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

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

1. *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.

~~1.~~ 2. *Common Costs* are administrative and general, or other, costs that are not attributable or directly assignable to specific demand-side management (DSM) or energy efficiency (EE) Programs but are necessary to design, implement, and operate the Programs collectively.

~~2.~~ 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.

~~3.~~ 4. *Incremental Program Costs* are utility-incurred costs directly attributable and expended solely for a specific DSM or EE Program, and include all appropriate capital costs (cost of capital, depreciation expenses, property taxes, and other associated costs found reasonable by the Commission), implementation costs, incentive payments to Program participants, other operations and maintenance costs, EM&V costs, and administrative and general costs incurred specifically for the Program, net of any grants, tax credits, or other reductions in cost received by the utility from outside parties and specifically related to the Program.

~~4.~~ 5. *Low-Income Programs or Low-Income Measures* are DSM or EE Programs or DSM or EE Measures approved by the Commission to be provided specifically to ~~low-income customers.~~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.~~ 6. *Measure* means, with respect to EE, an ~~“~~"energy efficiency measure,~~”~~" as defined in N.C. Gen. Stat. § 62-133.8(a)(4), that is new within the meaning of N.C. Gen. Stat. § 62-133.9(a); and, with respect to DSM, an activity, initiative, or Program change, that is new under N.C. Gen. Stat. § 62-133.9(a) and satisfies the definition of “demand-side management” as set forth in N.C. Gen. Stat. § 62-133.8(a)(2).

~~6.~~ 7. *Measurement Unit* means the basic unit that is used to measure and track the (a) incurred costs; (b) Net Lost Revenues; and (c) kilowatt (kW), kilowatt-hour (kWh), and dollar savings, net of Net-to-gross (NTG) effects for DSM or EE Measures installed in each Vintage Year. A Measurement Unit may consist of an individual Measure or bundle of Measures. Measurement units shall be requested by Duke Energy Progress (DEP) and established by the Commission for each Program in the Program approval process, and shall be subject to modification by the Commission when appropriate. If Measurement Units have not been established for a particular Program, the Measurement Units for that Program shall be the individual Measures, unless the Commission determines otherwise.

~~7.~~ 8. *Measurement Unit~~’~~'s Life* means the estimated number of years that equipment or customer treatment associated with a Measurement Unit will operate if properly maintained, or activities (services or customer behavior) associated with the Measurement Unit will continue to be cost-effective, and produce energy (kWh) or peak demand (kW) savings, unless the Commission determines otherwise.

~~8.~~ 9. *Net Found Revenues* means any increases in revenues resulting from any activity by DEP’s public utility operations that causes a customer to increase demand or energy consumption, whether or not that activity has been approved pursuant to Commission Rule R8-68. The dollar value of Net Found Revenues will be determined in a manner consistent with the determination of the dollar value of NLR provided in Paragraph No. ~~9~~10 below. In determining which activities produce Net Found Revenues, the “Decision Tree” attached to this Mechanism as Attachment C will be applied. Net Found Revenues may be reduced, if such reduction is approved as reasonable and appropriate by the Commission, by a decrease in revenues resulting from an activity by DEP’s public utility operations that causes a customer to reduce demand or energy consumption (negative found revenues). To be approved, it must be demonstrated that the activity producing the negative found revenues reduces the profitability of the Company. Additionally, the total amount of

Net Found Revenues for a given vintage year will not be reduced to a level below zero by the inclusion of negative found revenues.

~~9.~~ 10. *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~~[10]~~, or in the case of purchased power, in the applicable billing period incurred by DEP public utility operations as the result of a new DSM or EE Measure. PPIs shall not be considered in the calculation of NLR or NLR recovery.

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

~~10.~~ 11. *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.

12. *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.

~~11.~~ 13. *Portfolio Performance Incentive* (PPI) means a utility incentive payment to DEP as a bonus or reward for adopting and implementing new (as defined in N.C. Gen. Stat. § 62-133.9(a)) EE or DSM Measures and/or

~~[10] 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.~~

Programs. The PPI is based on the sharing of avoided cost savings, net of Program Costs, achieved by those DSM and EE Programs in the aggregate. Such Program Costs will be adjusted as discussed elsewhere in this Mechanism. The PPI 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 NLR.

~~12.~~ 14. *Program Return Incentive (PRI)* means a utility incentive payment to DEP for adopting and implementing programs that fail to pass the Utility Cost Test, but are approved by the Commission due to the societal benefit they provide, such as low income programs. For these types of programs, the PRI will be based on a percentage of the NPV of the avoided costs savings achieved by those DSM and EE Programs. ~~The~~ PRI ~~is subject to certain additional factors and limitations, as further set forth in this Mechanism~~excludes NLR.

~~13.~~ 15. *Program* means one or more new DSM or EE Measures with similar objectives that have been consolidated for purposes of delivery, administration, and cost recovery, and that have been adopted on or after January 1, 2007, including subsequent changes and modifications.

~~14.~~ 16. *Program Costs* are costs that are directly attributable or reasonably and appropriately allocable to specific DSM or EE Programs or groups of Programs (for purposes of setting the DSM/EE and DSM/EE EMF riders), and include all appropriate and reasonable Incremental Program Costs, and reasonably assigned or allocated administrative and general expenses and other Common Costs, net of any reasonably assigned or allocated grants, tax credits, Program Cost adjustments as discussed elsewhere in this Mechanism, or other reductions in cost received by the utility from outside parties.

~~15.~~ 17. *Total Resource Cost* (TRC) *test* means a cost-effectiveness test that measures the net costs of a DSM or EE Program or portfolio as a resource option based on the incremental costs of the Program or portfolio, including both the participants' costs and the utility's costs (excluding incentives paid by the utility to or on behalf of participants). The benefits for the TRC test are the avoided supply costs (i.e., the reduction in generation capacity costs, transmission and distribution capacity costs, and energy costs caused by a load reduction), valued at marginal cost for the periods when there is a load reduction. The avoided supply costs shall be calculated using net Program or portfolio savings (i.e., savings net of reductions in energy use (NTG impacts) that would have happened even in the absence of the Program). Non-Energy benefits, as approved for use by the Commission, ~~may~~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 1.57 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 the DEP IQ NES NEBS multiplier of 2.04 to the value of energy savings in the numerator of the cost-effectiveness test. The costs for the TRC test are the incremental net Program or portfolio costs incurred by the utility and participants, plus the increased supply costs for any periods in which load is increased. All costs of equipment, installation, operation and maintenance (O&M), removal (less salvage value), and administration, no matter who pays for them, are included in this test. However, Common Costs shall not be included in a Program-level TRC test used for program approval purposes~~,~~ but shall be included in a portfolio-level TRC test. Any grants, tax credits, or other reductions in cost received by the utility or participants from outside parties and specifically related to the Program or portfolio, as applicable, are considered a reduction to costs in this test.

~~16.~~ 18. *Utility Cost Test* (UCT) means a cost-effectiveness test that measures the net costs of a DSM or EE Program or portfolio as a resource option based on the incremental costs incurred by the utility (including incentive costs paid by the utility to or on behalf of participants) and excluding any net costs incurred by the participants. The benefits for the UCT are the avoided supply costs (i.e., the reduction in generation capacity costs, transmission and distribution capacity costs, and energy costs caused by a load reduction), valued at marginal cost for the periods when there is a load reduction. The avoided supply costs shall be calculated using net Program or portfolio savings (i.e., savings net of reductions in energy use (NTG impacts) that would have happened even in the absence of the Program or portfolio). The costs for the UCT are the net Program or portfolio Costs incurred by the utility and the increased supply costs for any period in which load is increased. Utility costs include initial and annual costs, such as the cost of utility equipment, O&M, installation, Program or portfolio administration, incentives paid to or on behalf of participants, and participant dropout and removal of equipment (less salvage value). However, Common Costs shall not be included in a Program-level UCT test used for program approval purposes, but shall be included in a portfolio-level UCT test. Any grants, tax credits, or other reductions in cost received by the utility from outside parties and specifically related to the Program are considered a reduction to costs in this test.

~~17.~~ 19. *Vintage Year* means an identified 12-month period in which a specific DSM or EE Measure is installed for an individual participant or group of participants.

Application for Approval of Programs

~~18.~~ 20. 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)~~ (a) Commercially available and sufficiently mature;

~~(b)~~ (b) Applicable to the DEP service area demographics and climate; and

~~(c)~~ (c) Feasible for a utility DSM/EE Program.

~~19.~~ 21. DEP will then further screen EE and DSM Measures for cost-effectiveness. For purposes of this screening, estimated incremental EM&V costs attributable to the Measures shall be included in the Measures' costs. With the exception of Measures included in a Low-Income Program, or other Program in which PPI incentives are not requested that may potentially be filed with the Commission for approval, an EE or DSM Measure with a UCT result less than 1.0 will not be considered further, unless the Measure can be bundled into an EE or DSM Program to enhance the overall cost-~~-~~effectiveness of that Program. Measures under consideration for bundling, whether as part of a new Program or into an existing Program, should, unless otherwise approved by the Commission, be consistent with and related to the measure technologies, and/or delivery channels currently offered in the existing Program or to be otherwise offered in the new Program. Consistent with DEP~~'~~'s agreement with Piedmont Natural Gas and Public Service Company of NC, with the exception of Low- Income Programs, all EE and DSM Measures associated with an end-use that can be served by natural gas must pass the UCT.

~~20.~~ 22. 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, ~~consistent with the Commission's Orders in Docket Nos. E-2, Sub 1145 and E-2, Sub 1174,~~ 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 ~~the most recent~~and subject to the 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.

22A. 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 the Program costs.~~ 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.

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.

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.¶

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

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.¶

22B. 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.¶

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.¶

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. ¶

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.

~~21.~~ 23. If a Program fails the economic screening in Paragraph 21~~9~~ above, DEP will determine if certain Measures can be removed from the Program to satisfy the criteria established in Paragraph 21~~9~~. ¶

24.¶~~22.~~ DEP will provide its Stakeholder Collaborative with information relating to Programs and Measures either currently being considered or planned for future consideration. DEP will also seek suggestions from its Collaborative for additional Programs and Measures for its future consideration.

~~23.~~ 25. 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 other than the DSM/EE Innovation Program described below in Paragraph 32. 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. 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, where known, DEP shall identify the independent third party it plans to use for purposes of EM&V~~,~~ and include an estimate of all third-party costs in its filing. If not known at the time of filing for approval, the information shall be provided at the time of DEP's next annual rider filing.

Program Management

~~24.~~ 26. In each annual DSM/EE cost recovery filing, DEP shall (a) perform prospective cost-effectiveness test evaluations for each of its approved DSM and EE Programs, (b) perform prospective aggregated portfolio-level cost-effectiveness test evaluations for its approved DSM/EE Programs (including any assigned or allocated administrative and general or other common costs), and (c) include these prospective cost-effectiveness test results in its DSM/EE rider application.

~~24A.~~ 26A. Consistent with the Commission's Orders in Docket Nos. E-2, Sub 1145 and E-2, Sub 1174, for purposes of calculating prospective cost-effectiveness in each DSM/EE rider proceeding to be used to determine whether a program should remain in the portfolio, the Company shall assess each program by:

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

~~24B.~~ 26B. 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~~6A above of less than 1.00, the Company shall include a discussion in its annual DSM/EE rider proceeding of the actions being taken to maintain or improve cost-effectiveness, or alternatively, its plans to terminate the program.

~~24C.~~ 26C. For programs that demonstrate a prospective UCT, determined pursuant to Paragraph 2~~4~~6A above, of less than 1.00 in a second DSM/EE rider proceeding, the Company shall include a discussion of what actions it has taken to improve cost-effectiveness. Fluctuations of UCT above and below 1.0 should be addressed on a case by case basis.

~~24D.~~ 26D. For programs that demonstrate a prospective UCT, determined pursuant to Paragraph 2~~4~~6A above, of less than 1.00 in a third DSM/EE rider proceeding, the Company shall terminate the program effective at the end of the year following the DSM/EE rider order, unless otherwise ordered by the Commission. However, any party may propose termination of a program prior to a third DSM/EE rider proceeding if earlier information indicates that cost-effectiveness is not likely to reach 1.0 or greater under the UCT test.

~~25.~~ 26E. DEP will seek to leverage available state and federal funds to operate effective efficiency Programs. Its application for such funds will be transparent with respect to the cost, operation, and profitability of Programs operated with those funds in a manner consistent with its authorized revenue recovery mechanism. Use of such funds helps offset the participant's project costs and is supplemental to DEP's incentives to participants. As such, these funds will not change the impacts or Program- or portfolio-level cost-effectiveness of DEP's Programs as calculated using the UCT. Further, the amount of avoided costs recognized by the Company will not be reduced if participants also use state or federal funds to offset any portion of their project costs.

Program Modifications

~~25A.~~ 27A. Modifications to Commission approved DSM/EE Programs will be considered as provided for in Attachment A to this Mechanism.

~~25B.~~ 27B. Modifications filed with the Commission for approval will be evaluated under the same guidelines and parameters used in DEP's most recently filed DSM/EE rider proceeding.

Stakeholder Collaborative

~~26.~~ 28. DEP will conduct periodic collaborative stakeholder meetings for the purpose of collaborating on new Program ideas, reviewing modifications to existing Programs, ensuring an accurate public understanding of the Programs and funding, reviewing the EM&V process, giving periodic status reports on Program performance, helping to set EM&V priorities, providing recommendations toward DEP's submission of applications to revise or extend Programs and rate structures, and guiding efforts to expand cost-~~-~~effective Programs for low-income customers. A third party may facilitate the discussions

~~27.~~ 29. The Carolinas EE Collaborative is an advisory group made up of interested stakeholders from across North and South Carolina representing a wide array of customer groups and interests related to energy efficiency and demand response. The Collaborative should serve as an open forum for the sharing of information and discussion of topics related to energy efficiency including program design and development, program evaluation, regulatory and other market conditions that will impact program performance, specific issues or topics as requested by the North and South Carolina Utilities Commissions in orders regarding DSM and EE matters, and other topics or issues to achieve the most demand and energy savings possible. ~~A third party may~~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.

~~28.~~ 30. 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. 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.

~~29.~~ 31. 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.

DSM/EE Innovation Program

32. Beginning in Vintage 2025, the Company's DSM/EE Portfolio shall include an 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.

Distribution System Demand Response (DSDR) Program

~~30.~~ 33. The DSDR Program is an EE Program defined as "new" pursuant to N.C. Gen. Stat. § 62-133.8 and N.C. Gen. Stat. § 62-133.9, and is eligible for recovery of reasonable and prudent costs, as well as NLR, subject to the terms and conditions of NLR set forth herein. The DSDR Program is not eligible for recovery of a PPI.

~~31.~~ 34. The rate of return on investment used to determine the DSDR Program capital-related costs included in each annual rider will be based on the then-current capital structure, embedded cost of preferred stock, and embedded cost of debt of the Company (net of appropriate income taxes), and the cost of common equity approved in the Company's then most recent general rate case.

Evaluation, Measurement and Verification

~~32.~~ 35A. 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.

35B. 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.

~~33.~~ 36. EM&V will be applied in accordance with the provisions of Attachment B to this Mechanism. ~~34.~~ EM&V will also include updates of any NTG factors related to previous NTG estimates for Programs and Measures. All of the updated information will be used in evaluating the continued cost-effectiveness of existing Programs and portfolios. 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~~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. 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.

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

~~35.~~ 37. Commercial customers with annual consumption of 1,000,000 kWh or greater in the billing months of the prior calendar year and all industrial customers that implement or will implement alternative DSM/EE Measures may, consistent with Commission Rule R8-69(d), elect to not participate in any utility-offered DSM/EE Measures and, after written notification to the utility, will not be subject to the DSM/EE rider and DSM/EE EMF rider. For purposes of application of this option, a customer is defined to be a metered account billed under a single application of a Company rate tariff. For commercial accounts, once one account meets the opt-out eligibility requirement, all other accounts billed to the same entity with lesser annual usage located on the same or contiguous properties are also eligible to opt-~~-~~out of the DSM/EE rider and DSM/EE EMF rider. Since these rates are included in the rate tariff charges, customers electing this option shall receive a DSM and/or EE credit on their monthly bill statement.

~~36.~~ 38. Opt-out eligible customers that have received DSM/EE Program incentives will be subject to the applicable DSM/EE rider and DSM/EE EMF rider billings for a period of no less than 36 months.

~~37.~~ 39. Eligible non-residential customers may opt out of either or both of the DSM and EE categories of Programs as well as opt back into either or both. If a customer receives Program incentives from a Company DSM or EE Program, that customer must opt-in for a period of no less than 36 months. A customer receiving Program incentives from a DSM Program will be required to pay the DSM portion of the DSM/EE Rider for a period of not less than 36 months. A customer receiving Program incentives from an EE Program will be required to pay the EE portion of the DSM/EE Rider for a period of not less than 36 months.

~~38.~~ 40. In cases when the DSM rate element of Rider DSM/EE is a credit, any opt-~~-~~out eligible customer who wishes to opt-in to the DSM portion of the Rider, without participating in a DSM program, will be required to remain opted into the DSM portion of the Rider for the same number of months that they received a bill credit following the last month in which they received a DSM bill credit from the Rider.

~~39.~~ 41. In cases when the EE rate element of Rider DSM/EE is a credit, any opt-~~-~~out eligible customer who wishes to opt-in to the EE portion of the Rider, without participating in ~~a~~an EE program, will be required to remain opted into the EE portion of the Rider for the same number of months that they received a bill credit following the last month in which they received ~~a~~an EE bill credit from the Rider.

Procedural Matters and General Structure of Riders

~~40.~~ 42. The rate period for each proposed DSM/EE Rider will be the next upcoming calendar year at the time of the filing of DEP's annual DSM/EE rider application. The test period used in the development of the DSM/EE EMF Rider will be the most recently concluded calendar year at the time of filing of the application.

~~41.~~ 43. For purposes of measuring the cost-effectiveness of Programs and for calculation of the PPI and PRI, a Vintage Year will be equivalent to a calendar year.

~~42.~~ 44. The annual filing date of DEP's DSM/EE rider application, supporting testimony, and exhibits will be no later than 98 days prior to the hearing date prescribed by Commission Rule (currently the first Tuesday of June of each calendar year). Should the Company become aware prior to filing of a determined or possible change in the hearing date, the Company shall strive to file its application and associated documents no later than 98 days prior to the changed hearing date.

~~43.~~ 45. DEP shall not request that the annual hearing to consider the proposed DSM/EE and DSM/EE EMF riders be held sooner than 98 days after the filing date of the Company's application, supporting testimony, and Exhibits.

~~44.~~ 46. All DSM/EE and DSM/EE EMF riders shall be calculated and charged to customers based on the annual revenue requirements associated with DSM and EE Programs. Separate DSM/EE and DSM/EE

EMF riders shall be calculated for the Residential customer class, the Non-Residential customer classes, and the Lighting class.

~~45.~~ 47. One integrated (prospective) DSM/EE rider and one integrated DSM/EE EMF rider shall be calculated for the Residential class and the Residential portion of the Lighting class, respectively, to be effective each rate period. The integrated Residential and Lighting class DSM/EE EMF riders shall include all true-ups for each Vintage Year appropriately considered in each proceeding.

~~46.~~ 48. Separate DSM and EE billing factors will be available to Non-Residential opt-out-eligible customers. Additionally, the Non-Residential DSM and EE rates and the DSM and EE EMF billing factors will be appropriately considered in each proceeding, so that the factors can be appropriately charged to Non-Residential opt-out eligible customers.

~~47.~~ 49. For purposes of normalizing or forecasting kWh sales for its annual DSM/EE and DSM/EE EMF rider filing, DEP shall calculate customer growth, weather normalization, and other applicable adjustments on the basis of the test period and/or rate period for each annual filing, as applicable.

Allocation Methodologies

~~48.~~ 50. Unless the Commission determines otherwise in a N.C. Gen. Stat. § 62-133.9 DSM/EE rider (or other) proceeding:

~~(a)~~ (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)~~ (b) No Program Costs of any approved DSM or EE Program will be allocated to the wholesale jurisdiction.

~~(c)~~ (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)~~ (d) 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.

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

Cost Recovery

~~49.~~ 51. In general, as provided in Commission Rule R8-69 and N.C. Gen. Stat. § 62-133.9(d), but subject to the specific provisions and/or modifications contained elsewhere in this Mechanism, DEP shall be allowed to recover, through the DSM/EE rider, all reasonable and prudent Program Costs reasonably and appropriately estimated to be incurred in expenses, during the current rate period, for DSM and EE Programs that have been approved by the Commission under Rule R8-68 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), but subject to the specific provisions and/or modifications contained elsewhere in this Mechanism, any of the Stipulating Parties may propose a procedure for the deferral and amortization in future DSM/EE riders of all or a portion of DEP's reasonable and prudent O&M Program Costs to the extent those costs are intended to produce future benefits.

~~50.~~ 52. Unless the Commission determines otherwise, and subject to the specific provisions and/or modifications contained elsewhere in this

Mechanism, DEP shall be allowed to amortize any O&M costs incurred through Vintage Year 2020 deferred pursuant to Paragraph ~~49~~52 of this Mechanism over a period of time not to exceed 10 years.

~~51.~~ 53. Beginning with Vintage (calendar) Year 2016, and extending through Vintage Year 2020 (as reflected in its 2019 Rider filing), DEP may recover, subject to approval by the Commission in the annual DSM/EE rider proceedings, Program Costs incurred, without deferral for amortization in future DSM/EE riders, even if Program Costs incurred for the same Program in prior years have been deferred and amortized. The Company agrees not to seek general amortization for future DSM/EE riders. Should any special circumstances arise, the Company agrees to discuss with the Public Staff and other interested parties whether it is appropriate to recover over an amortized period.

~~52.~~ 54. With regard to O&M Program Costs incurred prior to January 1, 2016, said costs will be recovered using the amortization rates existing at December 31, 2015, until such time that those deferred costs are recovered, in their entirety, through the DSM/EE cost recovery clause, unless the Parties recommend, and the Commission approves, a different treatment.

~~53.~~ 55. O&M Program Costs incurred in Vintage Year 2021 will be recovered utilizing the same amortization periods as utilized for Vintage Year 2020 Costs for the same Program, unless otherwise approved by the Commission.

~~54.~~ 56. Beginning with Vintage Year 2022, unless otherwise ordered by the Commission pursuant to its own motion or at the request of another party, and extending through a Vintage Year as identified in a future Mechanism review, DEP may recover all Program Costs previously recovered through amortization periods exceeding three years over amortization periods of no less than three years.

~~55.~~ 57. With regard to O&M Program Costs incurred on and subsequent to January 1, 2016 but prior to January 1, 2022, said costs will be recovered using the amortization rates existing at December 31, 2021, until such time that those deferred costs are recovered, in their entirety, through the DSM/EE cost recovery clause, unless the Parties recommend, and the Commission approves, a different treatment.

~~56.~~ ~~In~~58. At the ~~next Mechanism review~~time of any merger of DEC and DEP, the ~~parties~~newly formed entity shall ~~consider whether or not to allow~~propose a new consolidated Mechanism applicable to it. Specifically, the consolidated Mechanism shall include eliminating the ~~minimum~~ three-year amortization period for DEP designated in Paragraph 5~~4~~7 above~~ to be further reduced, taking into consideration the impact upon customer rates, as well as other relevant factors~~.

59. ~~57.~~ Pursuant to Commission Rule R8-69(b)(6), except for administrative and general expenses (addressed in Paragraph No. ~~58~~61 below), DEP shall be allowed to earn a rate of return at the overall weighted average net-of-tax rate of return approved in DEP's most recent general rate case on all such unamortized deferred costs (net of income taxes). The return so calculated will be adjusted in any rider calculation to reflect necessary recoveries of income taxes. Pursuant to Commission Rule R8-69(c)(3), the Company is not allowed to accrue a return on NLR or the PPI.

~~58.~~ 60. To the extent DEP chooses to defer and amortize in future DSM/EE riders the Program Costs for a Program pursuant to Paragraph No. 5~~4~~7 above, non-~~-~~incremental administrative and general costs reasonably assigned or allocated to, but not directly related to, that Program will be deferred and amortized over a period not to exceed three years, unless the Commission determines otherwise. Pursuant to Commission Rule R8-69(b)(6), DEP shall be allowed to earn a rate of return at the overall weighted average net-~~-~~of-tax rate of return approved in DEP's most recent general rate case on all such unamortized deferred administrative and general costs (net of income taxes). The return so calculated will be adjusted in any rider calculation to reflect necessary recoveries of income taxes. However, irrespective of the prospective treatment of Program Costs in calendar year 2016 or afterwards, previously deferred administrative and general costs will be recovered using existing amortization rates, until such time that those deferred costs are recovered, in their entirety, through the DSM/EE cost recovery clause, unless the parties recommend, and the Commission approves, a different treatment.

~~59.~~ 61. The DSM/EE EMF rider shall reflect the difference between the reasonable and prudent Program Costs incurred or amortized during the applicable test period (Vintage Year) and the revenues actually realized during such test period under the DSM/EE rider then in effect.

~~60.~~ 62. 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.

63. 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.

~~61.~~ 64. The cost and expense information filed by DEP pursuant to Commission Rules R8-68(c) and R8-69(f) shall be categorized by Measurement Unit or Program, as applicable, and period, consistent with the presentation included in the Company's application.

Net Lost Revenues (NLR)

~~62.~~ 65. When authorized pursuant to Commission Rule R8-69(c) and unless the Commission determines otherwise, DEP shall be permitted to recover, through the DSM/EE and DSM/EE EMF riders, NLR associated with the implementation of approved DSM and EE Measurement Units or Programs, subject to the restrictions set out below.

~~63.~~ 66. The North Carolina retail kWh sales reductions that result from an approved measurement unit installed in a given Vintage Year shall be eligible for use in calculating NLR eligible for recovery only for the first 36 months after the installation of the Measurement Unit. Thereafter, such kWh sales reductions will not be eligible for calculating recoverable NLR for that or any other Vintage Year.

~~64.~~ 67. Programs or Measures with the primary purpose of promoting general awareness and education of EE and DSM activities, as well as research and development activities, are ineligible for the recovery of NLR.

~~65.~~ 68. In order to recover estimated NLR associated with a Pilot Program or Measure, DEP must, in its application for program or measure approval, demonstrate (a) that the program or measure is of a type that is intended to be developed into a full-scale, Commission-approved program or measure, and (b) that it will implement an EM&V plan based on industry-accepted protocols for the program or measure. No pilot program or measure will be eligible for NLR recovery upon true-up unless it (a) is ultimately proven to have been cost-effective, and (b) is developed into a full-scale, commercialized program.

~~66.~~ 69. Notwithstanding the allowance of 36 months' NLR associated with eligible kWh sales reductions, the kWh sales reductions that result from measurement units installed shall cease being eligible for use in calculating NLR as of the effective date of (a) a Commission-approved alternative recovery mechanism that accounts for the eligible NLR associated with eligible kWh sales reductions, or (b) the implementation of new rates approved by the Commission in a general rate case or comparable proceeding to the extent the rates set in the general rate case or comparable proceeding are set to explicitly or implicitly recover the NLR associated with those kWh sales reductions.

~~67.~~ 70. Recoverable NLR shall be calculated in a manner that appropriately reflects the incremental revenue losses suffered by the Company, net of avoided fuel and non-fuel variable O&M expenses.

~~68.~~ 71. Overall recoverable NLR as measured for the 36-month period identified in Paragraph 6~~3~~7 above shall be reduced by any increases in Net Found Revenues during the same periods (offset by any negative found revenues found appropriate and reasonable by the Commission pursuant to the provisions of paragraph ~~8~~9 of this Mechanism and other factors deemed applicable by the Commission). The “decision tree” adopted by Order in Docket No. E-2, Sub 931, on January 20, 2015, should be applied for determining what constitutes Net Found Revenues. DEP shall closely monitor its utility activities to determine if they are causing a customer to increase demand or consumption, and shall identify and track all such activities with the aid of the “decision tree,” so that they may be evaluated by intervening parties and the Commission as potential Net Found Revenues. Net Found Revenues shall be calculated in an appropriate and reasonable manner that mirrors the calculation used to determine NLR.

~~69.~~ 72. 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)~~ (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)~~ (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)~~ (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)~~ (d) The reduction in NLR 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 NLR.

~~(e)~~ (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.

(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.

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

~~70.~~ 73. When authorized pursuant to Commission Rule R8-69(c), DEP shall be allowed to collect a PPI and PRI, as each is applicable, for its DSM/EE portfolio for each Vintage Year, separable into Residential, ~~Lighting~~lighting (as applicable), Non-~~-~~Residential DSM, Non-Residential EE categories. The PPI and PRI, as applicable, shall be subject to the restrictions set out below.

~~71.~~ 74. Programs, Measures, and activities undertaken by DEP with the primary purpose of promoting general awareness of and education about EE and DSM activities, as well as research and development activities, that are not directly associated with a Commission approved EE or DSM Program, are ineligible to be included in the portfolio for purposes of the PPI or PRI calculations.

~~72.~~ 75. Unless (a) the Commission approves DEP's specific request that a pilot program or measure be eligible for PPI or PRI inclusion when DEP seeks approval of that program or measure, and (b) the pilot is ultimately commercialized, pilot programs or measures are ineligible for and the benefits and costs associated with those pilots will not be factored into the calculation of the PPI.

~~73.~~ 76. The PPI and PRI for each Vintage Year shall be incorporated into DEP's DSM/EE or DSM/EE EMF billing factors, as appropriate.

~~74.~~ 77. In its annual filing, pursuant to Commission Rule R8-69(f), DEP shall file an exhibit that indicates, for each Program or Measure for which it seeks a PPI or PRI, the annual projected and actual utility costs, participant costs, number of Measurement Units installed, per kW and kWh impacts for each Measurement Unit, and per kW and kWh avoided costs for each Measurement Unit, consistent with the UCT, related to the applicable Vintage Year installations that it requests the Commission to approve. Upon its review, the Commission will make findings based on DEP's annual filing for each Program or Measure that is included in an estimated or trued-up PPI or PRI calculation for any given Vintage Year.

~~75.~~ 78. Low-Income Programs and other specified societal programs or other programs explicitly approved with expected UCT results less than 1.00 shall not be included in the portfolio for purposes of the PPI calculation until they demonstrate UCT results greater than 1.00.

However, such programs will be eligible for the PRI, if so approved by the Commission, until they demonstrate UCT results greater than 1.00.

~~76.~~ 79. The PPI shall be based on the net dollar savings of DEP's DSM/EE portfolio, as calculated using the UCT. The North Carolina retail jurisdictional and class portions of the system-basis net dollar savings shall be determined in the same manner as utilized to determine the North Carolina retail jurisdictional and class portions of recoverable system costs.

~~77.~~ 80. Unless the Commission determines otherwise in an annual N.C. Gen. Stat. § 62-133.9 DSM/EE rider proceeding, and subject to the factors and limitations set forth elsewhere in this Mechanism, beginning for Vintage Year 2022 the amount of the pre-income-tax PPI initially to be recovered for the entire DSM/EE portfolio for a Vintage Year, excluding Programs not eligible for a PPI, shall be ~~equal to 10.60% multiplied by~~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 Program using the UCT (and excluding Low Income Programs and other specified societal programs). The present value of the estimated net dollar savings shall be the difference between the present value of the annual lifetime avoided cost savings for measurement units projected to be installed in that Vintage Year and the present value of the annual lifetime program costs for those measurement units. The annual lifetime avoided cost savings for measurement units installed in the applicable Vintage Year shall be calculated by multiplying the number of each specific type of Measurement Unit projected to be installed in that Vintage Year by the most current estimates of each lifetime year's per installation kW and kWh savings and by the most current estimates of each lifetime year's per kW and kWh avoided costs. In calculating the forecasted initial PPI it will be assumed that projections will be achieved.

~~78.~~ 81. Beginning with Vintage Year 202~~2, the dollar amount of the pre-tax PPI ultimately allowed for each Vintage Year, after true-up pursuant to Paragraph 89 of this Mechanism, shall be no greater than the dollar amount that produces a 19.50% margin over the aggregate pre-tax Program Costs for the Vintage Year of those programs in the Portfolio that are eligible for the PPI. Likewise~~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~~93 of this Mechanism, shall be ~~no less than the dollar amount that produces~~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 ~~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, DEP 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
DEP	8.03	7.227	7.6285		8.833	9.636
PPI Multiplier		0.95	0.975	1	1.025	1.05

~~79.~~ 82. Unless the Commission determines otherwise in a N.C. Gen. Stat. § 62-133.9 DSM/EE rider proceeding, the PPI for vintage periods subsequent to the approval of this mechanism through Vintage Year 2021 shall be converted into a stream of no more than ~~10~~3 levelized annual payments, accounting for and incorporating DEP~~'~~'s overall weighted average net-of-tax rate of return approved in DEP~~'~~'s most recent general rate case as the appropriate discount rate. After Vintage Year 202~~1~~6, the PPI and O&M Program Costs related to any given Vintage Year will no longer be ~~levelized over the same period over which O&M Program Costs for that Vintage Year are~~ amortized. Levelized annual payments applicable to Programs in prior vintage periods will continue until all such amounts are recovered.

~~80.~~ 83. The PRI shall be based on the gross avoided costs of those programs eligible for the PRI. The North Carolina retail jurisdictional and class portions of the system-basis gross dollar savings shall be determined in the same manner as utilized to determine the North Carolina retail jurisdictional and class portions of recoverable system costs.

~~81.~~ 84. Unless the Commission determines otherwise in an annual N.C. Gen. Stat. § 62-133.9 DSM/EE rider proceeding, and subject to the factors and limitations set forth in this Mechanism, beginning for Vintage Year 2022 the amount of the pre-income-tax PRI initially to be recovered for Low Income Programs and other specified societal programs not eligible for a PPI shall be a percentage, as determined pursuant to Paragraph 8~~2~~6 of this Mechanism, multiplied by the present value of the estimated gross dollar avoided cost savings associated with the applicable DSM/EE Programs installed in that Vintage Year, used in determination of the UCT. The present value of the estimated gross dollar savings shall be determined in the same manner as used for Programs eligible for the PPI.

~~82.~~ 85. 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, DEP shall utilize the best and most accurate estimate of the UCT and the resulting PRI percentage it can determine at that time.

~~83.~~ 86. For the PPI and PRI for Vintage Years 20~~19~~25 and afterwards, ~~consistent with the Commission's Orders in Docket Nos. E-2, Sub 1145 and E-2, Sub 1174,~~ the program-specific per kW ~~avoided capacity benefits~~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. ¶

87.~~¶84.~~ No later than December 31, 202~~1~~4, DEP and the Public Staff will jointly review the ~~issue of the appropriate~~ avoided ~~T&D costs~~transmission and avoided distribution (avoided T&D) benefits to be used in the Company's 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 89 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.

~~85.~~ 88. 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.

~~86. Unless DEP and~~89. With the ~~Public Staff agree otherwise~~exception of a one-time reconciliation of Vintage 2025, DEP 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.

~~87.~~ 90. When DEP files for its annual cost recovery under Commission Rule R8-69, it shall comply with the filing requirements of Commission Rule R8-~~-~~69(f)(1)(iii), reporting all measurement and verification data, even if that data is not final, to assist the Commission and the Public Staff in their review and monitoring of the impacts of the DSM and EE Measures.

~~88.~~ 91. DEP bears the burden of proving all dollar savings and costs included in calculating the PPI and PRI. As provided in Rule R8-68(c)(3)(iii), DEP shall be responsible for the EM&V of energy and peak demand savings consistent with its EM&V plan.

~~89.~~ 92. 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, DEP shall be allowed to recover an appropriately and reasonably estimated PPI and PRI (subject to the limitations set forth in this Mechanism) associated with the Vintage Year covered by the rate period in which the DSM/EE rider is to be in effect.

~~(b)~~ (b) The PPI and PRI related to any given Vintage Year shall be trued-up through the DSM/EE EMF rider in subsequent annual cost and incentive recovery proceedings based on the Commission-approved results of the appropriate EM&V studies related to the program/measure and Vintage Year, as determined pursuant to the EM&V Agreement. The true-up shall be based on verified savings and shall be applied to prospective and past time periods in accordance with the Evaluation, Measurement, and Verification section of this Mechanism.

~~(c)~~ (c) The amount of the PPI ultimately to be recovered for a given Vintage Year shall be based on the present value of the actual net dollar savings derived from all Measurement Units installed in that Vintage Year, as associated with each DSM/EE program offered during that year (excluding Low Income Programs and other specified societal programs), and calculated by DSM/EE program using the UCT. The present value of the actual net dollar savings shall be the difference between the present value of the annual lifetime avoided cost savings for measurement units installed in that Vintage Year and the present value of the annual lifetime program costs for those measurement units. The annual lifetime avoided cost savings for Measurement Units installed in the applicable Vintage Year shall be calculated by multiplying the number of each specific type of Measurement Unit installed in that Vintage Year by each lifetime year's per installation kW and kWh savings (as verified by the appropriate EM&V study pursuant to the EM&V agreement) and by each lifetime year's per kW and kWh avoided costs as determined when calculating the initially estimated PPI for the Vintage Year. The ~~ultimate PPI~~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.~~

~~(e)~~ (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.

~~(f)~~ (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.

~~90.~~ 93. The combined total of all Vintage Year true-ups of the PPI and PRI calculated in a given year's Rule R8-69 proceeding shall be incorporated into the appropriate DSM/EE EMF billing factor.

~~91.~~ 94. The PRI will be determined on the basis of the avoided costs employed in the determination of the UCT. PRI amounts will be assigned to the Program in which they were earned.

~~92.~~ 95. The PPI for each Vintage Year shall be allocated to DSM and EE programs in proportion to the present value net dollar savings of each program for the Vintage Year, as calculated pursuant to the method described herein.

Other Incentives

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

96A. 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**

¶

96B. 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

~~94.~~ 97. 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, PRI, and NLR incentives (net of the NLRs that are being returned to customers through the annual revenue decoupling mechanism), 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 and PRI; (2) supplementary schedules setting forth the Company's North Carolina retail jurisdictional earnings excluding the effects of its EE and DSM Programs; (3) supplementary schedules setting forth earnings, including overall rates of return and returns on common equity actually realized from DEP's EE and DSM Programs in total and stated separately by Program Class (Program Classes are hereby defined to be (a) EE Programs and (b) DSM Programs); and (4) supplementary schedules setting forth earnings, including overall rates of return and returns on common equity actually realized from DEP's (a) DSDR Program and (b) all other Programs, collectively, in the EE Program Class. (Show DSDR Program returns and all other collective EE Program returns separately.) Detailed workpapers shall be provided for each scenario described above. Such workpapers, at a minimum, shall clearly show actual revenues; expenses; taxes; operating income; rate base/investment, including components; and the applicable capitalization ratios and cost rates, including overall rate of return and return on common equity.

Review of Mechanism

~~95.~~ 98. 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. 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. 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.

Term

~~96.~~ 99. This Mechanism shall continue until terminated pursuant to Order of the Commission.

No Precedential Effect

~~97.~~ 100. The terms of this Mechanism, including the methods and results of determining the PPI, PRI, and ~~other Bonus~~Other Incentives, 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 PROGRESS, LLC, FOR DEMAND-SIDE MANAGEMENT AND ENERGY EFFICIENCY PROGRAMS

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 administrative and general, or other, costs that are not attributable or directly assignable to specific demand-side management (DSM) or energy efficiency (EE) Programs but are necessary to design, implement, and operate the Programs collectively.

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. *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.

5. *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.

6. *Measure* means, with respect to EE, an "energy efficiency measure," as defined in N.C. Gen. Stat. § 62-133.8(a)(4), that is new within the meaning of N.C. Gen. Stat. § 62-133.9(a); and, with respect to DSM, an activity,

initiative, or Program change, that is new under N.C. Gen. Stat. § 62-133.9(a) and satisfies the definition of "demand-side management" as set forth in N.C. Gen. Stat. § 62-133.8(a)(2).

7. *Measurement Unit* means the basic unit that is used to measure and track the (a) incurred costs; (b) Net Lost Revenues; and (c) kilowatt (kW), kilowatt-hour (kWh), and dollar savings, net of Net-to-gross (NTG) effects for DSM or EE Measures installed in each Vintage Year. A Measurement Unit may consist of an individual Measure or bundle of Measures. Measurement units shall be requested by Duke Energy Progress (DEP) and established by the Commission for each Program in the Program approval process, and shall be subject to modification by the Commission when appropriate. If Measurement Units have not been established for a particular Program, the Measurement Units for that Program shall be the individual Measures, unless the Commission determines otherwise.

8. *Measurement Unit's Life* means the estimated number of years that equipment or customer treatment associated with a Measurement Unit will operate if properly maintained, or activities (services or customer behavior) associated with the Measurement Unit will continue to be cost-effective, and produce energy (kWh) or peak demand (kW) savings, unless the Commission determines otherwise.

9. *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. 10 below. In determining which activities produce Net Found Revenues, the "Decision Tree" attached to this Mechanism as Attachment C will be applied. Net Found Revenues may be reduced, if such reduction is approved as reasonable and appropriate by the Commission, by a decrease in revenues resulting from an activity by DEP's public utility operations that causes a customer to reduce demand or energy consumption (negative found revenues). To be approved, it must be demonstrated that the activity producing the negative found revenues reduces the profitability of the Company. Additionally, the total amount of Net Found Revenues for a given vintage year will not be reduced to a level below zero by the inclusion of negative found revenues.

10. *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, or in the case of purchased power, in the

applicable billing period incurred by DEP public utility operations as the result of a new DSM or EE Measure. PPIs shall not be considered in the calculation of NLR or NLR recovery.

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. *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.

12. *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.

13. *Portfolio Performance Incentive* (PPI) means a utility incentive payment to DEP as a bonus or reward for adopting and implementing new (as defined in N.C. Gen. Stat. § 62-133.9(a)) EE or DSM Measures and/or Programs. The PPI is based on the sharing of avoided cost savings, net of Program Costs, achieved by those DSM and EE Programs in the aggregate. Such Program Costs will be adjusted as discussed elsewhere in this Mechanism. The PPI 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.

14. *Program Return Incentive (PRI)* means a utility incentive payment to DEP for adopting and implementing programs that fail to pass the Utility Cost Test, but are approved by the Commission due to the societal benefit they provide, such as low income programs. For these types of programs, the

PRI will be based on a percentage of the NPV of the avoided costs savings achieved by those DSM and EE Programs. PRI excludes NLR.

15. *Program* means one or more new DSM or EE Measures with similar objectives that have been consolidated for purposes of delivery, administration, and cost recovery, and that have been adopted on or after January 1, 2007, including subsequent changes and modifications.

16. *Program Costs* are costs that are directly attributable or reasonably and appropriately allocable to specific DSM or EE Programs or groups of Programs (for purposes of setting the DSM/EE and DSM/EE EMF riders), and include all appropriate and reasonable Incremental Program Costs, and reasonably assigned or allocated administrative and general expenses and other Common Costs, net of any reasonably assigned or allocated grants, tax credits, Program Cost adjustments as discussed elsewhere in this Mechanism, or other reductions in cost received by the utility from outside parties.

17. *Total Resource Cost* (TRC) *test* means a cost-effectiveness test that measures the net costs of a DSM or EE Program or portfolio as a resource option based on the incremental costs of the Program or portfolio, including both the participants' costs and the utility's costs (excluding incentives paid by the utility to or on behalf of participants). The benefits for the TRC test are the avoided supply costs (i.e., the reduction in generation capacity costs, transmission and distribution capacity costs, and energy costs caused by a load reduction), valued at marginal cost for the periods when there is a load reduction. The avoided supply costs shall be calculated using net Program or portfolio savings (i.e., savings net of reductions in energy use (NTG impacts) that would have happened even in the absence of the Program). Non-Energy benefits, as approved for use by the Commission, 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 1.57 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 the DEP IQ NES NEBS multiplier of 2.04 to the value of energy savings in the numerator of the cost-effectiveness test. The costs for the TRC test are the incremental net Program or portfolio costs incurred by the utility and participants, plus the increased supply costs for any periods in which load is increased. All costs of equipment, installation, operation and maintenance (O&M), removal (less salvage value), and administration, no matter who pays for them, are included in this test. However, Common Costs shall not be included in a Program-level TRC test used for program approval purposes

but shall be included in a portfolio-level TRC test. Any grants, tax credits, or other reductions in cost received by the utility or participants from outside parties and specifically related to the Program or portfolio, as applicable, are considered a reduction to costs in this test.

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

19. *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

20. 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.

21. DEP will then further screen EE and DSM Measures for cost-effectiveness. For purposes of this screening, estimated incremental EM&V costs attributable to the Measures shall be included in the Measures' costs. With

the exception of Measures included in a Low-Income Program, or other Program in which PPI incentives are not requested that may potentially be filed with the Commission for approval, an EE or DSM Measure with a UCT result less than 1.0 will not be considered further, unless the Measure can be bundled into an EE or DSM Program to enhance the overall cost-effectiveness of that Program. Measures under consideration for bundling, whether as part of a new Program or into an existing Program, should, unless otherwise approved by the Commission, be consistent with and related to the measure technologies, and/or delivery channels currently offered in the existing Program or to be otherwise offered in the new Program. Consistent with DEP's agreement with Piedmont Natural Gas and Public Service Company of NC, with the exception of Low- Income Programs, all EE and DSM Measures associated with an end-use that can be served by natural gas must pass the UCT.

22. 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.

22A. 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.

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.

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.

DEP will comply, however, with Commission Rule R8-60(i)(6)(iii), which requires DEP 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.

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.

22B. 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.

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.

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.

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 screening in Paragraph 21 above, DEP will determine if certain Measures can be removed from the Program to satisfy the criteria established in Paragraph 21.

24. 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.

25. 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 other than the DSM/EE Innovation Program described below in Paragraph 32. 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. 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, 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

26. 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.

26A. Consistent with the Commission's Orders in Docket Nos. E-2, Sub 1145 and E-2, Sub 1174, for purposes of calculating prospective cost-effectiveness in each DSM/EE rider proceeding to be used to determine whether a program should remain in the portfolio, the Company shall assess each program by:

(a) Using projected 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, costs, and benefits for the upcoming vintage year.

26B. 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 26A 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.

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

26D. For programs that demonstrate a prospective UCT, determined pursuant to Paragraph 26A above, of less than 1.00 in a third DSM/EE rider proceeding, the Company shall terminate the program effective at the end of the year following the DSM/EE rider order, unless otherwise ordered by the Commission. However, any party may propose termination of a program prior to a third DSM/EE rider proceeding if earlier information indicates that cost-effectiveness is not likely to reach 1.0 or greater under the UCT test.

26E. 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

27A. Modifications to Commission approved DSM/EE Programs will be considered as provided for in Attachment A to this Mechanism.

27B. Modifications filed with the Commission for approval will be evaluated under the same guidelines and parameters used in DEP's most recently filed DSM/EE rider proceeding.

Stakeholder Collaborative

28. DEP will conduct periodic collaborative stakeholder meetings for the purpose of collaborating on new Program ideas, reviewing modifications to existing Programs, ensuring an accurate public understanding of the Programs and funding, reviewing the EM&V process, giving periodic status reports on Program performance, helping to set EM&V priorities, providing recommendations toward DEP's submission of applications to revise or extend Programs and rate structures, and guiding efforts to expand cost-effective Programs for low-income customers. A third party may facilitate the discussions

29. The Carolinas EE Collaborative is an advisory group made up of interested stakeholders from across North and South Carolina representing a wide array of customer groups and interests related to energy efficiency and

demand response. The Collaborative should serve as an open forum for the sharing of information and discussion of topics related to energy efficiency including program design and development, program evaluation, regulatory and other market conditions that will impact program performance, specific issues or topics as requested by the North and South Carolina Utilities Commissions in orders regarding DSM and EE matters, and other topics or issues to achieve the most demand and energy savings possible. To facilitate 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.

30. 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. 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.

31. 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.

DSM/EE Innovation Program

32. Beginning in Vintage 2025, the Company's DSM/EE Portfolio shall include an 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.

Distribution System Demand Response (DSDR) Program

33. The DSDR Program is an EE Program defined as "new" pursuant to N.C. Gen. Stat. § 62-133.8 and N.C. Gen. Stat. § 62-133.9, and is eligible for recovery of reasonable and prudent costs, as well as NLR, subject to the terms and conditions of NLR set forth herein. The DSDR Program is not eligible for recovery of a PPI.

34. 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

35A. 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.

35B. 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.

36. EM&V will be applied in accordance with the provisions of Attachment B to this Mechanism. 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 portfolios. 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 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. 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.

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

37. Commercial customers with annual consumption of 1,000,000 kWh or greater in the billing months of the prior calendar year and all industrial customers that implement or will implement alternative DSM/EE Measures may, consistent with Commission Rule R8-69(d), elect to not participate in any utility-offered DSM/EE Measures and, after written notification to the utility, will not be subject to the DSM/EE rider and DSM/EE EMF rider. For purposes of application of this option, a customer is defined to be a metered account billed under a single application of a Company rate tariff. For commercial accounts, once one account meets the opt-out eligibility requirement, all other accounts billed to the same entity with lesser annual usage located on the same or contiguous properties are also eligible to opt-out of the DSM/EE rider and DSM/EE EMF rider. Since these rates are included in the rate tariff charges, customers electing this option shall receive a DSM and/or EE credit on their monthly bill statement.

38. 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.

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

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

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

Procedural Matters and General Structure of Riders

42. The rate period for each proposed DSM/EE Rider will be the next upcoming calendar year at the time of the filing of DEP's annual DSM/EE rider application. The test period used in the development of the DSM/EE EMF Rider will be the most recently concluded calendar year at the time of filing of the application.

43. For purposes of measuring the cost-effectiveness of Programs and for calculation of the PPI and PRI, a Vintage Year will be equivalent to a calendar year.

44. The annual filing date of DEP's DSM/EE rider application, supporting testimony, and exhibits will be no later than 98 days prior to the hearing date prescribed by Commission Rule (currently the first Tuesday of June of each calendar year). Should the Company become aware prior to filing of a determined or possible change in the hearing date, the Company shall strive to file its application and associated documents no later than 98 days prior to the changed hearing date.

45. DEP shall not request that the annual hearing to consider the proposed DSM/EE and DSM/EE EMF riders be held sooner than 98 days after the filing date of the Company's application, supporting testimony, and Exhibits.

46. All DSM/EE and DSM/EE EMF riders shall be calculated and charged to customers based on the annual revenue requirements associated with DSM and EE Programs. Separate DSM/EE and DSM/EE EMF riders shall be calculated for the Residential customer class, the Non-Residential customer classes, and the Lighting class.

47. One integrated (prospective) DSM/EE rider and one integrated DSM/EE EMF rider shall be calculated for the Residential class and the Residential portion of the Lighting class, respectively, to be effective each rate period. The integrated Residential and Lighting class DSM/EE EMF riders shall include all true-ups for each Vintage Year appropriately considered in each proceeding.

48. 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.

49. 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

50. Unless the Commission determines otherwise in a N.C. Gen. Stat. § 62-133.9 DSM/EE rider (or other) proceeding:

(a) The Program Costs of an approved DSM or EE Program will be allocated to the North Carolina and South Carolina retail jurisdictions and will only be recovered from those customer classes to which the Program is targeted.

(b) No Program Costs of any approved DSM or EE Program will be allocated to the wholesale jurisdiction.

(c) For EE Programs, the costs of each Program will be allocated based on the annual energy requirements of North Carolina and South Carolina retail customers (at the generator), as reflected in the annual cost of service studies.

(d) For DSM Programs, the aggregated costs of DSM Programs will be allocated based on the production demand allocation method approved for 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

51. In general, as provided in Commission Rule R8-69 and N.C. Gen. Stat. § 62-133.9(d), but subject to the specific provisions and/or modifications contained elsewhere in this Mechanism, DEP shall be allowed to recover, through the DSM/EE rider, all reasonable and prudent Program Costs reasonably and appropriately estimated to be incurred in expenses, during the current rate period, for DSM and EE Programs that have been approved by the Commission under Rule R8-68 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), but subject to the specific provisions and/or modifications contained elsewhere in this Mechanism, any of the Stipulating Parties may propose a procedure for the deferral and amortization in future DSM/EE riders of all or a portion of DEP's reasonable and prudent O&M Program Costs to the extent those costs are intended to produce future benefits.

52. Unless the Commission determines otherwise, and subject to the specific provisions and/or modifications contained elsewhere in this Mechanism, DEP shall be allowed to amortize any O&M costs incurred through Vintage Year 2020 deferred pursuant to Paragraph 52 of this Mechanism over a period of time not to exceed 10 years.

53. Beginning with Vintage (calendar) Year 2016, and extending through Vintage Year 2020 (as reflected in its 2019 Rider filing), DEP may recover, subject to approval by the Commission in the annual DSM/EE rider proceedings, Program Costs incurred, without deferral for amortization in future DSM/EE riders, even if Program Costs incurred for the same Program in prior years have been deferred and amortized. The Company agrees not to seek general amortization for future DSM/EE riders. Should any special circumstances arise, the Company agrees to discuss with the Public Staff and other interested parties whether it is appropriate to recover over an amortized period.

54. With regard to O&M Program Costs incurred prior to January 1, 2016, said costs will be recovered using the amortization rates existing at December 31, 2015, until such time that those deferred costs are recovered, in their entirety, through the DSM/EE cost recovery clause, unless the Parties recommend, and the Commission approves, a different treatment.

55. O&M Program Costs incurred in Vintage Year 2021 will be recovered utilizing the same amortization periods as utilized for Vintage Year 2020 Costs for the same Program, unless otherwise approved by the Commission.

56. Beginning with Vintage Year 2022, unless otherwise ordered by the Commission pursuant to its own motion or at the request of another party, and extending through a Vintage Year as identified in a future Mechanism review, DEP may recover all Program Costs previously recovered through amortization periods exceeding three years over amortization periods of no less than three years.

57. With regard to O&M Program Costs incurred on and subsequent to January 1, 2016 but prior to January 1, 2022, said costs will be recovered using the amortization rates existing at December 31, 2021, until such time that those deferred costs are recovered, in their entirety, through the DSM/EE cost recovery clause, unless the Parties recommend, and the Commission approves, a different treatment.

58. At the time of any merger of DEC and DEP, the newly formed entity shall propose a new consolidated Mechanism applicable to it. Specifically, the consolidated Mechanism shall include eliminating the three-year amortization period for DEP designated in Paragraph 57 above.

59. Pursuant to Commission Rule R8-69(b)(6), except for administrative and general expenses (addressed in Paragraph No. 61 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.

60. To the extent DEP chooses to defer and amortize in future DSM/EE riders the Program Costs for a Program pursuant to Paragraph No. 57 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.

61. The DSM/EE EMF rider shall reflect the difference between the reasonable and prudent Program Costs incurred or amortized during the applicable test period (Vintage Year) and the revenues actually realized during such test period under the DSM/EE rider then in effect.

62. 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.

63. 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.

64. 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)

65. When authorized pursuant to Commission Rule R8-69(c) and unless the Commission determines otherwise, DEP shall be permitted to recover, through the DSM/EE and DSM/EE EMF riders, NLR associated with the implementation of approved DSM and EE Measurement Units or Programs, subject to the restrictions set out below.

66. 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.

67. 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.

68. 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.

69. 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.

70. Recoverable NLR shall be calculated in a manner that appropriately reflects the incremental revenue losses suffered by the Company, net of avoided fuel and non-fuel variable O&M expenses.

71. Overall recoverable NLR as measured for the 36-month period identified in Paragraph 67 above shall be reduced by any increases in Net Found Revenues during the same periods (offset by any negative found revenues found appropriate and reasonable by the Commission pursuant to the provisions of paragraph 9 of this Mechanism and other factors deemed applicable by the Commission). The "decision tree" adopted by Order in Docket No. E-2, Sub 931, on January 20, 2015, should be applied for determining what constitutes Net Found Revenues. DEP shall closely monitor its utility activities to determine if they are causing a customer to increase demand or consumption, and shall identify and track all such activities with the aid of the "decision tree," so that they may be evaluated by intervening parties and the Commission as potential Net Found

Revenues. Net Found Revenues shall be calculated in an appropriate and reasonable manner that mirrors the calculation used to determine NLR.

72. 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 (offset by any approved and applicable negative 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.

(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.

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

73. When authorized pursuant to Commission Rule R8-69(c), DEP shall be allowed to collect a PPI and PRI, as each is applicable, for its DSM/EE portfolio for each Vintage Year, separable into Residential, lighting (as applicable), Non-Residential DSM, Non-Residential EE categories. The PPI and PRI, as applicable, shall be subject to the restrictions set out below.

74. Programs, Measures, and activities undertaken by DEP with the primary purpose of promoting general awareness of and education about EE and DSM activities, as well as research and development activities, that are not directly associated with a Commission approved EE or DSM Program, are ineligible to be included in the portfolio for purposes of the PPI or PRI calculations.

75. Unless (a) the Commission approves DEP's specific request that a pilot program or measure be eligible for PPI or PRI inclusion when DEP seeks approval of that program or measure, and (b) the pilot is ultimately commercialized, pilot programs or measures are ineligible for and the benefits and costs associated with those pilots will not be factored into the calculation of the PPI.

76. The PPI and PRI for each Vintage Year shall be incorporated into DEP's DSM/EE or DSM/EE EMF billing factors, as appropriate.

77. In its annual filing, pursuant to Commission Rule R8-69(f), DEP shall file an exhibit that indicates, for each Program or Measure for which it seeks a PPI or PRI, the annual projected and actual utility costs, participant costs, number of Measurement Units installed, per kW and kWh impacts for each Measurement Unit, and per kW and kWh avoided costs for each Measurement Unit, consistent with the UCT, related to the applicable Vintage Year installations that it requests the Commission to approve. Upon its review, the Commission will make findings based on DEP's annual filing for each Program or Measure that is included in an estimated or trued-up PPI or PRI calculation for any given Vintage Year.

78. Low-Income Programs and other specified societal programs or other programs explicitly approved with expected UCT results less than 1.00 shall not be included in the portfolio for purposes of the PPI calculation until they demonstrate UCT results greater than 1.00. However, such programs will be eligible for the PRI, if so approved by the Commission, until they demonstrate UCT results greater than 1.00.

79. 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.

80. Unless the Commission determines otherwise in an annual N.C. Gen. Stat. § 62-133.9 DSM/EE rider proceeding, and subject to the factors and limitations set forth elsewhere in this Mechanism, beginning for Vintage Year 2022 the amount of the pre-income-tax PPI initially to be recovered for the entire DSM/EE portfolio for a Vintage Year, excluding Programs not eligible for a PPI, shall be 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 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.

81. 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 93 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
DEP	**8.03**	7.227	7.6285		8.833	9.636
PPI Multiplier		**0.95**	**0.975**	**1**	**1.025**	**1.05**

82. Unless the Commission determines otherwise in a N.C. Gen. Stat. § 62-133.9 DSM/EE rider proceeding, the PPI for vintage periods subsequent to the approval of this mechanism through Vintage Year 2021 shall be converted into a stream of no more than 3 levelized annual payments, accounting for and incorporating DEP's overall weighted average net-of-tax rate of return approved in DEP's most recent general rate case as the appropriate discount rate. After Vintage Year 2026, the PPI and O&M Program Costs related to any given Vintage Year will no longer be amortized. Levelized annual payments applicable to Programs in prior vintage periods will continue until all such amounts are recovered.

83. 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.

84. Unless the Commission determines otherwise in an annual N.C. Gen. Stat. § 62-133.9 DSM/EE rider proceeding, and subject to the factors and limitations set forth in this Mechanism, beginning for Vintage Year 2022 the amount of the pre-income-tax PRI initially to be recovered for Low Income Programs and other specified societal programs not eligible for a PPI shall be a percentage, as determined pursuant to Paragraph 86 of this Mechanism, multiplied by the present value of the estimated gross dollar avoided cost savings associated with the applicable DSM/EE Programs installed in that Vintage Year, used in determination of the UCT. The present value of the estimated gross dollar savings shall be determined in the same manner as used for Programs eligible for the PPI.

85. 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, DEP shall utilize the

best and most accurate estimate of the UCT and the resulting PRI percentage it can determine at that time.

86. 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.

87. No later than December 31, 2024, DEP and the Public Staff will jointly review the avoided transmission and avoided distribution (avoided T&D) benefits to be used in the Company's 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 89 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.

88. 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.

89. With the exception of a one-time reconciliation of Vintage 2025, DEP 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.

90. When DEP files for its annual cost recovery under Commission Rule R8-69, it shall comply with the filing requirements of Commission Rule R8-69(f)(1)(iii), reporting all measurement and verification data, even if that data

is not final, to assist the Commission and the Public Staff in their review and monitoring of the impacts of the DSM and EE Measures.

91. DEP bears the burden of proving all dollar savings and costs included in calculating the PPI and PRI. As provided in Rule R8-68(c)(3)(iii), DEP shall be responsible for the EM&V of energy and peak demand savings consistent with its EM&V plan.

92. The PPI and PRI for each Vintage Year shall ultimately be based on net or gross dollar savings, as applicable, as verified by the EM&V process and approved by the Commission. The PPI and PRI for each Vintage Year shall be trued-up as follows:

(a) As part of the DSM/EE rider approved in each annual cost and incentive recovery proceeding, DEP shall be allowed to recover an appropriately and reasonably estimated PPI and PRI (subject to the limitations set forth in this Mechanism) associated with the Vintage Year covered by the rate period in which the DSM/EE rider is to be in effect.

(b) The PPI and PRI related to any given Vintage Year shall be trued-up through the DSM/EE EMF rider in subsequent annual cost and incentive recovery proceedings based on the Commission-approved results of the appropriate EM&V studies related to the program/measure and Vintage Year, as determined pursuant to the EM&V Agreement. The true-up shall be based on verified savings and shall be applied to prospective and past time periods in accordance with the Evaluation, Measurement, and Verification section of this Mechanism.

(c) The amount of the PPI ultimately to be recovered for a given Vintage Year shall be based on the present value of the actual net dollar savings derived from all Measurement Units installed in that Vintage Year, as associated with each DSM/EE program offered during that year (excluding Low Income Programs and other specified societal programs), and calculated by DSM/EE program using the UCT. The present value of the actual net dollar savings shall be the difference between the present value of the annual lifetime avoided cost savings for measurement units installed in that Vintage Year and the present value of the annual lifetime program costs for those measurement units. The annual lifetime avoided cost savings for Measurement Units installed in the applicable Vintage Year shall be calculated by multiplying the number of each specific type of Measurement Unit installed in that Vintage Year by each lifetime year's per installation kW and kWh savings (as verified by the appropriate EM&V study pursuant to the EM&V agreement) and by each lifetime year's per kW and kWh avoided costs as determined when calculating the initially estimated PPI for the Vintage Year. The 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.

93. The combined total of all Vintage Year true-ups of the PPI and PRI calculated in a given year's Rule R8-69 proceeding shall be incorporated into the appropriate DSM/EE EMF billing factor.

94. 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.

95. 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

96A. 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

96B. 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

97. 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, PRI, and NLR incentives (net of the NLRs that are being returned to customers through the annual revenue decoupling mechanism), 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 and PRI; (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

98. 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. 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. 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.

Term

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

No Precedential Effect

100. The terms of this Mechanism, including the methods and results of determining the PPI, PRI, and Other Incentives, 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.