

**BEFORE
THE NORTH CAROLINA UTILITIES COMMISSION**

DOCKET NO. E-7, SUB 1276

In the Matter of:)	
)	
Application of Duke Energy Carolinas,)	DIRECT TESTIMONY OF
LLC For Adjustment of Rates and)	LAURA A. BATEMAN AND
Charges Applicable to Electric Service in)	PHILLIP O. STILLMAN FOR
North Carolina and Performance-Based)	DUKE ENERGY CAROLINAS,
Regulation)	LLC
)	

1 **I. INTRODUCTION AND PURPOSE**

2 **Q. MS. BATEMAN, PLEASE STATE YOUR NAME AND BUSINESS**
3 **ADDRESS.**

4 A. My name is Laura A. Bateman, and my business address is 411 Fayetteville
5 Street, Raleigh, North Carolina 27601.

6 **Q. BEFORE INTRODUCING YOURSELF FURTHER, PLEASE**
7 **INTRODUCE THE PANEL.**

8 A. I am appearing on behalf of Duke Energy Carolinas, LLC (“DEC” or “the
9 Company”) together with Phillip Stillman on the “Performance Based
10 Regulation (“PBR”) Policy Panel.”

11 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

12 A. I am employed by DEC as Vice President of Carolinas Rates and Regulatory
13 Strategy.

14 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL**
15 **EXPERIENCE.**

16 A. I obtained a Bachelor’s degree from the University of Massachusetts at Amherst
17 and a Master of Business Administration degree from the University of North
18 Carolina at Chapel Hill. Since 2003, I have worked for the Company in a variety
19 of roles in Risk Management, Treasury, and Regulatory. I have been in the Rates
20 & Regulatory Strategy group since 2007. I assumed my current position in April
21 2020.

1 **Q. PLEASE BRIEFLY DESCRIBE YOUR DUTIES AS VICE PRESIDENT**
2 **OF CAROLINAS RATES AND REGULATORY STRATEGY.**

3 A. I lead teams responsible for rate cases, annual rider filings, cost of service
4 studies, surveillance reporting, and regulatory strategy and planning for North
5 and South Carolina for DEC and Duke Energy Progress, LLC (“DEP”).

6 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**

7 A. Yes. I have testified before this Commission in connection with the Carbon Plan
8 in Docket No. E-100, Sub 179, and with DEP’s general rate case proceedings
9 in Docket Nos. E-2, Sub 1142 and E-2, Sub 1023, and recently submitted pre-
10 filed Direct Testimony in DEP’s pending rate case proceeding in Docket No. E-
11 2, Sub 1300. I have also testified before this Commission or submitted written
12 testimony in The Investigation of Proposed Net Metering Rule (Docket No. E-
13 100, Sub 83), Standards for Electric Utilities Relating to IRP, Rate Design
14 Modifications to Promote Energy Efficiency Investments, Smart Grid
15 Investments & Smart Grid Information Per Independence/Security Act 2007
16 (Docket No. E-100, Sub 123), and Application for Approval of Demand-Side
17 Management and Energy Efficiency Cost Recovery Rider (Docket No. E-2, Sub
18 931).

19 **Q. MS. BATEMAN, PLEASE DESCRIBE THE PURPOSE OF YOUR**
20 **JOINT TESTIMONY.**

21 A. Our testimony supports DEC’s Performance-Based Regulation Application
22 (“PBR Application” or the “Application”). I provide an overview of the
23 Company’s proposed PBR Application, including the policy and public interest

1 reasons supporting approval of the Application, and Mr. Stillman describes
2 DEC's proposed Performance Incentive Mechanisms ("PIMs") and tracking
3 metrics, for which the Company is seeking Commission approval.

4 **Q. MR. STILLMAN, PLEASE STATE YOUR NAME AND BUSINESS**
5 **ADDRESS.**

6 A. My name is Phillip O. Stillman, and my business address is 400 South Tryon
7 Street, Charlotte, North Carolina 28202.

8 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

9 A. I am employed by Duke Energy Business Services, LLC as Managing Director
10 of Load Forecasting and Corporate Strategic Regulatory Initiatives.

11 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL**
12 **EXPERIENCE.**

13 A. I am a graduate of Catawba College, where I received a Bachelor of Arts Degree
14 in Accounting and Business. I have also received a Master of Business
15 Administration degree from the McColl Graduate School of Business at Queens
16 University of Charlotte. I am a certified public accountant licensed in the state
17 of North Carolina. I began my career with Duke Power Company (now known
18 as DEC) in 1986 as a staff accountant and have held a variety of positions in
19 the finance, regulatory, and planning organizations. From 1992 to 2004, I served
20 in various roles in the Financial Budgeting, Strategic Planning, and Load
21 Forecasting areas. During this time, I was named Director Financial Modeling
22 and Load Forecasting. In 2004, I was appointed Director Financial and
23 Regulatory Accounting. In this role, I was responsible for the general

1 accounting functions and the books and records of DEC. I joined the Rates &
2 Regulatory Department in 2007 as Director Regulatory Strategy & Research.
3 In 2014, I became Director of Load Forecasting. My responsibilities were
4 expanded in 2020 to include supporting various strategic regulatory initiatives,
5 and I assumed my current role as Managing Director of Load Forecasting and
6 Corporate Strategic Regulatory Initiatives.

7 **Q. PLEASE BRIEFLY DESCRIBE YOUR DUTIES AS MANAGING**
8 **DIRECTOR OF LOAD FORECASTING AND CORPORATE**
9 **STRATEGIC REGULATORY INITIATIVES.**

10 A. I oversee the development of the long-term electric load forecasts for each of
11 Duke Energy's electric service territories, as well as the long-term gas forecast
12 for the Ohio and Kentucky operations. I am also responsible for supporting
13 enterprise-wide regulatory initiatives across all of Duke Energy's six electric
14 utility jurisdictions and assisting with the execution of the company's regulatory
15 strategy.

16 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**

17 A. Yes. I have testified before this Commission in support of DEC's general rate
18 case proceedings in Docket Nos. E-7, Sub 909, E-7, Sub 989, and E-7, Sub
19 1026, and recently submitted pre-filed Direct Testimony in DEP's pending rate
20 case proceeding in Docket No. E-2, Sub 1300. I also provided testimony in
21 support of DEC's application for a certificate of public convenience and
22 necessity in Docket No. E-7, Sub 1134.

1 **Q. DO YOU HAVE ANY EXHIBITS TO YOUR DIRECT TESTIMONY?**

2 A. Yes. PBR Policy Panel Exhibit 1 provides the design detail for the Company's
3 proposed Peak Load Reduction PIM. PBR Policy Panel Exhibit 2 provides the
4 design detail for the Company's proposed Low-Income/Affordability PIM.
5 PBR Policy Panel Exhibit 3 provides the design detail for the Company's
6 proposed Reliability PIM. PBR Policy Panel Exhibit 4 provides the design
7 detail for the Company's proposed Renewables Integration and Encouragement
8 PIM.

9 **Q. MR. STILLMAN, WERE PBR POLICY PANEL EXHIBITS 1**
10 **THROUGH 4 PREPARED OR PROVIDED HEREIN BY YOU, UNDER**
11 **YOUR DIRECTION AND SUPERVISION?**

12 A. Yes. They were.

13 **II. OVERVIEW OF PBR APPLICATION**

14 **Q. MS. BATEMAN, PLEASE PROVIDE BACKGROUND FOR THE**
15 **COMPANY'S PBR APPLICATION.**

16 A. Traditional ratemaking presents inherent limitations and disadvantages under
17 today's business conditions. Utilities are shifting from construction of large-
18 scale power plants to smaller, more frequent investments, such as for grid
19 improvements, and to meet clean energy goals. In the meantime, cost growth is
20 accelerated by inflation. Traditional ratemaking would address these challenges
21 with frequent rate cases that raise regulatory cost. Modernized regulatory
22 models can improve regulatory efficiency, provide timelier rate recognition of

1 changes in costs, and better align utility revenues and performance with
2 customer and public policy goals.

3 At the end of 2019, North Carolina Governor Roy Cooper issued a Clean
4 Energy Plan report, and one of the recommendations was to convene a
5 stakeholder process to look at ways to modernize the electric utility cost
6 recovery mechanisms in the State to better align with the goals of the Clean
7 Energy Plan. In 2020, the Company participated in the stakeholder process –
8 the North Carolina Energy Regulatory Process (“NERP”) – along with a diverse
9 group of participants, including regulators, environmental and low-income
10 advocates, industrial customers, solar developers, and utility representatives. At
11 the end of that year, the NERP recommended that North Carolina adopt a PBR
12 model for ratemaking that features:

13 1. A Multiyear Rate Plan (“MYRP”) – a mechanism under which
14 the Commission sets base rates for a multi-year period, along with an Earning
15 Sharing Mechanism (“ESM”) that shares earnings with customers if the utility’s
16 earnings exceed a certain level;

17 2. Revenue Decoupling – a mechanism to break the link between a
18 utility’s revenue and the volume of consumption of electricity; and

19 3. PIMs – a mechanism that uses metrics to link a portion of the
20 revenue or earnings of a utility to its performance on measurable customer,
21 utility system, or public policy outcomes.

1 According to NERP, “PBR offers a suite of reforms that, together, can
2 resolve limitations of [traditional cost of service] ratemaking while encouraging
3 utilities to better serve state policy goals and customer interests.”¹

4 On October 13, 2021, the Governor signed into law House Bill 951²
5 (“HB 951”), which largely adopted the NERP recommendations, including the
6 three features listed above, and added customer protections and more specifics
7 on the mechanisms. HB 951 puts North Carolina at the forefront of the clean
8 energy transition and modernizes the regulatory framework by authorizing the
9 use of PBR. HB 951’s PBR provisions – codified in N.C. Gen. Stat. §62-133.16
10 (“PBR Statute”) – update the ratemaking paradigm with a balanced approach
11 that will streamline regulation, strengthen utility performance incentives, and
12 better align the regulatory framework with customer benefits and public policy
13 goals.

14 In this case, DEC is seeking approval of its first PBR Application. The
15 PBR Application provides clear evidence that it is in the public interest to
16 implement PBR at this time and that proposed rates are just and reasonable.³
17 We believe that our PBR Application provides a clear basis for the Commission
18 to make this finding.

¹ NERP PBR – Study Group Work Products, PBR Regulatory Guidance, at 6 (2020) (available at <https://deq.nc.gov/media/17684/download>).

² 2021 N.C. Sess. Laws-165.

³ N.C. Gen. Stat. § 62-133.16(d)(1).

1 **Q. WHAT ARE THE COMPONENTS OF THE COMPANY’S PBR**
2 **PROPOSAL?**

3 A. The Company’s PBR proposal includes the following three components:

- 4 1. A three-year MYRP with an ESM;
- 5 2. A revenue per customer decoupling mechanism for the residential customer
- 6 class;
- 7 3. Four PIMs and three tracking metrics.

8 MYRP

9 The Company is proposing a three-year MYRP with the following Rate

10 Years: January 2024-December 2024 (Rate Year 1); January 2025-December

11 2025 (Rate Year 2); and January 2026-December 2026 (Rate Year 3). As

12 described in the testimony and exhibits of Witness Kathryn Taylor, the MYRP

13 revenue requirement for each Rate Year will build on the revenue requirement

14 established using the historical test year (2021) using base rate “step-ups” that

15 reflect the projected revenue requirements associated with MYRP capital

16 spending projects that will be used and useful during the course of the MYRP.

17 Detailed information about the projects included in the MYRP,

18 including timing, scope, and cost estimates, are provided by DEC’s witnesses

19 as follows:

- 20 • Witnesses Daniel Maley and Brent Guyton discuss the Company’s
- 21 proposed transmission and distribution investments;
- 22 • Witness Justin LaRoche supports the proposed solar projects;

- 1 • Witnesses Laurel Meeks and Evan Shearer discuss the proposed energy
- 2 storage projects;
- 3 • Witness Bryan Walsh supports the proposed fossil and hydro capital
- 4 investments; and
- 5 • Witness Steven Capps addresses the proposed nuclear investments.

6 With respect to the ESM, if the Company's adjusted earnings exceed the
7 authorized return on equity ("ROE") determined in this proceeding plus 50
8 basis points, the excess earnings above this threshold will be distributed to
9 customers in the annual ESM Rider.

10 Decoupling

11 The Company is proposing a residential revenue per customer
12 decoupling mechanism. The mechanism is intended to break the link between
13 the Company's profits and usage per customer in the residential class. This link
14 is already broken for reductions in usage resulting from the Company's
15 Demand-Side Management ("DSM") and Energy Efficiency ("EE") programs
16 through the recovery of net lost revenues through the DSM/EE rider.
17 Decoupling goes a step further and removes any financial incentive related to
18 increased usage per customer and any financial disincentive related to
19 decreased usage per customer outside of the Company's DSM/EE programs,
20 such as reduced sales from (1) deployment of distributed energy resources
21 ("DER"), (2) customer efficiency and conservation efforts that are not part of a
22 utility program, and (3) certain rate designs or other utility programs that may
23 not qualify as an approved DSM/EE program. The decoupling mechanism

1 would true-up any difference between actual residential revenue per customer,
2 excluding variable costs, and the target residential revenue per customer,
3 excluding variable costs, established in this case. Any net lost revenues
4 collected through the Company's DSM/EE rider are subtracted from this
5 balance so as to not double count and increases in sales from electric vehicle
6 ("EV") charging are excluded from the mechanism, as allowed by the PBR
7 Statute, in order to continue to incent adoption of EVs. After each rate year, the
8 decoupling mechanism balance is collected from or distributed to residential
9 customers through the Residential Decoupling Mechanism rider (Rider RDM).

10 PIMs and Tracking Metrics

11 Finally, the Company's PBR Application includes four proposed PIMs
12 and three tracking metrics. The annual PIMs rider is designed to distribute or
13 collect penalties and rewards based on DEC's performance with respect to
14 Commission-approved PIMs during each rate year. Following this section, the
15 remainder of our testimony is devoted to describing the Company's proposed
16 PIMs and how they effectuate certain policy goals in the PBR Statute.

17 PBR Riders

18 In accordance with the PBR Statute, the Company's PBR Application
19 includes three new riders associated with these mechanisms: (1) Residential
20 Decoupling Mechanism rider (Rider RDM), (2) Earnings Sharing Mechanism
21 rider (Rider ESM), and (3) the Performance Incentive Mechanism rider (Rider
22 PIM). Witness Taylor describes the methodology for calculating each of these
23 mechanisms and explains that the rider associated with each mechanism is set

1 at \$0 for Rate Year 1 and will be updated thereafter as part of the annual review
2 process prescribed by Commission Rule 1-17B. Witness Morgan Beveridge
3 provides the rate schedules for these riders.

4 **Q. HOW DO CUSTOMERS BENEFIT FROM THE COMPANY'S PBR**
5 **PROPOSAL?**

6 A. Many customers do not want to see their electricity rates increase, even where
7 such increases are caused by reasonable and prudent investments needed to
8 ensure reliable service. However, the Company has invested over \$5 billion in
9 our generation, transmission, and distribution systems since the last rate case
10 and is entering a period of significant new reliability and clean energy
11 investments. The PBR approach to ratemaking is better than frequent rate cases
12 for addressing these challenges. Cost containment incentives would be
13 reinforced under the Company's PBR proposal, and the proposed PIMs will
14 strengthen incentives for reliability and other performance areas that customers
15 care about. The Company's PBR proposal also has several customer
16 protections. In particular, the statutory cap on rate escalation in years two and
17 three of the MYRP and the statutory asymmetrical sharing of earnings surpluses
18 (but not deficits) are significant benefits to customers.

19 Finally, PBR better aligns customer and state policy goals with utility
20 revenues and performance than traditional ratemaking. Other Company
21 witnesses discuss the customer benefits and achievement of policy goals that
22 will result from the specific projects, programs, and rate designs contained in
23 this case. I provide several examples in my testimony below.

1 **Q. DOES A MYRP DECREASE RISK FOR THE UTILITY AT THE**
2 **EXPENSE OF CUSTOMERS?**

3 A. Not on balance. While the proposed MYRP would result in more timely rate
4 increases, and revenue decoupling reduces the risk of residential revenue
5 erosion and volatility, other provisions of the plan that conform to the PBR
6 Statute actually increase utility risk. For instance, projected increases in interest
7 rates, inflationary increases in operations and maintenance (“O&M”) expenses
8 and future capital spending not related to the discrete MYRP projects cannot be
9 included in the MYRP revenue increases and therefore must be managed by
10 DEC during the MYRP. For example, if inflation is expected to be unusually
11 high over the MYRP, DEC cannot factor expected increases in overall O&M
12 into its Rate Year 2 and 3 rates. Again, this adds more risk to the Company,
13 especially when the country is experiencing a period of anticipated increasing
14 inflationary cost pressures. Similarly, the Company bears all the execution risk
15 for MYRP projects in that it must manage unforeseen increases in project costs.
16 For instance, if the costs of the authorized capital spending projects
17 unexpectedly increase, DEC would not be allowed to true-up those costs and
18 recover more from customers. As such, the utility retains all of the same cost
19 containment incentives of traditional ratemaking. The utility must continue to
20 manage cost increases in O&M, general taxes, material and supplies, and
21 depreciation, and attempt to ensure that such costs do not exceed increases in
22 revenue from load growth, decreases in rate base from depreciation of existing
23 assets, and other cost decreases.

1 Finally, the ESM allows the Commission to “reach back” and require
2 sharing of past utility earnings with customers, which it never has been able to
3 do under traditional ratemaking. Moreover, this sharing is asymmetrical – the
4 ESM distributes to customers 100% of earnings in excess of 50 basis points
5 above the authorized ROE (if any) on an annual basis; whereas there is no
6 corresponding ability for DEC to automatically collect additional revenue from
7 customers if the utility is underearning. The Company’s only remedy would be
8 to file another rate case. The asymmetrical, narrow nature of the ESM,
9 therefore, puts all the downside risk on the utility.

10 **Q. WHY IS DEC’S PBR APPLICATION IN THE PUBLIC INTEREST?**

11 A. The Company’s PBR Application balances DEC’s need for modernized cost
12 recovery mechanisms to address smaller, more frequent investments (such as
13 for grid improvements and DER enablement) with enhanced customer benefits
14 to align the Company’s performance with customer expectations. As discussed
15 above, the proposed MYRP encourages effective cost management and affords
16 customers a number of special protections.

17 Importantly, as demonstrated throughout the testimony and exhibits of
18 DEC’s witnesses in this case,⁴ the Company’s PBR Application furthers the
19 majority of the 11 public policy goals that the Commission may consider in
20 evaluating a PBR application:

⁴ For ease of reference, I have included summaries of witness testimony and exhibits that support various policy goals below. The descriptions of the projects and initiatives and the conclusions tying the project or initiative to specific policy goals are supported by each referenced witness. What I have included is not intended to be an exhaustive list, but rather some examples of how the Company’s PBR Application furthers these goals and is in the public interest.

- 1 a. Encourages peak load reduction or efficient use of the system.
- 2 b. Encourages utility-scale renewable energy and storage.
- 3 c. Encourages DERs.
- 4 d. Reduces low-income energy burdens.
- 5 e. Encourages energy efficiency.
- 6 f. Encourages carbon reductions.
- 7 g. Encourages beneficial electrification, including electric vehicles.
- 8 h. Supports equity in contracting.
- 9 i. Promotes resilience and security of the electric grid.
- 10 j. Maintains adequate levels of reliability and customer service.
- 11 k. Promotes rate designs that yield peak load reduction or beneficial
- 12 load-shaping.⁵

13 For example, as described by Witness Guyton and detailed in Guyton
14 Exhibit 6, the Company's proposed distribution MYRP projects fulfill many of
15 these objectives. As outlined in Guyton Exhibit 6, capacity upgrades and
16 improvements enhance reliability and support future load growth from
17 electrification and integration of DERs, such as rooftop solar and battery
18 storage. The self-optimizing grid program improves system reliability and
19 resiliency, restores outages faster, and manages the dynamic two-way power
20 flows that expansion of DERs will bring. Integrated Volt Var Control will
21 establish control of distribution equipment to optimize delivery voltages and
22 power factors, and Voltage Regulation Management will add or upgrade devices

⁵ N.C. Gen. Stat. § 62-133.16(d)(2).

1 to support DERs and EVs. Distribution hardening and resiliency programs will
2 improve grid strength and ability to rapidly restore power, which promotes
3 resilience and security of the electric grid, maintains adequate levels of
4 reliability and customer service, and promotes DER adoption by providing
5 consistent power flow. Targeted undergrounding, which reduces the number of
6 outages experienced by customers, results in improved reliability, reduced
7 outage costs, and improved customer experience.

8 The transmission projects described by Witness Maley, and included in
9 Maley Exhibit 4, provide a similar array of benefits. As discussed in Maley
10 Exhibit 4, the transmission system is an essential part of the Company's power
11 delivery network, and any disruption in the flow of electricity across the system
12 can interrupt service for thousands of customers across entire regions. The
13 transmission hardening and resiliency project works to create a stronger
14 transmission grid capable of withstanding (or quickly recovering from) extreme
15 external events, natural or man-made. In addition, the system intelligence
16 project provides grid operators with enhanced information to respond to
17 changing conditions that challenge reliability, which can promote efficient use
18 of the system and resilience and security of the grid, as well as maintain
19 reliability. Planned upgrades of breakers and transformers are expected to
20 improve reliability, strengthen the grid, and increase operational efficiency.
21 Transmission expansion projects will facilitate the connection of additional
22 utility-scale renewable generation sources and encourage beneficial
23 electrification and DERs.

1 Additional MYRP projects included in this case also encourage utility-
2 scale renewable development and storage. In his testimony and LaRoche
3 Exhibit 1, Witness LaRoche describes the Company's 2026 Solar Procurement
4 Program Investment, which will advance utility-scale solar deployment and
5 encourage carbon reductions. As detailed by Witnesses Meeks and Shearer, the
6 Company is also proposing to place in service over the course of the MYRP the
7 Frieden, Monroe, Novant Health, Lowgap, Nebo, Rich Mountain, Longtown,
8 Farr's Bridge, and Allen battery energy storage projects. In addition to
9 furthering the goal of encouraging utility-scale storage, these witnesses explain
10 that DEC's battery energy storage portfolio is expected to benefit customers by
11 reducing carbon emissions, encouraging DERs, maintaining grid reliability, and
12 promoting local community clean energy investment.

13 Witness Capps testifies that DEC is seeking subsequent license renewal
14 ("SLR") for all of its nuclear plants. He explains that due to its zero carbon
15 emissions, the Company's nuclear fleet represents a crucial piece of achieving
16 a successful energy transition in the Carolinas, and seeking SLR for the fleet is
17 therefore in the best interest of customers continuing to benefit from affordable
18 and reliable electric energy as well as from reduced carbon emissions. In
19 addition, he notes that 33 nuclear projects are included in the Company's
20 proposed MYRP, which will enable DEC to maintain safe and reliable operation
21 of the nuclear stations as DEC continues to transition into a cleaner energy
22 future.

1 Witness Jonathan Byrd describes how the Company's rate designs with
2 refreshed time-of-use ("TOU") periods benefit customers and advance several
3 policy goals. He explains that the new TOU periods properly align price signals
4 to the cost differences that exist across seasons and hours, encouraging peak
5 load reduction and efficient system usage. He notes that the proposed on-peak
6 periods of three-hour duration provide the opportunity for economic use of
7 battery storage in a manner aligned with system cost. Superior price signals to
8 customers encourage adoption of new technologies, such as smart energy
9 management devices, energy storage, and EVs. Higher on-peak prices
10 encourage customers to improve insulation and invest in more efficient HVAC
11 systems by providing price signals to use such technology to push energy
12 consumption away from the peak. The proposed discount periods encourage
13 EV charging or other flexible consumption during times of low system costs,
14 providing incentives for DER adoption. Moreover, the exclusion of EV loads
15 from revenue decoupling strengthens the Company's incentive to encourage
16 EVs.

17 Witnesses Bradley Harris and Lesley Quick discuss how DEC supports
18 our low-income customers and describe new program proposals that will
19 provide additional support and resources to address their needs. For example,
20 the Company's Payment Navigator program provides tailored
21 recommendations to assist struggling customers in becoming current on
22 payments and provides longer-term guidance for how to ease their electric
23 energy burden, *e.g.*, by connecting customers to assistance funding, referring

1 customers to DSM/EE options, or enrolling them in programs like Budget
2 Billing. The proposed Customer Assistance Program will directly benefit low-
3 income customers by reducing their monthly electric energy burden through a
4 bill discount. The Tariffed On-Bill Program offers customers an option to
5 finance EE investments.

6 Finally, the Company's proposed PIMs and tracking metrics would
7 strengthen DEC's incentives to advance several additional goals of the PBR
8 Statute, as Mr. Stillman describes in the next section of our testimony.

9 **Q. THE COMMISSION RECENTLY ISSUED AN ORDER ADOPTING**
10 **THE INITIAL CARBON PLAN.⁶ AMONG OTHER THINGS, THE**
11 **CARBON PLAN ORDER DIRECTS DEC AND DEP TO ADDRESS THE**
12 **RATE DISPARITY BETWEEN THE UTILITIES ATTRIBUTABLE TO**
13 **THE CARBON PLAN, AND WHERE APPROPRIATE, PRESENT**
14 **SOLUTIONS. WHAT STEPS ARE DEC AND DEP TAKING TO**
15 **COMPLY WITH THIS DIRECTIVE?**

16 **A.** As I explained in the Carbon Plan proceeding, the projected impact of the
17 Carbon Plan on current rate differences prior to the targeted DEC/DEP merger
18 date at the end of 2026 is minimal to non-existent. Most of the investments
19 included in DEC's MYRP in this case, and DEP's MYRP in Docket Number E-
20 2, Sub 1300, are projects that make sense for customers regardless of the carbon
21 reduction goals set forth in HB 951. However, as discussed below, the Company
22 offers the following information related to the steps DEC and DEP are taking

⁶ *Order Adopting Initial Carbon Plan and Providing Direction For Future Planning*, Docket No. E-100, Sub 179 (Dec. 30, 2022) ("Carbon Plan Order").

1 to address and minimize future rate differences between the utilities attributable
2 to the Carbon Plan.

3 First, as explained by Witness Maley, DEC's MYRP includes Red Zone
4 Expansion Plan ("RZEP") transmission projects, which are transmission
5 upgrades needed primarily to enable interconnection of additional solar
6 generation on the DEC transmission system. DEP's MYRP also includes RZEP
7 transmission projects to be located in DEP's service territory. In the Carbon
8 Plan proceeding, several parties raised concerns that these projects were
9 disproportionately located in DEP's service territory because DEP's service
10 territory is in general a more attractive location for solar generation. The
11 Company continues to believe that a merger of DEC and DEP targeted for the
12 end of 2026 is the best long-term solution for customers of both utilities and
13 that the revenue requirements prior to 2027 are not significant enough to
14 warrant an alternative allocation method. However, if the Commission believes
15 that an alternative allocation method is warranted, Witness Taylor's testimony
16 provides an alternative allocation of these RZEP project revenue requirements
17 and shows what the North Carolina retail revenue requirement would be for
18 both DEC and DEP if the revenue requirement for the RZEP transmission
19 projects were redistributed to the two utilities based on their North Carolina
20 retail transmission demand load ratio share. As Witness Taylor explains, DEC
21 is not recommending the alternative allocation method, but included it should
22 the Commission determine that it is more appropriate.

1 Second, DEC and DEP have taken steps to mitigate rate disparity that
2 could result from the 2022 Solar Procurement. Pursuant to an agreement
3 between the Companies and the Public Staff, which was later approved by the
4 Commission in the 2022 Solar Procurement Proceeding, a 1,200 MW Target
5 Procurement Volume was established for solar generation. Of this amount, one-
6 third of the Target Procurement Volume is to be located in DEC, one-third in
7 DEP, and the remaining one-third is to be procured from the least cost
8 remaining projects, whether located in DEP or DEC territory.⁷ The
9 establishment of a minimum level of MWs for each utility was an attempt to
10 mitigate an increase in rate disparity that could result from a greater imbalance
11 in the winning bids between the two utilities.

12 Third, the Company expects the Inflation Reduction Act of 2022
13 (“IRA”) will have benefits that reduce the cost of new solar and storage
14 investments. DEC has incorporated the estimated IRA tax benefits associated
15 with solar and energy storage MYRP projects in its MYRP revenue
16 requirement. Witness Taylor provides testimony and exhibits quantifying, as
17 best as DEC can do at this time in light of the uncertainties attendant upon
18 implementation of the IRA, the expected IRA tax credit impacts on the
19 Company’s MYRP revenue requirement. Similarly, DEP is in the process of
20 preparing an update to DEP’s MYRP revenue requirements to reflect estimates
21 of IRA tax benefits for DEP’s MYRP solar and storage projects, which will be

⁷ *Order Permitting Additional CPRE Program Procurement and Establishing Target Procurement Volume for the 2022 Solar Procurement*, Docket Nos. E-2, Sub 1159, E-2, Sub 1297, E-7, Sub 1156 and E-7, Sub 1268 (November 1, 2022).

1 included in DEP's first supplemental filing. Incorporation of estimated IRA tax
2 credit impacts on MYRP solar and storage projects should reduce rate impacts
3 resulting from the Carbon Plan, and thereby also reduce any furtherance of rate
4 disparity between the utilities attributable to the Carbon Plan.

5 **III. PERFORMANCE INCENTIVE MECHANISMS**

6 **Q. MR. STILLMAN, PLEASE EXPLAIN WHAT PIMS AND TRACKING**
7 **METRICS ARE.**

8 A. Generally speaking, PIMs are a rate-making mechanism that links utility
9 revenue or earnings to utility performance in targeted areas consistent with
10 policy goals. They include specific performance metrics and targets against
11 which utility performance is measured. PIMs were discussed extensively in the
12 NERP PBR Working Group and are a key and required component of PBR
13 under HB 951. A particular advantage of PIMs is their ability to align utility
14 financial incentives with policy goals.

15 Tracking metrics are useful for monitoring and quantitatively measuring
16 utility outcomes or performance and are reported to demonstrate progress
17 toward a particular outcome without financial impacts. Tracking metrics can
18 also be used to measure and develop an approach that can serve as a basis to
19 inform future PIMs.

20 **Q. WHAT GUIDELINES DOES HB 951 PROVIDE FOR METRICS AND**
21 **PIMS?**

22 A. Under HB 951, a PBR application shall include one or more PIMs and may also
23 include proposed tracking metrics. A PIM must be consistent with a policy goal,

1 which is defined in N.C. Gen. Stat. §62-133.16(a)(8) as “the expected or
2 anticipated achievement of operational efficiency, cost-savings, or reliability of
3 electric service” that is greater than existing federal, state, or Commission law,
4 regulation, or standards, except that an environmental policy goal cannot be
5 more stringent than state or federal standards. Policy goals targeted by a PIM
6 must be clearly defined, measurable with a defined performance metric, and
7 solely or primarily within the utility’s control pursuant to N.C. Gen. Stat. §62-
8 133.16(c)(3).

9 N.C. Gen. Stat. §62-133.16(c)(4) provides that the total of all potential
10 and actual PIM incentives or penalties cannot exceed 1% of the utility’s total
11 annual revenue requirement that is used to fix rates during the first year of a
12 MYRP, excluding any revenue requirement for the capital projects to be placed
13 in service during the first Rate Year. DSM and EE incentives are excluded from
14 the 1% cap and shall continue to be recovered through the utility’s DSM/EE
15 rider. Any utility-proposed PIM must include one or more of the following: (1)
16 rewards based on the sharing of savings achieved by meeting or exceeding a
17 specific policy goal; (2) rewards or penalties based on differentiated authorized
18 rates of return on common equity, with a maximum of 25 basis points, to
19 encourage utility investments or operational changes to meet a specific policy
20 goal; and (3) fixed financial rewards to encourage achievement of specific
21 policy goals, or fixed financial penalties for failure to achieve policy goals
22 pursuant to N.C. Gen. Stat. §62-133.16(c)(5).

1 In its February 10, 2022 *Order Adopting Rule R1-17B* in Docket No. E-
2 100, Sub 178 (“PBR Rule Order”), the Commission declined to open a separate
3 docket to establish policy goals and declined to adopt rules requiring specific
4 PIMs or outlining specific guidelines for designing PIMs outside of what is
5 prescribed in the statute. In declining to prescribe specific policy goals or PIMs
6 that must be included in a PBR application, the Commission sought “to preserve
7 flexibility and the ability for the Commission and all parties to learn and adapt
8 as policy issues evolve.” PBR Rule Order, at p. 24. The Commission further
9 explained that “its decision on PIMs proposed within the context of a PBR
10 application filed by a utility will be made based on the record in that specific
11 case.” *Id.* Commission Rule R1-17B requires additional details and explanation
12 about proposed PIMs, which I will address later in my testimony and exhibits.
13 Consistent with these requirements, and after taking into consideration diverse
14 stakeholder feedback and interests across numerous forums, DEC has
15 developed four proposed PIMs and three proposed tracking metrics to advance
16 important policy goals as part of its initial PBR Application.

17 **Q. HOW DID THE COMPANY CONSIDER STAKEHOLDER FEEDBACK**
18 **WHEN DEVELOPING ITS PROPOSED PIMS?**

19 A. DEC and DEP participated in the pre-HB 951 NERP PBR Working Group,
20 whose work product contained policy goal and PIM recommendations from the
21 diverse stakeholders who participated in that process. In written comments
22 submitted as part of the Commission’s Rule R1-17B rulemaking process, some
23 intervenors advocated for a separate policy goals docket and/or proposed

1 specific PIMs and PIMs criteria. Subsequent to the issuance of the PBR Rule
2 Order, DEC and DEP voluntarily invited stakeholders who intervened in the
3 PBR Rulemaking Docket and/or participated in the NERP PBR Working Group
4 and also historically have intervened in DEC and DEP general rate cases to
5 participate in a PIMs stakeholder engagement process. In July 2022, DEC and
6 DEP hosted two stakeholder sessions to discuss policy goals and PIMs, which
7 were attended by representatives from the Public Staff, the Attorney General's
8 Office, Carolinas Clean Energy Business Association, Carolina Industrial
9 Group for Fair Utility Rates ("CIGFUR"), Carolina Utility Customers
10 Association, ElectriCities, Southern Environmental Law Center ("SELC") (on
11 behalf of North Carolina Justice Center, North Carolina Housing Coalition,
12 Southern Alliance for Clean Energy and Sierra Club), North Carolina
13 Sustainable Energy Association, Appalachian Voices, Commercial
14 Group/Walmart, North Carolina Electric Membership Corporation, the Tech
15 Customers (Apple Inc., Google LLC, and Meta Platforms, Inc.), and North
16 Carolina Waste Awareness and Reduction Network ("NC WARN"). As part of
17 the first meeting, participants reviewed the 11 PIM policy goal areas
18 recommended by the NERP PBR Working Group as well as the essentially
19 identical 11 policy goal areas contained in N.C. Gen. Stat. §62-133.16(d)(2), in
20 addition to additional policy goals proposed by participants. In the second
21 stakeholder meeting, SELC, NC WARN, CIGFUR, and Appalachian Voices
22 proposed PIMs and/or tracking metrics, and DEC presented potential PIMs and
23 tracking metrics for stakeholder discussion. Following the stakeholder sessions,

1 DEC considered the feedback received and finalized the proposed PIMs and
2 tracking metrics it is including in its PBR Application. In particular, based upon
3 stakeholder feedback, DEC has added a reliability PIM and PIM metrics related
4 to customer renewable programs for consideration by the Commission.

5 **Q. PLEASE PROVIDE AN OVERVIEW OF THE PIMS THE COMPANY IS**
6 **PROPOSING IN ITS PBR APPLICATION.**

7 A. DEC is proposing the following four PIMs as part of its PBR Application:

8 (1) Peak Load Reduction: This PIM encourages the Company to reduce peak
9 load and is based on the estimated winter peak kilowatt (“kW”) reduction
10 associated with new customer enrollment in DEC’s dynamic and time-
11 differentiated rate programs. This PIM has a shared savings-like structure that
12 will allocate 30% of the total peak reduction joint benefit to the Company and
13 70% to customers. This PIM is upside-only to the Company.

14 (2) Low-Income/Affordability: This PIM provides incentives for the Company
15 to encourage voluntary contributions to its existing Share the Light Fund, which
16 provides financial assistance to customers who are struggling to pay their
17 energy bills, through a structure that establishes graduated shareholder
18 contributions and shareholder bonus matching contributions to fund health and
19 safety repairs for low-income residences based upon target levels of
20 contributions to the Share the Light Fund. This PIM is downside-only to the
21 Company.

22 (3) Reliability: This PIM holds DEC accountable to maintain service reliability
23 as measured by the System Average Interruption Duration Index (“SAIDI”)

1 (excluding Major Event Days “MEDs”). This PIM is downside-only to the
2 Company and features graduated penalties to be distributed to customers for
3 failure to maintain SAIDI below tiered threshold levels that are to be based
4 upon historic averages adjusted for statistical confidence levels and increased
5 outages due to additional grid work that is expected during the MYRP.

6 (4) Renewables Integration and Encouragement: This PIM is upside-only to the
7 Company and has three subpart components to incent and reward the Company
8 for (A) integrating additional DERs that are located on customer premises; (B)
9 designing, obtaining regulatory approval for, and offering new renewable
10 programs subscribed to by large customers; and (C) designing, obtaining
11 regulatory approval for, and offering new shared solar programs subscribed to
12 by residential customers.

13 As evidenced by these four PIMs, the Company has proposed a PIM
14 portfolio that is designed to balance the upside and downside opportunities for
15 the Company over the MYRP. The portfolio is designed to balance the per Rate
16 Year upside reward opportunities of up to approximately \$12 million to the
17 Company with the per Rate Year downside penalty opportunities of \$12 million.

18 **Q. WHAT ARE THE POLICY GOALS TARGETED BY EACH PIM AND**
19 **HOW WILL EACH PROPOSED PIM SUPPORT OR ADVANCE EACH**
20 **POLICY GOAL?**

21 A. DEC’s proposed PIM portfolio is designed to link the utility’s revenue or
22 earnings to performance in targeted areas consistent with policy goals, as
23 defined in N.C. Gen. Stat. §62-133.16(a)(8), as well as the policy goals listed

1 in N.C. Gen. Stat. §62-133.16(d)(2) as factors the Commission may consider in
2 reviewing a PBR application. In addition, the Company's proposed PIMs
3 support and advance several policy goals that were discussed and recommended
4 as part of the pre-HB 951 NERP PBR Working Group (which are nearly
5 identical to the policy goals listed in N.C. Gen. Stat. §62-133.16(d)(2)), as well
6 as support certain policy goals and proposed PIM areas suggested by
7 stakeholders during the Company's PIM stakeholder process. Although DEC's
8 initial proposed PIMs do not address all potential policy goals referenced in the
9 foregoing sources, nor all policy goals or PIM proposals advanced by
10 stakeholders, the Company believes that its proposed PIM portfolio collectively
11 reflects the Company's good faith efforts to incorporate diverse, and sometimes
12 competing, stakeholder feedback and propose a thoughtful and measured set of
13 PIMs that are reasonable and in the public interest.

14 The **Peak Load Reduction PIM** targets and advances operational
15 efficiency and cost-savings per N.C. Gen. Stat. §62-133.16(a)(8) as well as
16 encourages "peak load reduction or efficient use of the system" per N.C. Gen.
17 Stat. §62-133.16(d)(2)a. In addition, this PIM "promotes rate designs that yield
18 peak load reduction or beneficial load shaping" per N.C. Gen. Stat. §62-
19 133.16(d)(2)k., and encourages carbon reductions per N.C. Gen. Stat. §62-
20 133.16(d)(2)f. Peak load management has been a focus for the Company and
21 will continue to play a key role in its efforts to contain the cost of service as
22 beneficial electrification and reliance on solar and other intermittent renewable
23 resources increase. For DEC, the winter peak is a recognized driver for system

1 resource planning; therefore, system cost savings may be achieved through
2 reduced need for investment. In addition, reduction in winter peak load directly
3 enables the Company to operate with greater operational efficiency, via
4 improvement of the average load factor. Reducing peak load reduces reliance
5 upon peaking generation needed to serve that load and delays the need for new
6 resources, thereby reducing carbon emissions from fossil generation.

7 This PIM advances these policy goals by encouraging DEC to design
8 and seek approval of innovative dynamic and time-differentiated rate designs,
9 as well as increase customer participation in the existing rates that are designed
10 to reduce system peak load. One reason for strengthening this incentive is that
11 achieving this outcome will require substantial efforts to develop new ways to
12 market and encourage additional customers to enroll in time-differentiated rate
13 designs, particularly among residential customers whose current participation
14 levels in these rates has been minimal. Additionally, while there are currently
15 far greater percentages of General Service and Industrial Customer load
16 enrolled in such rates, the Company plans to continue to explore opportunities
17 to design new dynamic and time-differentiated rates and gain additional
18 customer enrollment, as the proposed PIM would add further incentive to
19 advance these policy goals, and is responsive to recommendations of the NERP
20 PBR Working Group.

21 The **Low-Income/Affordability PIM** targets and advances cost-
22 savings per N.C. Gen. Stat. §62-133.16(a)(8), as well as reduces low-income
23 energy burdens per N.C. Gen. Stat. §62-133.16(d)(2)d., encourages EE per N.C.

1 Gen. Stat. §62-133.16(d)(2)e., and encourages carbon reductions per N.C. Gen.
2 Stat. §62-133.16(d)(2)f. As of February 2020, approximately 29% of DEC and
3 DEP's residential customers qualify as low-income, with a household income
4 of 200% of the federal poverty guidelines.⁸ This PIM advances the listed policy
5 goals by providing the Company with an incentive to promote voluntary
6 contributions to the Share the Light Fund, which are used to assist customers
7 who are struggling to pay their electric bills, and also provides shareholder
8 funds dedicated to make health and safety repairs to remedy issues that
9 currently disqualify a significant number of low-income customers from
10 program participation.⁹ A need for health and safety repairs may also disqualify
11 customers from participating in DEC's Residential Neighborhood Energy Saver
12 Energy Efficiency program and would also disqualify customers from
13 participating in DEC's Residential Income-Qualified Energy Efficiency and
14 Weatherization Assistance for Individuals program. The shareholder
15 contribution to health and safety funds to be provided by this PIM will help to
16 complete the non-EE-related work necessary to qualify otherwise ineligible
17 homes for EE savings, which will provide a more permanent, or at least long-
18 term benefit, to low-income customers and reduce low-income energy burdens.
19 The dire need for additional health and safety repair funds is discussed at length
20 in the Final Report and Recommendations of The North Carolina Low-Income
21 Affordability Collaborative filed August 12, 2022 in Docket Nos. E-7, Subs

⁸ Final Report and Recommendations of The North Carolina Low-Income Affordability Collaborative filed August 12, 2022 in Docket Nos. E-7, Subs 1213, 1214 and 1187 and E-2, Subs 1219 and 1193 ("LIAC Final Report and Recommendations") at p. 9.

⁹ LIAC Final Report and Recommendations at p. 29, and Appendix G – LIAC, LIAC Proposals at p. 13.

1 1213, 1214 and 1187 and E-2, Subs 1219 and 1193. The health and safety
2 repairs to be funded by this proposed PIM will enable more energy efficient
3 low-income residences, which will also lower carbon emissions. Support for
4 low-income/affordability as a priority policy goal, and as an area for a PIM, was
5 expressed by several participants in the Company's PIM stakeholder sessions,
6 as well as by the NERP PBR Working Group.

7 The **Reliability PIM** targets and advances reliability of electric service
8 per N.C. Gen. Stat. §62-133.16(a)(8) as well as encouraging the policy goal of
9 "maintains adequate levels of reliability . . . " per N.C. Gen. Stat. §62-
10 133.16(d)(2)j. Reliability of service is of great importance to customers. This
11 proposed PIM advances the policy goal of reliability and is responsive to
12 recommendations of the NERP PBR Working Group, as well as stakeholders
13 who participated in the Company's PIM stakeholder sessions in the summer of
14 2022. These stakeholders expressed support for a downside-only reliability PIM
15 to advance policy goals to maintain current Company reliability levels to guard
16 against those stakeholders' perceived risk that a utility may engage in
17 detrimental cost-cutting in areas that impact reliability during a MYRP. DEC
18 had proposed reliability as a tracking metric in its stakeholder sessions, but
19 subsequently designed and added this proposed PIM based upon broad
20 stakeholder support for a downside-only reliability PIM.

21 The **Renewables Integration and Encouragement PIM** targets and
22 advances operational efficiency and cost-savings per N.C. Gen. Stat. §62-
23 133.16(a)(8), as well as encourages DERs per N.C. Gen. Stat. §62-

1 133.16(d)(2)c., encourages utility-scale renewables and energy storage per N.C.
2 Gen. Stat. §62-133.16(d)(2)b., and encourages carbon reductions per N.C. Gen.
3 Stat. §62-133.16(d)(2)f. While cleaner power generation is a key goal of North
4 Carolina energy policy and the Company, some customers want to reduce the
5 impact of their carbon emissions by choosing a cleaner generation mix now.
6 The proposed PIM furthers these policy goals by strengthening the Company's
7 incentive to integrate DERs located on customer premises and to offer and
8 subscribe customers to cost-competitive and convenient alternative green
9 power programs. The three components of this PIM are described below.

10 The **DER Integration** Metric A advances Net Energy Metering
11 ("NEM") DER projects, which helps to decrease total generation demand,
12 thereby reducing the need for generation investment and reducing carbon
13 emissions. NEM DERs allow customers to access zero-emitting generation,
14 such as rooftop solar, at their homes and businesses, which reduces their
15 electricity consumption from the grid. There has been a strong focus recently in
16 North Carolina and South Carolina on net metering reform, tying net metering
17 to TOU schedules, and developing new and innovative programs coupling
18 rooftop solar, net metering, TOU, and EE offerings. As discussed in DEC's
19 Carbon Plan, it is critical to carbon dioxide ("CO₂") emission reduction efforts
20 to continue exploring innovative net metering program structures that create
21 incentives for customers to participate in net metering. DEC's proposed DER
22 performance incentive encourages efforts to continue growth of DER adoption
23 in the context of expected headwinds that may include cost, supply constraints,

1 tapering of financial incentives, and regulatory uncertainty (*i.e.*, the
2 Commission's pending decisions in Docket Nos. E-7, Sub 1214; E-2, Sub 1219;
3 E-2, Sub 1076; and E-100, Sub 180, and Docket No. E-7, Sub 1261). This
4 component of the PIM advances these policy goals and is responsive to
5 recommendations of the NERP PBR Working Group, as well as some
6 stakeholders who participated in the Company's PIM stakeholder sessions in
7 the summer of 2022, which expressed support for a DER-related PIM.

8 The **Large Customer Renewable Program Encouragement** Metric B
9 supports many large commercial and industrial ("C&I") customers, educational
10 institutions, and local governments who have Environmental, Social, and
11 Governance goals or other clean energy goals and are increasingly seeking
12 access to renewable energy and programs as part of their business and
13 operations. In addition, some large C&I customers are increasingly making
14 access to clean energy a criterion as they consider expanding or relocating their
15 operations. This component of the PIM provides an incentive for the Company
16 to design, obtain regulatory approval of, and subscribe large customers to
17 renewable programs that are responsive to and attractive to these customers'
18 needs. This component of the PIM is proposed in response to feedback received
19 from large customer representatives in the Company's summer 2022 PIM
20 stakeholder process. In addition to advancing the policy goals discussed above,
21 successfully developing and subscribing customers to new renewables
22 programs supports customer satisfaction.

1 The **Residential Customer Shared Solar Program Encouragement**
2 Metric C encourages increased options for residential customers to have access
3 to additional clean energy resources and reduce carbon emissions. Some
4 residential customers want power from a cleaner mix of resources but seek an
5 option other than a DER on their premises. Alternative green power options,
6 such as residential shared solar programs, help residential customers achieve
7 their clean energy goals.

8 This component of the PIM provides an incentive for the Company to
9 design, obtain regulatory approval of, and subscribe residential customers to
10 voluntary shared solar programs that are responsive to and attractive to these
11 customers' needs while also providing benefits to non-participating customers.
12 In addition to advancing the policy goals discussed above, successfully
13 developing and subscribing residential customers to new shared solar programs
14 supports customer satisfaction.

1 **Q. PLEASE EXPLAIN THE DESIGN OF THE PROPOSED PEAK LOAD**
2 **REDUCTION PIM, INCLUDING THE METRICS AND TARGETS AND**
3 **PROPOSED PIM REWARDS OR PENALTIES.**

4 A. The performance metric for the **Peak Load Reduction PIM** is the estimated
5 winter peak kW reduction associated with customer enrollment in the
6 Company's dynamic and time-differentiated rates. PBR Policy Panel Exhibit 1
7 provides the design detail for the Peak Load Reduction PIM, and the calculation
8 of the estimated winter peak reduction is based upon approved inputs utilized
9 in the Company's DSM/EE Cost Recovery Mechanism to value the utility
10 system benefits from reducing peak capacity. The PIM is prospective in nature
11 and will only include and recognize peak load reductions from incremental
12 customer participation and associated kW reductions after approval of this PIM
13 by the Commission, including any new applicable rate designs approved by the
14 Commission during the MYRP Plan Period. Results will be reported annually
15 after each Rate Year for program enrollment as of December 31.

16 This PIM is upside-only to the Company and is designed as a shared
17 savings-like structure to distribute the total joint benefit created by the peak
18 reduction efforts. PBR Policy Panel Exhibit 1 shows an example calculation
19 demonstrating the estimated peak reduction due to the Company's dynamic and
20 time-differentiated rates. Customers will retain 70% of the joint system benefit
21 realized through long-term avoided system costs, which preserves low rates
22 over time. The Company will recover 30% of the calculated joint system benefit
23 as a reward, which is appropriate to provide a meaningful incentive for DEC to

1 develop innovative dynamic and time-differentiated rates and drive customer
2 enrollment in these rates, which otherwise would reduce utility earnings and
3 have the potential to erode the current DSM/EE incentive. Based upon assumed
4 aggressive customer adoption of existing and future rate designs consistent with
5 the Company's Carbon Plan modeling, the estimated potential PIM reward
6 value (joint benefit recognition) by rate year is:

7 Rate Year 1: \$0.6 million

8 Rate Year 2: \$1.1 million

9 Rate Year 3: \$1.6 million

10 Table 1 in PBR Policy Panel Exhibit 1, shows an illustrative calculation
11 of incentive value for a range for incremental customer participation. To the
12 extent that additional new rate designs are approved and included within this
13 PIM and/or additional customers enroll in existing or future new PIM-
14 applicable rates after the date this PIM is approved, then the maximum potential
15 PIM reward could change. Conversely, if fewer customers than assumed in this
16 calculation enroll in applicable rate designs, then the potential PIM reward
17 value would be less.

18 **Q. PLEASE EXPLAIN THE DESIGN OF THE PROPOSED LOW-**
19 **INCOME/AFFORDABILITY PIM, INCLUDING THE METRICS AND**
20 **TARGETS AND PROPOSED PIM REWARDS OR PENALTIES.**

21 **A.** The performance metric for the **Low-Income/Affordability PIM** is a
22 graduated shareholder contribution/bonus matching contribution structure that
23 is tied to the Rate Year amount of voluntary contributions to the Company's
24 Share the Light Fund, which provides bill paying assistance to customers in
25 need. Customers, Company employees, or others who contribute to the Share

1 the Light Fund can round up their bill to the next closest dollar, set up a
2 recurring donation, or make a one-time donation. The Duke Energy Foundation
3 matches contributions to the Share the Light Fund from customers, employees,
4 or others within DEC North Carolina dollar-for-dollar up to \$375,000, and this
5 Foundation match is unchanged and unrelated to the proposed PIM.

6 As discussed in PBR Policy Panel Exhibit 2, the PIM is downside-only
7 to the Company and structured so that shareholders would pay a maximum \$3
8 million contribution and a minimum of \$1.9 million to fund low-income
9 residential health and safety repairs. As shown in Table 1 in PBR Policy Panel
10 Exhibit 2, the target and shareholder contribution structure is based upon a
11 formula of \$3 million – [0.75 x in-year Share the Light Fund contributions],
12 with a bonus dollar-for-dollar shareholder matching contribution for in-year
13 contributions to the Share the Light Fund over \$1.5 million (up to a \$1.5 million
14 shareholder bonus matching maximum). Similar to the existing process for how
15 DEC utilizes a third-party administrator to distribute similar funds as part of
16 prior Helping Home Fund (“HHF”) commitments resulting from previous
17 regulatory proceedings, DEC plans to utilize a third party to administer the
18 distribution of shareholder funds available pursuant to this PIM to
19 weatherization trade allies to be used for health and safety repairs.

20 This PIM gives the Company added incentive to promote and encourage
21 contributions to the Share the Light Fund to benefit customers in need, while
22 providing a corresponding shareholder contribution to address needed health
23 and safety repairs to address issues that currently prevent many low-income

1 residences from qualifying for weatherization or other EE improvements.
2 Because the shareholder contributions under this proposed PIM would not flow
3 to all customers, but only to low-income residences through weatherization
4 trade allies to implement health and safety repairs, the Company would not
5 include any shareholder payments from this PIM in the PIM rider. The
6 Company does propose to count the downside-only amounts as part of the 1%
7 revenue requirement PIMs cap as it represents an obligation of the Company to
8 advance important policy goals as part of its proposed PIM portfolio.

9 **Q. PLEASE EXPLAIN THE DESIGN OF THE PROPOSED RELIABILITY**
10 **PIM, INCLUDING THE METRICS AND TARGETS AND PROPOSED**
11 **PIM REWARDS OR PENALTIES.**

12 A. The performance metric for the **Reliability PIM** is calendar year SAIDI,
13 excluding MEDs. The proposed incentive structure is detailed in PBR Policy
14 Panel Exhibit 3 and is designed to establish penalties for failure to maintain
15 expected reliability as measured by SAIDI. This PIM provides a downside-only
16 penalty structure with graduated penalties for performance above (*i.e.*, worse
17 than) SAIDI performance thresholds based upon the five-year historical
18 average SAIDI for calendar years 2018-2022. As further explained in PBR
19 Policy Panel Exhibit 3, the proposed three-tiered performance financial penalty
20 is based upon exceeding the upper bound of an 80% confidence interval for the
21 five-year historical average plus expected increase in outages attributable to
22 increased grid work during the MYRP. Final 2022 SAIDI performance will not

1 be known until sometime in early 2023 to establish the final five-year historical
2 SAIDI average benchmark and tiers.

3 Table 1 in PBR Policy Panel Exhibit 3 illustrates how the PIM penalty
4 structure would apply using estimated 2022 SAIDI data through the end of
5 September 2022 as the basis for the three tier target levels. This PIM provides
6 a Tier 1 penalty of \$1.5 million for exceeding the SAIDI historic five-year
7 average (2018-2022) by twenty minutes; a Tier 2 penalty of \$3 million for
8 exceeding the SAIDI historic five-year average (2018-2022) by forty minutes;
9 and a Tier 3 penalty of \$9 million for exceeding the SAIDI historic five-year
10 average (2018-2022) by sixty minutes. Again, the individual tier SAIDI
11 thresholds are subject to change once the SAIDI historic five-year average is
12 known.

13 **Q. PLEASE EXPLAIN THE DESIGN OF THE PROPOSED RENEWABLES**
14 **INTEGRATION AND ENCOURAGEMENT PIM, INCLUDING THE**
15 **METRICS AND TARGETS AND PROPOSED PIM REWARDS OR**
16 **PENALTIES.**

17 **A.** As I previously noted, the **Renewables Integration and Encouragement PIM**
18 consists of three components.

19 The **DER Integration** Metric A is an upside-only metric, which
20 provides graduated rewards to the Company for exceeding targets for the
21 number of net-metered DER customers interconnected to the DEC system. The
22 baseline performance thresholds will be based upon historical three-year
23 average interconnections for the 2020, 2021, and 2022 calendar years and will

1 be fixed for the duration of the MYRP. The DER Integration Metric A proposed
2 performance metric is the total number of NEM projects connected by DEC
3 during each Rate Year. PBR Policy Panel Exhibit 4 provides the design detail
4 for Metric A and the baseline performance thresholds against which DEC's
5 upside-only reward will be measured. DEC is proposing a three-tiered incentive
6 metric. As noted in PBR Policy Panel Exhibit 4, there are two relevant matters
7 pending before the Commission whose regulatory outcomes could have an
8 impact upon the potential number of new net-metered interconnections to be
9 achieved. Accordingly, we would look to adjust the targeted performance
10 thresholds once the outcome of those matters are resolved.

11 As noted in PBR Policy Panel Exhibit 4, the three-year historic average
12 number of net-metered interconnections for calendar year 2020-2022 is
13 estimated to be 3,672. Importantly, however, the actual three-year historical
14 average number of interconnections will not be known until after 2022 year-
15 end (to be provided in early 2023) and is, therefore, subject to change. For the
16 proposed targets, the Tier 1 performance threshold represents a 5% increase
17 from the estimated three-year historical average number of annual net-metered
18 interconnections and provides a performance reward of \$1.5 million. The Tier
19 2 performance threshold represents a 15% increase from the estimated three-
20 year historical average number of annual net-metered interconnections and
21 provides a performance reward of \$3 million. The Tier 3 performance threshold
22 represents a 25% increase from the estimated three-year historical average
23 number of annual net-metered interconnections and provides a performance

1 reward of \$6 million. Table 1 in PBR Policy Panel Exhibit 4 illustrates these
2 performance thresholds and rewards.

3 The **Large Customer Renewable Program Encouragement** Metric B
4 is an upside-only metric that establishes tiered rewards for the Company based
5 upon the cumulative share of commercial and industrial customer renewables
6 program capacity subscribed by eligible customers for new C&I renewable
7 customer programs approved by the Commission subsequent to the filing of this
8 PBR Application. This metric provides an incentive for DEC to design, obtain
9 approval of, and subscribe customers to new renewable programs that meet
10 these customers' desires for access to clean energy resources. The graduated
11 performance thresholds provide associated financial rewards to the Company
12 for meeting or exceeding a cumulative share of new renewable program
13 capacity subscribed by eligible commercial and industrial customers. As
14 provided in PBR Policy Panel Exhibit 4, Tier 1 provides a \$1 million reward if
15 the programs are cumulatively subscribed at or above 30% of program capacity
16 in a rate year; Tier 2 provides a \$2 million reward if the programs are
17 cumulatively subscribed at or above 50% of program capacity in a Rate Year;
18 and Tier 3 provides a \$3 million reward if the programs are cumulatively
19 subscribed at or above 70% of program capacity in a Rate Year. Performance
20 will be assessed each Rate Year, independent of preceding Rate Years (*e.g.*, Tier
21 1 financial reward could be earned in consecutive years, if cumulative
22 subscription rate achieved is between 30% and 50%).

1 The **Residential Customer Shared Solar Program Encouragement**

2 Metric C is an upside-only metric that establishes tiered rewards for the
3 Company based upon the cumulative share of residential customer shared solar
4 program capacity subscribed to by eligible customers for new residential shared
5 solar customer programs approved by the Commission subsequent to the filing
6 of this PBR Application. This metric provides an incentive for DEC to design,
7 obtain approval of, and subscribe residential customers to new shared solar
8 programs that meet these customers' desires for access to clean energy
9 resources. The graduated performance thresholds provide associated financial
10 rewards to the Company for meeting or exceeding a cumulative share of new
11 renewable program capacity subscribed. As provided in PBR Policy Panel
12 Exhibit 4, Tier 1 provides a \$500,000 reward if the programs are cumulatively
13 subscribed at or above 30% of program capacity in a Rate Year; Tier 2 provides
14 a \$1 million reward if the programs are cumulatively subscribed at or above
15 50% of program capacity in a Rate Year; and Tier 3 provides a \$1.5 million
16 reward if the programs are cumulatively subscribed at or above 70% of program
17 capacity in a Rate Year. Performance will be assessed each Rate Year,
18 independent of preceding Rate Years (*e.g.*, Tier 1 financial reward could be
19 earned in consecutive years, if cumulative subscription rate achieved is between
20 30% and 50%).

1 **Q. WHAT ARE THE MAXIMUM PIM DOWNSIDE AND UPSIDE**
2 **OPPORTUNITIES UNDER THE COMPANY’S PROPOSAL?**

3 A. The Company’s proposed maximum per Rate Year PIM penalty is \$9 million
4 for the Reliability PIM (for Tier 3) and the maximum per Rate Year total
5 shareholder contributions for the Low-Income/Affordability PIM is \$3 million,
6 which again the Company proposes to count as downside toward the 1%
7 revenue requirement PIMs cap although shareholder dollars would fund low-
8 income health and safety repairs instead of being returned to customers through
9 the PIM rider; for a total maximum downside PIM amount of \$12 million per
10 Rate Year.

11 The Company’s estimated potential Peak Load Reduction PIM reward
12 value is approximately \$0.6 million in Rate Year 1, approximately \$1.1 million
13 in Rate Year 2, and approximately \$1.6 million in Rate Year 3, although as I
14 noted earlier, this estimate is based upon aggressive assumed customer adoption
15 of existing and future rate designs consistent with the Company’s Carbon Plan,
16 and the reward value could increase or decrease depending on the number of
17 new customers enrolled in applicable rate designs. The maximum per Rate Year
18 PIM reward for the Renewables Integration and Encouragement PIM (all three
19 components) is \$10.5 million. Accordingly, the maximum PIM reward
20 opportunity is approximately \$12 million per Rate Year.

1 **Q. PIMS FOR DSM AND EE ARE COMMON IN OTHER JURISDICTIONS**
2 **AND WERE DISCUSSED IN THE NERP PROCESS AND THE**
3 **COMPANY’S STAKEHOLDER SESSIONS. WHY ISN’T DEC**
4 **PROPOSING A DSM/EE PIM IN THIS PROCEEDING?**

5 A. DEC is proud of its DSM/EE achievements, having been consistently
6 recognized as an EE savings leader among Southeast utilities. Stakeholder
7 engagement through the long-standing DSM/EE Collaborative has been
8 integral in developing and refining DSM/EE programs in the Carolinas over the
9 past fifteen years.

10 DEC’s DSM/EE Mechanism, which the Commission approved on
11 October 20, 2020, in Docket No. E-7, Sub 1032 and which went into effect
12 January 1, 2022, effectively *is* a PIM through its incentive and penalty structure.
13 The DSM/EE Mechanism features a Portfolio Performance Incentive (“PPI”)
14 based on the sharing of net utility system benefits achieved through the energy
15 and capacity savings from DSM/EE programs in the aggregate. The DSM/EE
16 Mechanism also includes a Program Return Incentive (“PRI”), which is a
17 payment to the Company for adopting and implementing programs that fail to
18 pass the Utility Cost Test but are approved by the Commission due to the
19 societal benefit they provide, such as low-income programs. Finally, the
20 DSM/EE Mechanism establishes an added incentive of \$500,000 in any year
21 during the 2022-2025 period that DEC achieves annual energy savings of 1%
22 of the prior year’s system retail electricity sales. During that same period, if the
23 Company fails to achieve annual energy savings of 0.5% of retail sales, net of

1 sales associated with customers opting out of the Company's EE programs, that
2 Company will reduce its EE revenue requirement by \$500,000.

3 In short, the Company's DSM/EE cost recovery mechanism already
4 features a refined, established and effective incentive mechanism for DSM/EE
5 that motivates the Company to offer a high-performing and cost-effective
6 portfolio of programs. Furthermore, to avoid double recovery, N.C. Gen. Stat.
7 §62-133.16(c)(4) provides that any DSM/EE incentives are excluded from the
8 1% PIMs cap and shall continue to be recovered through the DSM/EE rider. As
9 such, the Company has not proposed an additional DSM/EE PIM as part of the
10 PIMs proposed in this PBR proceeding.

11 **Q. HOW WILL THE PROPOSED PENALTY OR REWARD FOR EACH**
12 **PIM MINIMIZE ANY DUPLICATION OF OTHER REWARDS OR**
13 **PENALTIES CREATED BY OTHER RATEMAKING MECHANISMS,**
14 **INCLUDING DISTINGUISHING ACHIEVEMENT OF ANY DSM/EE**
15 **PORTFOLIO INCENTIVES?**

16 A. In accordance with Commission Rule R1-17B(d)(3)e.iv., DEC does not have
17 any rewards or penalties created by other ratemaking mechanisms that would
18 overlap with any of its proposed PIMs, and, therefore, there would not be any
19 duplication. Again, the Company has not proposed any DSM/EE PIMs, as these
20 programs have an established performance incentive mechanism.

1 **Q. WHAT ARE THE COMPANY’S PROJECTED COSTS TO BE**
2 **INCURRED, ALONG WITH INFORMATION ON HOW THE**
3 **COMPANY INTENDS TO EVALUATE, MEASURE, AND VERIFY**
4 **COMPLIANCE OR ACHIEVEMENT WITH ITS PROPOSED PIMS?**

5 A. PBR Policy Panel Exhibits 1 through 4 provide cost projections to support the
6 Company’s plans to support or advance the policy goals through each proposed
7 PIM, including the proposed resources. In most cases, the Company proposes
8 to utilize Company personnel and resources to evaluate, measure, and verify
9 results for all PIMs. As discussed in PBR Policy Panel Exhibit 1, DEC does
10 propose to use a third-party vendor to review the methodology utilized to
11 calculate the kW reduction associated with the Peak Load Reduction PIM, but
12 will perform the evaluation, measurement and verification with internal
13 resources. As explained in PBR Policy Panel Exhibit 2, as part of its support for
14 the Low-Income/Affordability PIM, DEC proposes to utilize a third party to
15 administer the shareholder funds available pursuant to this PIM to
16 weatherization trade allies to be used for health and safety repairs similar to the
17 existing process for how DEC utilizes a third party administrator to distribute
18 similar funds as part of prior HHF commitments resulting from prior regulatory
19 proceedings. As with the existing HHF administration process, the vendor
20 administrative costs will be established not to exceed 10% of the shareholder
21 funds provided for health and safety repairs.

22 With regard to the proposed PIMs for Reliability, DER Integration
23 Metric A, Large Customer Renewable Program Encouragement Metric B, and

1 Residential Customer Shared Solar Program Encouragement Metric C, the
2 Company has internal resources to track and report key components of the
3 metrics for each PIM and, therefore, projects at this time to incur minimal
4 incremental costs associated with the respective PIM. As provided in PBR
5 Policy Panel Exhibits 1 and 2, the Company anticipates incurring incremental
6 marketing costs to promote the programs included in the Peak Load Reduction
7 and Low-Income/Affordability PIMs.

8 In addition, the Company plans to utilize Duke Energy's IT department
9 to develop a public web-based PIM dashboard which will allow the
10 Commission, intervenors, and the public at large to view DEC's progress
11 toward the PIM metrics and proposed tracking metrics. The PIM dashboard has
12 a capital cost estimate of \$540,000, with estimated annual O&M costs of
13 approximately \$100,000. The Company proposes to allocate the costs of the
14 PIM dashboard based upon the number of North Carolina Retail customers –
15 56.77% to DEC and 43.23% to DEP, as the PIM dashboard will support both
16 DEC and DEP. Incremental O&M costs are proposed for deferral and future
17 recovery as described by Witness Quynh Bowman in her testimony.

18 **Q. DOES YOUR TESTIMONY ADDRESS THE ESTIMATED IMPACT TO**
19 **THE ANNUAL AND TOTAL REVENUE REQUIREMENTS THAT**
20 **WOULD RESULT FROM THE PROPOSED PIMS?**

21 A. No. The estimated impact to the Company's annual and total revenue
22 requirements that would result from supporting or advancing the policy goals
23 through the proposed PIMs is addressed in the testimony of Witness Taylor.

1 **Q. PLEASE DESCRIBE THE TRACKING METRICS THAT THE**
2 **COMPANY IS PROPOSING AND THE BASIS FOR THEIR**
3 **SELECTION.**

4 A. Pursuant to Commission Rule R1-17B(d)(4), DEC is proposing three tracking
5 metrics, which were selected to quantitatively measure and monitor outcomes
6 and/or utility performance that, although not tied to financial incentives or
7 penalties, address the Company's progress in furthering important policy goals.
8 These tracking metrics can also provide useful information in evaluating
9 potential future PIMs.

10 The first is a customer service tracking metric, which will provide a
11 quarterly update during the Rate Year of the rolling 12-month call center answer
12 rate and the average speed of answer. The Company tracks this data on a system
13 basis, so the information will be reported on a consolidated DEC basis, not DEC
14 North Carolina only. This is an appropriate metric to include as a tracking metric
15 because customers often communicate with the Company about service and
16 billing issues by telephone. Also, it allows greater public access to the data and
17 supports maintaining adequate levels of customer service per N.C. Gen. Stat.
18 §62-133.16(d)(2)j. The Company currently reports and will continue to report
19 this information to the Commission pursuant to Commission Rule R8-4A,
20 which was adopted by the Commission's March 9, 2015 *Order Adopting New*
21 *Service Quality Rules for Electric Utilities*.

22 Next, we propose a CO₂ emissions tracking metric, which will report
23 progress toward compliance with the CO₂ reduction targets of HB 951 and the

1 Commission's Carbon Plan, on a frequency as established by the Commission
2 in Docket No. E-100, Sub 179. Because DEC and DEP's systems are jointly
3 dispatched, and the HB 951 CO₂ reduction goals are joint between the two
4 utilities, the Company will track and report the combined DEC and DEP
5 reduction in CO₂ emissions by percentage as compared to the baseline 2005
6 emission levels. Progress toward the HB 951 CO₂ reduction provisions is a
7 matter of keen interest for North Carolina and making this data available in a
8 tracking metric can provide broader public access. This tracking metric also
9 supports encouraging carbon reductions per N.C. Gen. Stat. §62-133.16(d)(2)f.

10 Finally, we propose a tracking metric to report beneficial electrification
11 from estimated incremental load from EVs. N.C. Gen. Stat. §62-133.16(c)(2)
12 contains a provision to encourage EVs by excluding EV charging from the
13 decoupling mechanism, as is discussed in Witness Taylor's testimony. In
14 addition, Governor Cooper's Executive Order 246, signed on January 7, 2022,
15 sets goals to increase the number of zero emission vehicles in our state by 2030.
16 This tracking metric also supports encouraging beneficial electrification,
17 including EVs, per N.C. Gen. Stat. §62-133.16(d)(2)g. Accordingly, this
18 tracking metric will provide important data about an area with material policy
19 interest.

20 In conclusion, and consistent with its approach for proposing its initial
21 PIMs, the Company has proposed these three tracking metrics to address
22 important policy goals as part of a deliberate approach to the number of tracking
23 metrics in its initial PBR Application.

1 **Q. WHY SHOULD THE COMMISSION ADOPT THE COMPANY'S**
2 **PROPOSED PIMS AND TRACKING METRICS?**

3 A. As discussed above, the Company's proposed PIMs and tracking metrics are
4 consistent with the guidelines in HB 951. Consistent with the guidelines
5 provided in N.C. Gen. Stat. §62-133.16(c)(3), the Company's four proposed
6 PIMs are targeted, clearly defined, capable of being measured with a defined
7 performance metric, and solely or primarily within DEC's control. The
8 incentive provisions or structures are based upon fixed financial rewards, and
9 the Peak Load Reduction PIM has a shared savings-like structure, consistent
10 with the guidelines provided in N.C. Gen. Stat. §62-133.16(c)(5). As discussed
11 in Witness Taylor's testimony, the total of all potential PIM rewards or penalties
12 is well within the 1% revenue requirement cap provided for in N.C. Gen. Stat.
13 §62-133.16(c)(4). All the proposed PIMs are consistent with policy goals as
14 defined in N.C. Gen. Stat. §62-133.16(a)(8) and the PBR plan review criteria
15 identified in N.C. Gen. Stat. §62-133.16(d)(2).

16 DEC's choice of focus areas for the proposed PIMs was also informed
17 by Duke Energy's participation in the pre-HB 951 NERP process where several
18 PIMs were recommended; intervenor comments in the Commission's PBR
19 rulemaking process; stakeholder feedback during Low-Income Affordability
20 Collaborative stakeholder process; discussions during the PIMs stakeholder
21 sessions convened by the Company in the summer of 2022; and a review of
22 approved PIMs in other jurisdictions. In summary, the PIMs developed and
23 proposed in this initial PBR Application reflect diverse stakeholder input and

1 reflect a measured and thoughtful approach as the Company, interested
2 stakeholders, and this Commission gain experience and obtain information on
3 best practices to track certain information so that incentives are properly aligned
4 with policy goals and consistently and correctly tracked.

5 Similarly, other jurisdictions have taken a deliberate and conservative
6 approach in adopting PIMs in the initial years of PBR plans. As explained in
7 the Company's filed PBR Rulemaking comments, this deliberate approach is
8 appropriate as DEC and stakeholders tackle novel issues, gain experience with
9 new legislative and regulatory tools, and implement lessons learned. As the
10 NERP PBR group recommended, it also allows the Commission and utilities to
11 adapt as policy goals and objectives change over time.

12 In summary of my testimony regarding the policy goals advanced by the
13 Company's proposed PIMs and tracking metrics, of the 11 listed public policy
14 goals that the Commission may consider in evaluating a PBR application under
15 N.C. Gen. Stat. §62-133.16(d)(2), the Company's proposed PIMs and tracking
16 metrics are responsive to 9 of the 11 (subparts a., b., c., d., e., f., g., j., and k.):

- 17 a. Encourages peak load reduction or efficient use of the system.
- 18 b. Encourages utility-scale renewable energy and storage.
- 19 c. Encourages DERs.
- 20 d. Reduces low-income energy burdens.
- 21 e. Encourages energy efficiency.
- 22 f. Encourages carbon reductions.
- 23 g. Encourages beneficial electrification, including electric vehicles.

1 h. Supports equity in contracting.

2 i. Promotes resilience and security of the electric grid.

3 j. Maintains adequate levels of reliability and customer service.

4 k. Promotes rate designs that yield peak load reduction or beneficial
5 load-shaping.

6 Although DEC has not proposed a PIM or tracking metric in the area of
7 supporting equity in contracting, the Company's reporting and overall efforts in
8 support of the Hire North Carolina Rule, Commission Rule R25-1, advance
9 such a policy goal. Similarly, although DEC has not proposed a PIM or tracking
10 metric in the area of promoting resiliency and security of the electric grid, the
11 Company has proposed significant transmission and distribution investments in
12 its PBR Application (which are discussed in the testimony and exhibits of
13 Witnesses Maley and Guyton) that will promote resiliency and security of the
14 electric grid.

15 The Company's proposed PIMs address significant policy goals and
16 provide meaningful financial incentives to encourage utility performance in
17 areas of shared interest. The proposed PIM rewards and penalties are reasonable
18 and appropriate, in addition to being consistent with Company's deliberate
19 approach to PIMs in its first PBR Application. In addition, the Company has
20 proposed a PIM portfolio in which the potential PIM rewards for performance
21 are reasonably balanced against potential PIM penalties or downside based
22 upon performance. The Company's proposal would balance upside reward
23 opportunities of up to approximately \$12 million to the Company with the

1 downside opportunities of up to \$12 million. The Company has proposed tiers
2 of rewards and penalties in most of its PIMs to encourage “stretch” behavior
3 and refine the available rewards or penalties to targeted outcome results. The
4 exception to this tiered approach is the Peak Load Reduction PIM which is
5 based upon a shared savings-like structure. Accordingly, the Company believes
6 that its proposed PIMs and incentive structures are reasonable and should be
7 approved by the Commission.

8 Although the Company’s proposed PIMs have been offered in response
9 to diverse stakeholder input, and the Company believes they are reasonable and
10 appropriate under the framework of HB 951, DEC notes that the stakeholder
11 views on such important policy goals are certainly not unanimous and in some
12 instances are contradictory. DEC expects that the rate case process will provide
13 opportunities for additional exchanges of information among intervenors and
14 the Company about potential PIMs which may provide opportunities for
15 additional engagement and alignment.

16 **Q. DOES THIS CONCLUDE THE PANEL’S PRE-FILED DIRECT**
17 **TESTIMONY?**

18 **A. Yes.**

Peak Load Reduction PIM

Metric

The proposed metric for the peak load reduction PIM is the estimated Winter peak kW reduction associated with customer enrollment in the Company's dynamic and time-differentiated rates, including additional rates proposed and approved in the future.

Proposed metric would be calculated for each applicable rate as:

	Total enrolled customers (as of Dec. 31) less participants enrolled at the time of PIM approval
x	Average expected Winter peak reduction per enrolled customer (kW)
=	Estimated Winter peak kW reduction
x	Utility system benefit (\$ / kW) – <i>based on approved inputs from EE/DSM Cost Recovery Mechanism</i>
=	Total Joint System Benefit
x	Company allocation of Joint Benefit
=	Company incentive value

Estimated Winter peak reduction will be reported annually after the end of each Rate Year, calculated based on total enrollment in relevant rate programs as of December 31.

Eligible programs

Calculation will only include and recognize peak load reductions from incremental customer participation and associated deemed kW reductions after approval of the PIM by the Commission, including any new applicable rate designs approved by the Commission during the MYRP. Eligible rate programs include rates identified at the time of establishing the PIM and any new time-differentiated or dynamic rates that are identified for inclusion at the time of Commission approval.

Presently, there are limited residential eligible rate programs (i.e. RSTC and RETC) in DEC North Carolina. There are also existing non-residential time differentiated rates (i.e. SGSTC and OPT-V), but given the complexity associated with determining a deemed savings from such a heterogeneous customer group, the impact of any estimated incremental participation will be modeled and vetted on a case-by-case basis at the time of calculating the proposed incentive.

At the time of seeking approval for any additional rates that the Company identifies for inclusion in the performance metric calculation, the Company shall provide a proposed initial kW savings reduction to be utilized and supporting documentation/rationale.

Incentive calculation

Based on a sharing of utility system savings structure, in each year during the MYRP, customers will retain 70% of the calculated joint benefit resulting from estimated Winter peak kW reduction. The Company can earn a payment equal to 30% of the calculated joint benefit resulting from estimated Winter peak kW reduction. Any earned payment would be recovered through the PIM rider established by the Commission upon authorization of the MYRP.

For existing eligible rate programs (RSTC and RETC), the average expected Winter peak reduction per enrolled customer is approximately ~0.21-0.31 kW.

Based on approved inputs utilized in the Company's DSM/EE Cost Recovery Mechanism, as applied to the vintage year that aligns with the PIM period in the most recently approved DSM/EE rider filing, the current value of the utility system benefit is approximately \$80 to \$90 per kW of Winter peak reduction.

Table 1: Illustrative calculation of incentive value for range of incremental customer participation in R TOU CPP time-differentiated rate program

Customer enrollment	Approximate incentive value
15,000	\$100,000
75,000	\$500,000
150,000	\$1,000,000
200,000	\$1,300,000
275,000	\$1,800,000

Projection of costs to be incurred and proposed resources (labor, contractors, materials, etc.) per Commission Rule R1-17B(d)(3)d.

The required resources to support advancement of this policy goal are limited to marketing and billing system efforts associated with approved dynamic and time-differentiated rate programs, as well as efforts to develop and gain approval of additional dynamic and time-differentiated rates.

Additional costs associated with the Peak Load Reduction PIM include:

- Implementation of participation tracking (*estimated to be ~\$100-200k on approval of PIM*)
- Evaluation, measurement, and verification (EM&V) costs associated with each time differentiated or dynamic rate included in the PIM calculation, to update impacts for future calculations (*estimated to be ~\$50-\$200k per new rate design*)
- Incremental marketing costs for rate offerings (*estimated to be ~\$50-200k per year*)

Approach for evaluation, measurement, and verification

The specific metric to assess performance will be the total number of enrolled customers in eligible rate programs as of December 31 occurring during the Rate Year.

The Company will use internal labor to analyze customer data, and an independent third-party for validation. Third-party review will also include approach and methodology to determine the value of savings. Additional EM&V sampling will occur at the point in time when there is a sufficient participant pool to yield statistically significant results.

Low-Income/Affordability PIM

Metric

The proposed metric for the low-income affordability PIM is annual Rate Year contributions (\$) to the DEC-NC Share the Light Fund program to support low-income customers through bill paying assistance. Results will be reported annually after the end of each Rate Year.

Eligible contributions

The metric will include all voluntary contributions from customers, Company employees, and third parties to the existing DEC-NC Share the Light Fund.

All other contributions by the Company or its Foundation, including the current matching program (up to \$375,000 under the current program) would not be included in the metric.

PIM description

This PIM gives the Company added incentive to promote and encourage contributions to the Share the Light Fund to benefit customers in need, while providing a corresponding shareholder contribution to address needed health and safety repairs that currently prevent many low-income residences from qualifying for weatherization or other energy efficiency (“EE”) improvements.

The Company will make structured shareholder contributions to fund residential health and safety initiatives to enable low-income customer participation in weatherization and EE programs based upon the level of Rate Year contributions to the DEC-NC Share the Light Fund. Shareholder contributions are classified as either (a) **shareholder contribution**, or (b) **bonus shareholder matching**, with no differentiation of use for funds based on the contribution classification. The PIM structure incentivizes the Company to encourage Share the Light Fund contributions.

This PIM is “downside-only” to the Company. The maximum total of per Rate Year shareholder contributions pursuant to this PIM is \$3.0 million, with a minimum total shareholder contribution of \$1.9 million.

Formulas / approach for calculating structured contributions are as follows:

- **Shareholder contribution** = \$3.0 million – [0.75 x eligible contributions]
- **Bonus shareholder matching** is dollar-for-dollar for eligible contributions over \$1.5 million (up to \$1.5 million bonus shareholder matching maximum)

For example:

- A) If eligible contributions to the Company’s Share the Light Fund in a given Rate Year equal \$360,000, the:
- **shareholder contribution** would be \$2,730,000: $(3,000,000 - (360,000 * 75\%))$
 - **bonus shareholder matching** would be \$0

B) If eligible contributions to the Company's Share the Light Fund in a given rate year equal \$1,875,000, the:

- **shareholder contribution** would be \$1,593,750: $(3,000,000 - (1,875,000 * 75\%))$
- **bonus shareholder matching** would be \$375,000

The existing Foundation matching program is unchanged and unrelated to this PIM. Eligible contributions to the DEC-NC Share the Light Fund (and associated Foundation matching) will continue to directly fund programming for bill assistance to low-income customers.

Structured contributions associated with the PIM (both **shareholder contribution** and **bonus shareholder matching**) will to be used to fund residential health and safety initiatives to enable low-income customer participation in weatherization and EE programs.

Because the shareholder contribution structure of this proposed PIM would not flow to all customers, but only to low-income residences through weatherization trade allies to implement needed health and safety repairs, the Company would not include any shareholder payments from this PIM in the PIM rider; the Company does propose, however, to count the "downside-only" amounts as part of the 1% revenue requirement PIMs cap as it represents an obligation of the Company to advance important policy goals as part of its proposed PIM portfolio.

Table 1: Illustrative calculation of shareholder contributions by the Company, for range of Rate Year contributions to the Share the Light Fund

Rate Year contributions to Share the Light Fund	Foundation matching (existing system)	Structured PIM contributions (for health and safety repairs)		Total funding
		Shareholder contribution	Bonus shareholder matching	
\$0	\$0	\$3,000,000	\$0	\$3,000,000
\$200,000	\$200,000	\$2,850,000	\$0	\$3,250,000
\$400,000	\$375,000	\$2,700,000	\$0	\$3,475,000
\$600,000	\$375,000	\$2,550,000	\$0	\$3,525,000
\$800,000	\$375,000	\$2,400,000	\$0	\$3,575,000
\$1,000,000	\$375,000	\$2,250,000	\$0	\$3,625,000
\$1,200,000	\$375,000	\$2,100,000	\$0	\$3,675,000
\$1,400,000	\$375,000	\$1,950,000	\$0	\$3,725,000
\$1,600,000	\$375,000	\$1,800,000	\$100,000	\$3,875,000
\$1,800,000	\$375,000	\$1,650,000	\$300,000	\$4,125,000
\$2,000,000	\$375,000	\$1,500,000	\$500,000	\$4,375,000

Projection of costs to be incurred and proposed resources (labor, contractors, materials, etc.) per Commission Rule R1-17B(d)(3)d.

The required resources to support advancement of this policy goal include marketing efforts associated with the Share the Light Fund program. The Company estimates an incremental \$15,000 in annual marketing costs for the Share the Light Fund as part of this PIM.

In addition, similar to the existing processes utilized as a result of previous regulatory proceedings involving the Company, a third-party administrator will be utilized to distribute funds consistent with the distribution of similar funds as part of prior Helping Home Fund (“HHF”) commitments. The Company plans to utilize a third party to administer the shareholder funds available pursuant to this PIM to weatherization trade allies to be used for health and safety repairs. As with the existing HHF administration process, the vendor administrative costs will be established not to exceed 10% of the shareholder funds provided for health and safety repairs.

Additional incremental costs are expected to be minimal at this point, as internal program management resources track Share the Light Fund contributions.

Approach for evaluation, measurement, and verification

The Company has existing internal resources and systems to track contributions to the Share the Light Fund and will use these existing resources to evaluate, measure, and verify compliance with or achievement of this PIM's terms.

Reliability PIM

Metric

The proposed metric for the reliability PIM is system average interruption duration index (“SAIDI”), excluding major event days (“MEDs”). Results will be reported annually after the end of each Rate Year, for performance during the 12-month period ending on December 31.

Illustrative thresholds (pending update for 2022 data)

	Performance threshold
SAIDI 5-year historic average (2018-2022) <i>No penalty for SAIDI below Tier 1 threshold</i>	180*
SAIDI threshold for Tier 1 penalty <i>Financial <u>penalty</u> if SAIDI above threshold value</i>	200* <i>\$1.5M</i>
SAIDI threshold for Tier 2 penalty <i>Financial <u>penalty</u> if SAIDI above threshold value</i>	220* <i>\$3.0M</i>
SAIDI threshold for Tier 3 penalty <i>Financial <u>penalty</u> if SAIDI above threshold value</i>	240* <i>\$9.0M</i>

Note: * Thresholds and tiers are based on expected 5-year average SAIDI (excluding MEDs) for 2018-22 using currently available data. Thresholds and tiers are to be recalculated in early 2023 with complete data, using methodology described in this exhibit.

PIM description

This PIM holds DEC accountable to maintain service reliability as measured by SAIDI. The Company will be required to return a penalty to customers if SAIDI performance exceeds established thresholds. Potential penalties are tiered to increase for cases where performance exceeds historic average performance by escalating amounts. Any calculated penalty would be returned to customers through the PIM rider established by the Commission upon authorization of the MYRP.

Illustrative thresholds for penalties are based upon historic averages (2018-2022) adjusted for statistical confidence levels and increased outages due to additional grid work that is expected during the MYRP. Specifically, thresholds were calculated as:

5-year historic average for 2018-2022 is expected to be 180 minutes (based on data ending September 2022)

- For the purpose of this filing, the 2018-2022 five-year average SAIDI is the most recent known average and therefore is most appropriate to use for target setting

Tier 1 SAIDI threshold = 200

- 80% confidence interval for forward-projected SAIDI performance averages +/- 10.0 minutes, based on standard deviation for 2018-2022 SAIDI performance
- Threshold adjusted for impact of elevated improvement work volume during the MYRP, which is expected to raise SAIDI by ~10 minutes (driven by increased Hot Line Tag and Planned Outages)

Tier 2 SAIDI threshold = 220

- Based on increase of 20 minutes above Tier 1 threshold

Tier 3 SAIDI threshold = 240

- Based on increase of 20 minutes above Tier 2 threshold

Projection of costs to be incurred and proposed resources (labor, contractors, materials, etc.) per Commission Rule R1-17B(d)(3)d.

Costs associated with the reliability PIM are expected to be minimal, as existing systems for tracking and reporting of SAIDI (excluding MEDs) to the Commission will be cross utilized for PIM reporting. This efficiency is enabled because the proposed metric mirrors existing reporting.

Approach for evaluation, measurement, and verification

Current systems for tracking and calculation of SAIDI performance are to be used for PIM reporting, and the Company will use these existing resources to evaluate, measure, and verify compliance with or achievement of this PIM's terms.

Renewables Integration and Encouragement PIM

This PIM is “upside-only” to the Company and has three subpart components to incent and reward the Company for (A) integrating additional distributed energy resources (“DER”) that are located on customer premises; (B) designing, obtaining regulatory approval for, and offering new renewables programs subscribed to by commercial and industrial (“C&I”) customers; and (C) designing, obtaining regulatory approval for, and offering new shared solar programs subscribed to by residential customers.

Renewables Integration and Encouragement PIM – Metric A

Metric A: DER Integration

The first proposed metric for the Renewables Integration and Encouragement PIM is the total number of Net Energy Metering (“NEM”) projects connected by DEC during each Rate Year. Results will be reported annually after the end of each Rate Year, for performance during the Rate Year. Projects for all classes of DEC customers will be included in the performance assessment.

Metric A: PIM description

In each year during the MYRP, the Company can earn a reward for exceeding performance thresholds for the proposed metric. Potential rewards are tiered to increase for cases where performance exceeds higher thresholds. Any earned reward would be recovered through the PIM rider established by the Commission upon authorization of the MYRP.

Metric A: Performance Thresholds

There are two relevant matters pending before the Commission whose regulatory outcomes could have an impact upon the potential number of new NEM projects connected (the Joint Petition for Approval of Revised Net Energy Metering Tariffs and the Application for Approval of Smart Saver Solar Energy Efficiency Program). While the structure of this PIM currently makes no assumption on the outcome of these proceedings, as these matters are resolved, we would look to adjust the targeted performance thresholds.

Table 1

Performance threshold	
Tier 1 performance threshold	3,856*
<i>Financial <u>reward</u> if connections exceed value</i>	<i>\$1.5M</i>
Tier 2 performance threshold	4,223*
<i>Financial <u>reward</u> if connections exceed value</i>	<i>\$3M</i>
Tier 3 performance threshold	4,590*
<i>Financial <u>reward</u> if connections exceed value</i>	<i>\$6M</i>

*Note: * Performance Thresholds are based on expected 3-year average annual connections for 2020-22 using currently available data. All Performance Thresholds are to be recalculated in early 2023 for complete historical connection data, using the methodology described in this exhibit.*

Performance thresholds are calculated on the following basis:

Tier 1 performance threshold (3,856) represents 5% increase from 3-year historic average (2020-22) annual connections estimated to be 3,672*

Tier 2 performance threshold (4,223) represents 15% increase from 3-year historic average (2020-22) annual connections*

Tier 3 performance threshold (4,590) represents 25% increase from 3-year historic average (2020-22) annual connections*

Fixed performance thresholds will be used for all Rate Years.

Metric A: Projection of costs to be incurred and proposed resources (labor, contractors, materials, etc.) per Commission Rule R1-17B(d)(3)d.

Costs associated with this metric are expected to be limited to administrative costs required for initial implementation of tracking systems and for annual support to reconcile data. These costs are estimated to be approximately \$5,000.

Metric A: Approach for evaluation, measurement, and verification

The Company will solely use internal labor to collect, analyze, and report data for this metric. Expected costs associated with this work are included in the cost estimate above.

Renewables Integration and Encouragement PIM – Metric B

Metric B: Large Customer Renewable Program Encouragement

The second proposed metric for the Renewables Integration and Encouragement PIM is the cumulative share of C&I customer renewables program capacity subscribed by eligible customers. Results will be reported annually after the end of each Rate Year, for calculated performance as of the last day of the Rate Year.

Program subscription by eligible DEC customers as a share of installed and in-queue capacity (i.e., all capacity available for subscription) for DEC customers through eligible programs will be considered for performance assessment.

Specific formula for calculation of proposed metric:

$$\text{Program subscription share (\%)} = \frac{\text{cumulative customer subscription (MW)}}{(\text{cumulative installed capacity (MW)} + \text{cumulative in queue capacity (MW)})}$$

Definitions:

Cumulative customer subscription = MW of eligible program capacity that all DEC C&I customers have subscribed to (total for all eligible programs)

Cumulative installed capacity = MW of eligible program capacity that is installed and available for DEC C&I customer subscription (total for all eligible programs)

Cumulative in queue capacity = MW of eligible program capacity that is not yet in service, but is planned and available for DEC C&I customer subscription (total for all eligible programs)

Metric B: Eligible programs

The PIM would consider new C&I customer renewables programs that financially and/or environmentally link off-site renewable facilities (not directly connected to a customer premises) to a C&I customer's account(s). For purposes of this PBR Application, eligible programs do not include any REC-only programs that have no term commitment.

The PIM would account for customer subscription as a share of total available capacity (including both installed and in-queue capacity) for eligible programs that are approved by the Commission subsequent to the filing of this PBR Application.

Metric B: PIM description

In each year during the MYRP, the Company can earn a reward for meeting or exceeding performance thresholds for the proposed metric. Potential rewards are tiered to increase for cases where performance meets or exceeds higher thresholds. Any earned reward would be recovered through the PIM rider established by the Commission upon authorization of the MYRP.

Metric B: Performance Thresholds

Table 2	Performance threshold
Tier 1 performance threshold <i>Financial <u>reward</u> if performance meets or exceeds threshold</i>	≥ 30% subscribed <i>\$1,000,000</i>
Tier 2 performance threshold <i>Financial <u>reward</u> if performance meets or exceeds threshold</i>	≥ 50% subscribed <i>\$2,000,000</i>
Tier 3 performance threshold <i>Financial <u>reward</u> if performance meets or exceeds threshold</i>	≥ 70% subscribed <i>\$3,000,000</i>

Tier 1 performance threshold (30%) is based on an optimistic forecast of program subscription during the initial years following approval of eligible programs. Tier 2 and 3 performance thresholds are based on an increase of 20% and 40%, respectively, over the Tier 1 threshold.

Proposed performance thresholds are applicable for all Rate Years, with performance assessed independently during each Rate Year (i.e., Tier 1 financial reward could be earned in consecutive years, if subscription rate falls between 30% and 50% in both Rate Years).

Example calculations:

- a) Rate Year 1 ends with total available (installed + in-queue) capacity of 100 MW for DEC C&I customers across all eligible programs; DEC C&I customers have subscribed to 25 MW of available capacity:
 - Program subscription share = $25 / 100 = 25\%$
 - Performance < Tier 1 threshold; **no reward earned**
- b) Rate Year 2 ends with total available (installed + in-queue) capacity of 250 MW (100 MW carried forward from Rate Year 1, with 150 MW added during Rate Year 2) for DEC C&I customers across all eligible programs; DEC C&I customers have subscribed to 100 MW (25 MW carried forward from Rate Year 1, with 75 MW new subscription during Rate Year 2) of available capacity:
 - Program subscription share = $100 / 250 = 40\%$
 - Performance > Tier 1 threshold and < Tier 2 threshold; **reward of \$1,000,000 earned**

Metric B: Projection of costs to be incurred and proposed resources (labor, contractors, materials, etc.) per Commission Rule R1-17B(d)(3)d.

Internal program management resources, systems, and marketing efforts for applicable new large customer renewable programs will be in place to support new programs, including tracking. Therefore, incremental PIM-associated costs are expected to be minimal.

Metric B: Approach for evaluation, measurement, and verification

Internal program management resources, systems, and marketing efforts for applicable new large customer renewable programs will be in place to support new programs, including tracking. Company will use these existing resources to evaluate, measure, and verify compliance with or achievement of this PIM's terms.

Renewables Integration and Encouragement PIM – Metric C

Metric C: Residential Customer Shared Solar Program Encouragement

The third proposed metric for the Renewables Integration and Encouragement PIM is the cumulative share of residential customer shared solar program capacity subscribed by eligible customers. Results will be reported annually after the end of each Rate Year, for calculated performance as of the last day of the Rate Year.

Program subscription by eligible DEC customers as a share of installed capacity available for subscription by DEC customers through eligible programs will be considered for performance assessment.

Specific formula for calculation of proposed metric:

$$\text{Program subscription share (\%)} = \frac{\text{cumulative customer subscription (MW)}}{\text{cumulative installed capacity (MW)}}$$

Definitions:

Cumulative customer subscription = MW of eligible shared solar program capacity that all DEC residential customers have subscribed to (total for all eligible programs)

Cumulative installed capacity = MW of eligible shared solar program capacity that is installed and available for DEC residential customer subscription (total for all eligible programs)

Metric C: Eligible programs

The PIM would consider new shared solar customer renewables programs for residential customers that financially and/or environmentally link off-site renewable facilities (not directly connected to a customer premises) to a customer's account(s). For purposes of this PBR Application, eligible programs do not include any REC-only programs that have no term commitment.

The PIM would account for total cumulative residential customer subscription as a share of total cumulative installed capacity for eligible shared solar programs that are approved by the Commission subsequent to the filing of this PBR Application.

Metric C: PIM description

In each year during the MYRP, the Company can earn a reward for meeting or exceeding performance thresholds for the proposed metric. Potential rewards are tiered to increase for cases where performance meets or exceeds higher thresholds. Any earned reward would be recovered through the PIM rider established by the Commission upon authorization of the MYRP.

Metric C: Performance Thresholds

Table 3	Performance threshold
Tier 1 performance threshold <i>Financial <u>reward</u> if performance meets or exceeds threshold</i>	≥ 30% subscribed \$500,000
Tier 2 performance threshold <i>Financial <u>reward</u> if performance meets or exceeds threshold</i>	≥ 50% subscribed \$1,000,000
Tier 3 performance threshold <i>Financial <u>reward</u> if performance meets or exceeds threshold</i>	≥ 70% subscribed \$1,500,000

Tier 1 performance threshold (30%) is based on an optimistic forecast of program subscription during the initial years following approval of eligible programs. Tier 2 and 3 performance thresholds are based on an increase of 20% and 40%, respectively, over the Tier 1 threshold.

Proposed performance thresholds are applicable for all Rate Years, with performance assessed independently during each Rate Year (i.e., Tier 1 financial reward could be earned in consecutive years, if subscription rate falls between 30% and 50% in both Rate Years).

Example calculations:

- a) Rate Year 1 ends with total cumulative installed shared solar capacity of 30 MW for DEC residential customers across all eligible programs; DEC residential customers have subscribed to 8 MW of available capacity:
 - Program subscription share = $8 / 30 = \sim 27\%$
 - Performance < Tier 1 threshold; **no reward earned**
- b) Rate Year 2 ends with total cumulative installed shared solar capacity of 70 MW (30 MW carried forward from Rate Year 1, with 40 MW added during Rate Year 2) for DEC residential customers across all eligible programs; DEC residential customers have subscribed to 30MW (8 MW carried forward from Rate Year 1, with 22 MW new subscription during Rate Year 2) of available capacity:
 - Program subscription share = $30 / 70 = \sim 43\%$
 - Performance > Tier 1 threshold and < Tier 2 threshold; **reward of \$500,000 earned**

Metric C: Projection of costs to be incurred and proposed resources (labor, contractors, materials, etc.) per Commission Rule R1-17B(d)(3)d.

Internal program management resources, systems, and marketing efforts for applicable new residential customer shared solar programs will be in place to support new programs, including tracking. Therefore, incremental PIM-associated costs are expected to be minimal.

Metric C: Approach for evaluation, measurement, and verification

Internal program management resources, systems, and marketing efforts for applicable new residential customer shared solar programs will be in place to support new programs, including tracking. The Company will use these existing resources to evaluate, measure, and verify compliance with or achievement of this PIM's terms.