include these prospective cost-effectiveness test results in its DSM/EE rider application.
  
- 22A. For purposes of calculating prospective cost-effectiveness in each DSM/EE rider proceeding to be used to determine whether a program should remain in the portfolio, the Company shall assess each program by:
  - a. Using projected avoided capacity and energy benefits specifically calculated for each program, as derived from the underlying resource plan, production cost model, and cost inputs that generated the avoided capacity and avoided energy credits reflected in the most recent Commission-approved Biennial

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

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

22B. 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 TRC, determined pursuant to paragraph 22A 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.

22C. For programs that demonstrate a prospective TRC, determined pursuant to paragraph 22A 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 TRC above and below 1.0 should be addressed on a case by case basis.

22D. For programs that demonstrate a prospective TRC, determined pursuant to paragraph 22A above, of less than 1.00 in a third DSM/EE rider proceeding, the Company shall terminate the program effective at the end of the year following the DSM/EE rider order, unless otherwise ordered by the Commission. However, any party may propose termination of a program prior to a third DSM/EE rider proceeding if earlier information indicates that cost-effectiveness is not likely to reach 1.0 or greater under the TRC test.

23. DEP will seek to leverage available state and federal funds to operate effective efficiency Programs. Its application for such funds will be transparent with respect to the cost, operation, and profitability of Programs operated with those funds in a manner consistent with its authorized revenue recovery mechanism. Use of such funds helps offset the participant's project costs and is supplemental to DEP's

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

**Program Modifications**

24. Modifications to Commission approved DSM/EE Programs will be considered as provided for in Attachment A to this Mechanism.

**Stakeholder Collaborative**

25. DEP will conduct periodic collaborative stakeholder meetings for the purpose of collaborating on new Program ideas, reviewing modifications to existing Programs, ensuring an accurate public understanding of the Programs and funding, reviewing the EM&V process, giving periodic status reports on Program 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.

26. 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 or regional EE advocates and experts. 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.

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



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

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

**Evaluation, Measurement and Verification**

31. The EM&V of Programs will be conducted using a nationally-recognized protocol to ensure that Programs remain cost-effective. Except for DEP's DSDR Program, EM&V of Programs will be conducted by an independent third-party. EM&V of the DSDR Program will be conducted by DEP. EM&V protocol may be modified with approval of the Commission to reflect the evolution of best practices.

32. EM&V will be applied in accordance with the provisions of Attachment B to this Mechanism.
  
33. EM&V will also include updates of any NTG factors related to previous NTG estimates for Programs and Measures. All of the updated information will be used in evaluating the continued cost-effectiveness of existing Programs and portfolio. Updates to NTG estimates will be applied consistent with the application of EM&V results pursuant to Attachment B to this Mechanism, but updates to NTG estimates will not be applied retrospectively to Measures that have already been installed or Programs that have already been completed. If it becomes apparent during the implementation of a Program that NTG factors are substantially different than anticipated, the Company will file appropriate Program adjustments with the Commission.

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

34. 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 who implement or will implement alternative DSM/EE Measures may, consistent with Commission Rule R8-69(d), elect to not participate in any utility-offered DSM/EE Measures and, after written notification to the utility, will not be subject to the DSM/EE rider and DSM/EE EMF rider. For purposes of application of this option, a

customer is defined to be a metered account billed under a single application of a Company rate tariff. For commercial accounts, once one account meets the opt-out eligibility requirement, all other accounts billed to the same entity with lesser annual usage located on the same or contiguous properties are also eligible to opt-out of the DSM/EE rider and DSM/EE EMF rider. Since these rates are included in the rate tariff charges, customers electing this option shall receive a DSM and/or EE credit on their monthly bill statement.

35. Opt-out eligible customers that have received DSM/EE Program incentives will be subject to the applicable DSM/EE rider and DSM/EE EMF rider billings for a period of no less than 36 months.
36. Eligible non-residential customers may opt out of either or both of the DSM and EE categories of Programs as well as opt back into either or both. If a customer receives Program incentives from a Company DSM or EE Programs, that customer must opt-in for a period of no less than 36 months. A customer receiving Program incentives from a DSM Program will be required to pay the DSM portion of the DSM/EE Rider for a period of not less than 36 months. A customer receiving Program incentives from an EE Program will be required to pay the EE portion of the DSM/EE Rider for a period of not less than 36 months.

**Procedural Matters and General Structure of Riders**

37. Beginning in DEP's 2015 DSM/EE rider proceeding, the rate period for the proposed DSM/EE Rider will be the calendar year (i.e., for that proceeding, the period January 1, 2016 through December 31, 2016) (if necessary, the rate period may be expanded to include the month of December 2014). Also beginning in DEP's 2015 DSM/EE rider proceeding, the test period used in the development of the DSM/EE EMF Rider will be the calendar year (i.e., in that proceeding, January 1 through December 31, 2014, adjusted to ensure no double recovery of 2014 DSM/EE Program Costs).
38. For purposes of measuring the cost-effectiveness of Programs and for calculation of the PPI, a Vintage Year will be equivalent to a calendar year.
39. Beginning with DEP's 2015 DSM/EE rider proceeding, the annual filing date of DEP's DSM/EE rider application, supporting testimony, and Exhibits will be no later than June 30 of each calendar year.
40. The hearing to consider the proposed DSM/EE and DSM/EE EMF riders proposed by DEP will be held not less than 90 days after the filing date of the Company's application, supporting testimony, and Exhibits.

41. All DSM/EE and DSM/EE EMF riders shall be calculated and charged to customers based on the revenue requirements associated with DSM and EE Programs. Separate DSM/EE and DSM/EE EMF riders shall be calculated for the Residential customer class, the Non-Residential customer classes, and the Lighting class.
42. One integrated (prospective) DSM/EE rider and one integrated DSM/EE EMF rider shall be calculated for the Residential class and the Residential portion of the Lighting class, respectively, to be effective each rate period. The integrated Residential and Lighting class DSM/EE EMF riders shall include true-ups of estimated DSM/EE costs when actual test period costs become available.
43. Beginning with charges on January 1, 2016, separate DSM and EE billing factors will be available to Non-Residential opt-out-eligible customers. Additionally, the Non-Residential DSM and EE rates and the DSM and EE EMF billing factors will be appropriately considered in each proceeding, so that the factors can be appropriately charged to Non-Residential opt-out eligible customers.
44. For purposes of normalizing or forecasting kWh sales for its annual DSM/EE and DSM/EE EMF rider filing, DEP shall calculate customer growth, weather normalization, and other applicable adjustments on the basis of the test period and/or rate period for each annual filing, as applicable.

**Allocation Methodologies**

45. Unless the Commission determines otherwise in a G.S. 62-133.9 DSM/EE rider (or other) proceeding:
- (a) The Program Costs of an approved DSM or EE Program will be allocated to the North Carolina and South Carolina retail jurisdictions and will only be recovered from those customer classes to which the Program is targeted.
  - (b) No Program Costs of any approved DSM or EE Program will be allocated to the wholesale jurisdiction.
  - (c) For EE Programs, the costs of each Program will be allocated based on the annual energy requirements of North Carolina and South Carolina retail customers (at the generator), as reflected in the annual cost of service studies.
  - (d) For DSM Programs, the aggregated costs of DSM Programs will be allocated based on the annual summer coincident peak demand of North Carolina and South Carolina retail customers, as reflected in the annual cost of service studies.
  - (e) The allocation factors and inputs used to allocate the estimated rate period costs of DSM and EE Programs shall be those drawn from the most recently filed cost of service study at the

time the annual cost recovery filing is made. The allocations of costs shall be trued up at the time that finalized and trued-up costs for a given test period are initially passed through the DSM/EE EMF, using the most recently filed cost of service study at the time the filing is made (but for no later year than the period being trued up). For subsequent true-ups of that period, the cost of service study used will be the same as that used for the initial true-up.

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

**Cost Recovery**

46. In general, as provided in Commission Rule R8-69 and G.S. 62-133.9(d), but subject to the specific provisions and/or modifications contained in this Mechanism, DEP shall be allowed to recover, through the DSM/EE rider, all reasonable and prudent Program Costs reasonably and appropriately estimated to be incurred in expenses, during the current rate period, for DSM and EE Programs that have been approved by the Commission under Rule R8-68. As permitted by G.S. 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 DEP's reasonable and prudent non-capital Program Costs to the extent those costs are intended to produce future benefits. DEP shall be allowed to amortize any costs so deferred over a period of time not to exceed 10 years, unless the Commission determines otherwise.
47. Pursuant to Commission Rule R8-69(b)(6), except for administrative and general expenses (addressed in Paragraph No. 50 below), DEP shall be allowed to earn a rate of return at the overall weighted average net-of-tax rate of return approved in DEP's most recent general rate case on all such unamortized deferred costs (net of income taxes). The return so calculated will be adjusted in any rider



calculation to reflect necessary recoveries of income taxes. Pursuant to Commission Rule R8-69(c)(3), the Company is not allowed to accrue a return on NLR or the PPI.

48. With regard to Program Costs incurred prior to January 1, 2016, said costs will be recovered using existing amortization rates, until such time that those deferred costs are recovered, in their entirety, through the DSM/EE cost recovery clause, unless the Parties recommend, and the Commission approves, a different treatment.
49. Beginning in vintage (calendar) year 2016, DEP may recover, subject to approval by the Commission in the annual DSM/EE rider proceedings, Program Costs incurred, without deferral for amortization in future DSM/EE riders, even if Program Costs incurred for the same Program in prior years have been deferred and amortized.
50. To the extent DEP chooses to defer and amortize in future DSM/EE riders the Program Costs for a Program pursuant to Paragraph No. 46 above, non-incremental administrative and general costs reasonably assigned or allocated to, but not directly related to, that Program will be deferred and amortized over a period not to exceed three years, unless the Commission determines otherwise. Pursuant to Commission Rule R8-69(b)(6), DEP shall be allowed to earn a rate of return at the overall weighted average net-of-tax rate of return

approved in DEP's most recent general rate case on all such unamortized deferred administrative and general costs (net of income taxes). The return so calculated will be adjusted in any rider calculation to reflect necessary recoveries of income taxes. However, irrespective of the prospective treatment of Program Costs in calendar year 2016 or afterwards, previously deferred administrative and general costs will be recovered using existing amortization rates, until such time that those deferred costs are recovered, in their entirety, through the DSM/EE cost recovery clause, unless the parties recommend, and the Commission approves, a different treatment.

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

Measurement Unit or Program, as applicable, and period, consistent with the presentation included in the Company's application.

**Net Lost Revenues (NLR)**

54. 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, DEP shall be permitted to recover, through the DSM/EE and DSM/EE EMF riders, NLR associated with the implementation of approved DSM and EE Programs, subject to the restrictions set out below.
55. The North Carolina retail kWh sales reductions that result from an approved measurement unit installed in a given Vintage Year shall be eligible for use in calculating NLR eligible for recovery only for the first 36 months after the installation of the Measurement Unit. Thereafter, such kWh sales reductions will not be eligible for calculating recoverable NLR for that or any other Vintage Year.
56. Programs or Measures with the primary purpose of promoting general awareness and education of EE and DSM activities, as well as research and development activities, are ineligible for the recovery of NLR.

57. In order to recover estimated NLR associated with a Pilot Program or Measure, DEP must, in its application for program or measure approval, demonstrate (a) that the program or measure is of a type that is intended to be developed into a full-scale, Commission-approved program or measure, and (b) that it will implement an EM&V plan based on industry-accepted protocols for the program or measure. No pilot program or measure will be eligible for NLR recovery upon true-up unless it (a) is ultimately proven to have been cost-effective, and (b) is developed into a full-scale, commercialized program.
58. Notwithstanding the allowance of 36 months' NLR associated with eligible kWh sales reductions, the kWh sales reductions that result from measurement units installed shall cease being eligible for use in calculating NLR as of the effective date of (a) a Commission-approved alternative recovery mechanism that accounts for the eligible NLR associated with eligible kWh sales reductions, or (b) the implementation of new rates approved by the Commission in a general rate case or comparable proceeding to the extent the rates set in the general rate case or comparable proceeding are set to explicitly or implicitly recover the NLR associated with those kWh sales reductions.

59. Overall recoverable NLR as measured for the 36-month period identified in Paragraph 55 above shall be reduced by any increases in Net Found Revenues during the same periods.
60. Recoverable NLR shall ultimately be based on kWh sales reductions and kW savings verified by the EM&V process and approved by the Commission. Recoverable NLR shall be estimated and trued-up, on a Vintage Year basis, in the following manner:
- (a) As part of the DSM/EE rider approved in each annual cost and incentive recovery proceeding, DEP shall be allowed to recover the appropriate and reasonable level of recoverable NLR associated with each applicable program and Vintage Year (subject to the limitations set forth in this Mechanism), estimated to be experienced during the rate period for which the DSM/EE rider is being set.
  - (b) NLR related to any given program/measure and Vintage Year shall be 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. The true-up shall be based on verified savings and shall

be applied to prospective and past time periods in accordance with the Evaluation, Measurement, and Verification section of this Mechanism.

- (c) The true-up shall be calculated based on the difference between projected and actual recoverable NLR for each Program and period under consideration, accounting for any differences derived from the completed and reviewed EM&V studies, including: (1) the projected and actual number of installations per Measurement Unit; (2) the projected and actual net kilowatt-hour (kWh) and kilowatt (kW) savings per installation; (3) the projected and actual gross lost revenues per kWh and kW saved; and (4) the projected and actual deductions from gross lost revenues per kWh and kW saved.
- (d) The reduction in NLR due to Net Found Revenues shall be trued up in a manner consistent with the true-up of NLR.
- (e) The combined total of all Vintage Year true-ups calculated in a given year's Commission Rule R8-69 proceeding shall be incorporated into the appropriate DSM/EE EMF billing factor.

### **Portfolio Performance Incentive (PPI)**

- 61. When authorized pursuant to Commission Rule R8-69(c), DEP shall be allowed to collect a PPI for its DSM/EE portfolio for each Vintage

Year, separable into Residential, Lighting, Non-Residential DSM, Non-Residential EE categories. The PPI shall be subject to the restrictions set out below.

62. Programs, Measures, and activities undertaken by DEP with the primary purpose of promoting general awareness of and education about EE and DSM activities, as well as research and development activities, that are not directly associated with a Commission approved EE or DSM Program, will not be included in the portfolio for purposes of the PPI calculation.
63. Unless (a) the Commission approves DEP's specific request that a pilot program or measure be eligible for PPI inclusion when DEP seeks approval of that program or measure, and (b) the pilot is ultimately commercialized, pilot programs or measures are ineligible for and will not be factored into the calculation of the PPI.
64. Low-Income Programs or other programs explicitly approved with expected UCT results less than 1.00 shall not be included in the portfolio for purposes of the PPI calculation.
65. The PPI shall be based on the net dollar savings of DEP's DSM/EE portfolio, as calculated using the UCT. The North Carolina retail jurisdictional and class portions of the system-basis net dollar savings shall be determined in the same manner as utilized to determine the

North Carolina retail jurisdictional and class portions of recoverable system costs. The PPI for each Vintage Year shall be incorporated into DEP's DSM/EE or DSM/EE EMF billing factors, as appropriate.

66. In its annual filing, pursuant to Commission Rule R8-69(f), DEP shall indicate, for each Program or Measure for which it seeks PPI inclusion, the annual projected and actual utility costs, participant costs, number of Measurement Units installed, per kW and kWh impacts for each Measurement Unit, and per kW and kWh avoided costs for each Measurement Unit, consistent with the UCT, related to the applicable Vintage Year installations that it requests the Commission to approve. Upon its review, the Commission will make findings based on DEP's annual filing for each Program or Measure which is included in an estimated or trued-up PPI calculation for any given Vintage Year.
  
67. Unless the Commission determines otherwise in a G.S. 62-133.9 DSM/EE rider proceeding, the amount of the pre-income-tax PPI initially to be recovered in a Vintage Year for the entire DSM/EE portfolio, excluding Programs not eligible for a PPI, shall be equal to 11.75% multiplied by the present value of the estimated net dollar savings associated with the portfolio installed in that Vintage Year, calculated by Program using the UCT (and excluding Low Income 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.

68. Unless the Commission determines otherwise in a G.S. 62-133.9 DSM/EE rider proceeding, the PPI for vintage periods subsequent to the approval of this mechanism shall be converted into a stream of no more than 10 levelized annual payments, accounting for and incorporating DEP's overall weighted average net-of-tax rate of return approved in DEP's most recent general rate case as the appropriate discount rate. Levelized annual payments applicable to Programs in prior vintage periods will continue until all such amounts are recovered.

69. For the PPI for Vintage Year 2016, the per kW avoided capacity costs used to calculate avoided cost savings shall be the avoided capacity cost rates approved by the Commission for DEP in the most recent biennial avoided cost proceeding as of the date of the filing of the 2015 DSM/EE cost and incentive recovery proceeding. The per kWh avoided energy costs shall be those reflected in or underlying the most recently filed integrated resource plan (IRP).
70. For the PPI for Vintage Years 2016 through 2017<sup>2</sup>, the presumptive per kW avoided capacity costs and per kWh avoided energy costs used to calculate avoided cost savings shall be those determined pursuant to Paragraph 69 above. However, if at the time of initial estimation of the PPI for Vintage Year 2017, either (a) the Company's per kWh avoided energy costs calculated for the purposes of the Company's annual IRP or resource plan update filings have increased or decreased by 20% or more or (b) the Company's per kW avoided capacity costs reflected in the rates approved in the biennial avoided cost proceedings have increased or decreased by 15% or more, the avoided costs (both energy and capacity) will be updated for purposes of the DSM/EE rider proceeding.

---

<sup>2</sup> The Company and the Public Staff have agreed that in lieu of adjusting avoided cost for Vintage Year 2018, that both the projected and actual PPI at the time of true-up shall be reduced by \$2.1 million.

- 70A. For the PPI for Vintage Years 2019 and afterwards, the program-specific per kW avoided capacity benefits and per kWh avoided energy benefits used for the initial estimate of the PPI and any PPI true-up will be derived from the underlying resource plan, production cost model, and cost inputs that generated the avoided capacity and avoided energy credits reflected in the most recent Commission-approved Biennial Determination of Avoided Cost Rates for Electric Utility Purchases from Qualifying Facilities as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing. However, for the calculation of the underlying avoided energy credits to be used to derive the program-specific avoided energy benefits, the calculation will be based on the projected EE portfolio hourly shape, rather than the assumed 24x7 100 MW reduction typically used to represent a qualifying facility.
71. The per kW avoided transmission and avoided distribution (avoided T&D) costs used to calculate net savings for a Vintage Year shall be based on the study update at least every two years only if the study update results in a 20% change from the prior study's avoided T&D costs.
72. Unless DEP and the Public Staff agree otherwise, DEP shall not be allowed to update its avoided capacity costs and avoided energy costs after filing its annual cost and incentive recovery application for

purposes of determining the DSM/EE and DSM/EE EMF riders in that proceeding.

73. DEP and the Public Staff will study the issue of the appropriate avoided T&D costs to be used in the Company's calculations of cost-effectiveness and achieved net dollar savings, and, if appropriate, recommend in the Company's 2015 DSM/EE rider proceeding adjustments to the avoided T&D cost rates filed in this proceeding, to be made on a prospective basis for vintage (calendar) year 2016. However, for purposes of the Mechanism, the Parties agree that the Company's initially proposed avoided T&D cost rates are reasonable for Vintage Year 2015. The Company and the Public Staff have agreed to utilize methods and assumptions similar to those utilized in the ongoing joint effort between the Public Staff and Duke Energy Carolinas, LLC, to the extent it is reasonable to do so.
74. When DEP files for its annual cost recovery under Commission Rule R8-69, it shall comply with the filing requirements of Commission Rule R8-69(f)(1)(iii), reporting all interim measurement and verification data, even if that data is not final, to assist the Commission and the Public Staff in their review and monitoring of the impacts of the DSM and EE Measures.
75. The PPI for each Vintage Year shall ultimately be based on net dollar savings as verified by the EM&V process and approved by the

Commission. The PPI for each Vintage Year shall be trued-up as follows:

- (a) As part of the DSM/EE rider approved in each annual cost and incentive recovery proceeding, DEP shall be allowed to recover an appropriately and reasonably estimated PPI (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 related to any given Vintage Year shall be trued-up through the DSM/EE EMF rider in subsequent annual cost and incentive recovery proceedings based on the Commission-approved results of the appropriate EM&V studies related to the program/measure and Vintage Year, as determined pursuant to the EM&V Agreement. The true-up shall be based on verified savings and shall be applied to prospective and past time periods in accordance with the Evaluation, Measurement, and Verification section of this Mechanism.
- (c) The amount of the PPI ultimately to be recovered for a given Vintage Year shall be based on the present value of the actual net dollar savings derived from all Measurement Units installed

in that Vintage Year, as associated with each DSM/EE program offered during that year (excluding Low Income Programs), and 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 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.

76. 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.

77. 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.

**Additional Incentive**

78. As further incentive to motivate the Company to aggressively pursue offering available cost-effective EE and DSM Programs, if the Company achieves incremental energy savings of 1% of the prior year's DEP system retail electricity sales in any year during the five-year 2015-2019 period, the Company will receive a bonus incentive of \$400,000 for that year. The Company is eligible to receive the bonus incentive each year during the five-year 2016-2020 period. Verification of this achievement will be obtained through the EM&V process discussed elsewhere in this Mechanism.

**Financial Reporting Requirements**

79. In its quarterly ES-1 Reports to the Commission, DEP shall calculate and present its primary North Carolina retail jurisdictional earnings by including all actual EE and DSM Program revenues, including PPI and NLR incentives, and costs. Additionally, DEP shall prepare and present (1) supplementary schedules setting forth the Company's North Carolina retail jurisdictional earnings excluding the effects of the

PPI; (2) supplementary schedules setting forth the Company's North Carolina retail jurisdictional earnings excluding the effects of its EE and DSM Programs; (3) supplementary schedules setting forth earnings, including overall rates of return and returns on common equity actually realized from DEP's EE and DSM Programs in total and stated separately by Program Class (Program Classes are hereby defined to be (a) EE Programs and (b) DSM Programs); and (4) supplementary schedules setting forth earnings, including overall rates of return and returns on common equity actually realized from DEP's (a) DSDR Program and (b) all other Programs, collectively, in the EE Program Class. (Show DSDR Program returns and all other collective EE Program returns separately.) Detailed workpapers shall be provided for each scenario described above. Such workpapers, at a minimum, shall clearly show actual revenues; expenses; taxes; operating income; rate base/investment, including components; and the applicable capitalization ratios and cost rates, including overall rate of return and return on common equity.

### **Review of Mechanism**

80. The terms and conditions of this Mechanism shall be reviewed by the Commission every four years unless otherwise ordered by the Commission. However, a Stipulating Party may request the Commission to initiate such a review at any time within the four year



period. The Company and other parties shall submit any proposed changes to the Commission for approval at the time of the filing of the Company's annual DSM/EE rider filing. During the time of review, the Mechanism shall remain in effect until further order of the Commission revising the terms of the Mechanism or taking such other action as the Commission may deem appropriate.

**Term**

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