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September 27, 2021

VIA ELECTRONIC FILING

Ms. Antonia Dunston
Interim Chief Clerk
North Carolina Utilities Commission
430 N. Salisbury Street, Dobbs Building
Raleigh, North Carolina 27603

**Re: Docket No. G-9, Sub 781
Docket No. G-9, Sub 786
Docket No. G-9, Sub 722**

Dear Ms. Dunston:

Pursuant to Paragraph No. III.AA.2.a of the Stipulation of Partial Settlement filed in the above-referenced dockets on September 7, 2021 (“Stipulation”), Piedmont Natural Gas Company, Inc. (“Piedmont”) submits the attached details of the mechanism allowing Piedmont to recover all reasonable and prudent costs incurred for adopting, implementing, and operating cost-effective energy efficiency (“EE”) measures and programs. These details reflect the Public Staff’s and Piedmont’s collective agreements regarding how EE programs and their costs should be handled in this proceeding.

Thank you for your assistance with this matter. If you have any questions regarding this filing, you may reach me at the number shown above.

Sincerely,

/s/ James H. Jeffries IV
James H. Jeffries IV

JHJ/rkg

Enclosure

cc: Lucy Edmondson
Elizabeth Culpepper
Bruce Barkley
Pia Powers
Parties of Record

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the attached is being served this date upon all of the parties to this docket electronically or by depositing a copy of the same in the United States Mail, First Class Postage Prepaid, at the addresses contained in the official service list in this proceeding.

This the 27th day of September, 2021.

/s/ Richard K. Goley
Richard K. Goley

**COST RECOVERY MECHANISM OF PIEDMONT NATURAL GAS FOR ENERGY
EFFICIENCY PROGRAMS PILOT**

(Docket No. G-9, Subs 781 and 786)

The purpose of this Mechanism is to (1) allow Piedmont Natural Gas Company, Inc. (Piedmont or the Company), to recover all reasonable and prudent costs incurred for adopting, implementing, and operating energy efficiency (EE) measures and programs in accordance with the Stipulation of Partial Settlement between the Public Staff, Carolina Utility Customers Association, Inc., and Carolina Industrial Group for Fair Utility Rates IV, filed on September 7, 2021 in Docket No. G-9, Sub 781 (Stipulation), as approved by the North Carolina Utilities Commission's (Commission) Final Order in that proceeding, Commission Rule R6-95, and the additional principles set forth below, and (2) establish certain requirements for requests by Piedmont for approval and continued operation of EE measures and programs. The definitions set out below apply to this Mechanism. This Mechanism is to be effective during the pilot period agreed to in the Stipulation (as further explained in this Mechanism), and as approved or modified after the end of that pilot period.

Changes in the terms and conditions of this Mechanism shall be applied prospectively only, to time periods following any Commission order amending those terms and conditions, unless otherwise approved by the Commission. Approved programs and measures shall continue to be subject to the terms and conditions that were in effect when they were approved with respect to the recovery of reasonable and prudent costs, unless otherwise approved by the Commission.

Definitions

1. *Common costs* are costs that are not attributable or reasonably assignable or allocable to specific EE programs or measures but are necessary to design, implement, and operate the programs or measures collectively. Common costs may include appropriately assigned or allocated marketing, education, or general outreach costs.

2. *Costs* include program or measure costs (including those of pilot programs approved by the Commission for inclusion in the Mechanism), common costs, and, subject to Rule R6-95, any other costs approved by the Commission for inclusion in the Mechanism. *Costs* include only those expenditures appropriately allocable to the North Carolina jurisdiction.

3. *Low-Income Programs or Low-Income Measures* are EE programs or EE measures approved by the Commission as components of programs provided specifically to low-income customers.

4. *Measure* means, with respect to EE, an "energy efficiency measure," as defined in N.C. Gen. Stat. § 62-133.8(a)(4).

5. *Measurement unit's life* means the estimated number of years that equipment or customer treatment associated with a measurement unit will operate if properly maintained or activities associated with the measurement unit will continue to be cost-effective, and produce energy savings as measured in therms, unless the Commission determines otherwise.

6. *Net-to-gross (NTG) ratio* means an adjustment factor used to compute the net savings by accounting for but not limited to such behavioral effects as free ridership and spillover.

7. *Program* means a collection of EE measures with similar objectives that have been consolidated for purposes of delivery, administration, and cost recovery.

8. *Program or measure costs* are costs that are attributable to specific EE programs or measures and include all appropriate capital costs (including cost of capital and depreciation expenses), reasonably assignable or allocable administrative and general costs, implementation costs, incentive payments to program or measure participants, operating costs, and evaluation, measurement, and verification (EM&V) costs, net of any grants, tax credits, or other reductions in cost received by the utility from outside parties. Program or measure costs may include appropriately assigned or allocated marketing, education, or outreach costs.

9. *Total Resource Cost (TRC) test* means a cost-effectiveness test that measures the net costs of a EE program or measure as a resource option based on the total costs of the program or measure, including both the participants' costs and the utility's costs (excluding incentives paid by the utility to or on behalf of participants). The costs for the TRC test are the net program or portfolio costs incurred by the utility and participants, and the increased supply costs for any periods in which consumption is increased. All costs of equipment, installation, operation and maintenance (O&M), removal (less salvage value), and administration, no matter who pays for them, are included in this test. The benefits for the TRC test are avoided supply costs, which shall be calculated using net program or measure savings, i.e., savings net of changes in

energy use that would have happened in the absence of the program or measure. Any tax credits are considered a reduction to costs in this test.

10. *Utility Cost Test (UCT)* means a cost-effectiveness test that measures the net costs of a EE program or measure as a resource option based on the costs incurred by the utility (including incentive costs paid by the utility to or on behalf of participants) and excluding any net costs incurred by the participant. The costs for the UCT are the net program or portfolio costs incurred by the utility and the increased supply costs for any periods in which consumption is increased. Utility costs include initial and annual costs, such as the cost of utility equipment, O&M, installation, program administration, incentives paid to participants and participant dropout and removal of equipment (less salvage value). The benefits for the UCT are avoided supply costs caused by a consumption reduction. The avoided supply costs shall be calculated using net program or measure savings, i.e., savings net of changes in energy use that would have happened in the absence of the program or measure.

Pilot

11. Piedmont's entire EE portfolio (School Conservation Education Program, Low-Income Program, Residential HVAC and Water Heating Program, Commercial HVAC and Water Heating Program, Commercial Food Services Program, and Residential New Construction Program, plus administrative costs supporting the portfolio and each Program thereunder) shall be placed on a pilot of roughly three years in order to collect operational data, perform EM&V, and assess cost-effectiveness. With respect to the portfolio, the pilot will commence on the date that Piedmont's effective base rates no

longer include recovery of costs for EE Measures and Programs, which is currently expected to be November 1, 2021, and will end on June 30, 2025 (this period is referred to herein as the Pilot Period).¹ During the Pilot Period, each Program will operate as a pilot Program. Each new pilot Program listed above will commence operation as soon as practicable after November 1, 2021, but no later than July 1, 2022.

12. Within 30 days of Commission approval of the pilot, the Company shall file calculations of cost effectiveness for the Residential Low-Income Program and the School Conservation Education Program consistent with the manner in which the other Programs are evaluated.

13. During the Pilot Period and with reference to each pilot Program, Piedmont should structure and perform EM&V to ensure accuracy of the NTG ratio, avoided costs, Measure life, and Measure savings used in the cost-effectiveness calculations.

14. The criteria for a successful EE Measure is a Utility Cost Test result greater than 1.0. Any Measure that results in a UCT < 0.9 should be removed from the portfolio, unless otherwise ordered by the Commission.

15. Piedmont shall work with the Public Staff and other interested parties to cost effectively increase participation, particularly for low-income customers, and those customers who rent their homes or businesses.

¹ The technical length of the Pilot Period is somewhat longer than the three years referenced in the Stipulation due to the fact that some of the new EE Programs planned by Piedmont will commence between November 1, 2021 and June 30, 2022; the additional time will allow all Programs to be in effect for at least three years.

16. The EE rider rates shall commence as of the beginning date of the Pilot Period, and at that time shall be set to zero (\$0) per therm. The EE rider rates shall be subsequently modified, first specifically pursuant to Paragraph 41 of this Mechanism, and subsequently pursuant to the process described in the other Paragraphs in the “General Structure of Rider” and “Cost Recovery” sections of this Mechanism. The existing EE Programs as of the beginning date of the Pilot Period will continue as pilot Programs, subject to modification; implementation of such modifications as well as of new Programs will begin when approved by the Commission on or after November 1, 2021.

17. At the end of the Pilot Period or sooner, if Program performance dictates, the Company should for each Program seek either approval as a full Program or termination. Any petition for full approval or termination should include supporting testimony on the updated inputs for participation, savings, NTG ratio, avoided costs, Program costs, and cost-effectiveness test results. Piedmont may end the pilot for a particular Program before the end of the Pilot Period if substantial evidence suggests the UCT will result in a value less than or greater than 1.0, in which case Piedmont will remove the Program or apply for it to be granted full approval, respectively.

Term

18. This Mechanism is to be effective during the Pilot Period, and as approved or modified after the end of the Pilot Period. Costs to be recovered under this Mechanism may include Program and portfolio costs incurred by the Company during the Pilot Period, if approved by the Commission as appropriate for recovery.

Application for Approval of Programs

19. In evaluating potential EE Measures and Programs for selection and implementation, Piedmont will first perform a qualitative Measure screening to ensure Measures are:

- (a) Commercially available and sufficiently mature.
- (b) Applicable to the Piedmont service area demographics and climate.
- (c) Feasible for a utility EE Program.

20. Piedmont will then further screen EE Measures for cost-effectiveness. For purposes of this screening, estimated incremental EM&V costs attributable to the Measures shall be included in the Measures' costs. With the exception of Measures included in Low-Income Programs, an EE Measure with an estimated UCT result less than 0.9 will not be considered further, unless the Measure can be bundled into an EE Program to enhance the overall cost-effectiveness of that Program. Measures under consideration for bundling, whether as part of a new Program or into an existing Program, should, unless otherwise approved by the Commission, be consistent with and related to the Measure technologies, and/or delivery channels currently offered in the existing Program or to be otherwise offered in the new Program.

21. With the exception of Low-Income Programs or other non-cost-effective Programs with similar societal benefits as approved by the Commission, all Programs submitted for approval will have an estimated UCT result greater than 1.00.

22. If a Program fails the economic test in Paragraph 20 above, Piedmont will determine if certain Measures can be removed from the Program to satisfy the criteria established in Paragraph 20.

23. Nothing in this Mechanism relieves Piedmont from its obligation to comply with Commission Rule R6-95 when filing for approval of EE Programs. Piedmont shall, in its filings for approval of Programs, describe in detail the industry-accepted methods to be used to collect and analyze data; measure and analyze Program participation; and evaluate, measure, verify, and validate estimated energy and peak demand savings. Piedmont shall provide a schedule for reporting the results of this EM&V process to the Commission. The EM&V process description should describe not only the methodologies used to produce the impact estimates utilized, but also any methodologies the Company considered and rejected. Additionally, if Piedmont plans to use an independent third party for purposes of EM&V, it shall identify the third party and include all third-party costs in its filing.

Program Management

24. For the annual EE cost recovery filings, Piedmont will work with the Public Staff to determine what should be included and also the format of each filing.

25. For purposes of calculating prospective and/or actual cost-effectiveness of EE Programs or Measures when measured by Piedmont or the Public Staff to be used to determine whether a Program or Measure should remain in the portfolio, the Company shall assess each Program or Measure by:

- a. Using projected benefits specifically calculated for each Program or Measure, as to be determined by continuing discussions between Piedmont and the Public Staff, and as ultimately approved by the Commission, and,
- b. Evaluating each cost-effectiveness test using actual and/or projections of participation, savings, Program or Measure costs, and benefits for the previous and/or upcoming vintage year.

26. The parties acknowledge that prospective cost-effectiveness evaluations are snapshots of the Program or Measure's performance, and that ongoing cost-effectiveness is impacted by many factors outside the Company's control, including but not limited to market and economic conditions, avoided costs, and government mandates. The parties shall continue to work to maintain the cost-effectiveness of its portfolio and individual Programs and Measures. However, for any Program that initially demonstrates a UCT, determined pursuant to Paragraph 24 above, of less than 1.00, the Company shall include a discussion in its annual EE rider proceeding of the actions being taken to improve cost-effectiveness, or alternatively, its plans to terminate the Program.

27. For Programs that demonstrate an actual and/or prospective UCT, determined pursuant to Paragraph 24 above, of less than 1.00 in a second EE rider proceeding, the Company shall include a discussion of what actions it has taken to improve cost-effectiveness. Fluctuations of UCT above and below 1.0 should be addressed on a case by case basis.

28. For Programs that demonstrate an actual and/or prospective UCT, determined pursuant to Paragraph 24 above, of less than 1.00 in a third EE rider

proceeding, the Company shall terminate the Program effective at the end of the year following the EE rider order, unless otherwise ordered by the Commission.

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

Program Modifications

30. Modifications filed with the Commission for approval will be evaluated under the same guidelines and parameters used in initial Program approval.

31. If approval of a modification is desired, the Company shall file a petition prior to the implementation of the Program change no later than 30 days prior to the proposed effective date.

Evaluation, Measurement and Verification

32. EM&V of Programs, conducted by an independent third-party using a nationally-recognized protocol agreed upon with the Public Staff, will be performed to ensure that Programs remain cost-effective. If cost of a specific EM&V is too great, the

Company may utilize an approved EM&V report from a similar region to that of North Carolina. This protocol may be modified with approval of the Commission to reflect the evolution of best practices.

33. EM&V will also include updates of any net-to-gross (NTG) ratios related to previous NTG estimates for Programs and Measures. All of the updated information will be used in evaluating the continued cost-effectiveness of existing Programs, but updates to NTG estimates will not be applied retrospectively to Measures that have already been installed or Programs that have already been completed. If it becomes apparent during the implementation of a Program that NTG ratios are substantially different than anticipated, the Company will file appropriate Program adjustments with the Commission.

34. For purposes of application of EM&V, initial EM&V results shall be applied retroactively to the beginning of the Program offering to replace initial estimates of impacts. For the purposes of the vintage true-ups, these initial EM&V results will be considered actual results for a Program until the next EM&V results are received. The new EM&V results will then be considered actual results going forward and applied prospectively for the purposes of truing up vintages from the first day of the month immediately following the month in which the study participation sample for the EM&V was completed. This EM&V will then continue to apply and be considered actual results until it is superseded by new EM&V results, if any.

Collaborative

35. To the extent appropriate, Piedmont should join the Duke Energy Low Income Affordability Collaborative.

General Structure of Rider

36. An annual EE rider, consisting of a separate billing factor for each customer class that is eligible for participation in one or more Programs, will be placed in effect for each year (except for the first such rider, which may be in effect for slightly less or more than one year)², unless otherwise approved by the Commission.

37. The annual filing date of Piedmont's EE rider application and supporting documents shall be no later than September 15th of each year.

38. The supporting documents filed with the EE rider application shall include, but not necessarily be limited to, the following:

- a. The calculation of and supporting workpapers and other documentation for the proposed rate to go into effect January 1st.
- b. A schedule updating estimated and actual charges and credits to the EE deferral account, and calculating the monthly beginning and ending balances, for each month from its inception through December 31st of the filing year. This schedule shall incorporate

² As explained elsewhere in this Mechanism, the first such rider shall become effective on the date that Piedmont's effective base rates no longer include recovery of costs for EE Measures and Programs (which is currently expected to be November 1, 2021). The rates set in the first annual rider proceeding will become effective on January 1, 2023.

updates to reflect actual charges and credits to the extent possible. Actual and estimated charges and credits shall be clearly identified as such.

- c. If not previously completed, filed, and incorporated, EM&V reports completed as of September 15th and incorporated as appropriate into the calculation of the proposed rider.
- d. The EM&V plan for the current calendar year and through the remainder of the Pilot Period.
- e. Requested Program modifications, if any.
- f. Cost-effectiveness results by Measure, Program, and portfolio for the twelve months ended March 31st of the year of filing (updated as appropriate for EM&V). For purposes of the Rate Period (January 1st through December 31st of the upcoming year), the Company will utilize the data collected during the previous twelve months (ending March 31st) and update its forecasted participation so that a proxy cost-effectiveness for each program can be calculated.
- g. Any information required by Paragraph 24 of this Mechanism.
- h. Any information not otherwise listed above that was previously provided in Piedmont's annual EE report.

39. The Public Staff will place its recommendation regarding the proposed rider on the Agenda for the Regular Staff Conference scheduled for no later than December 15th of each year.

40. The planned effective date for the EE rider rates is January 1st of each year.

41. The initial rider, effective as of the date that Piedmont's effective base rates no longer include recovery of costs for EE Measures and Programs (which is currently expected to be November 1, 2021), will be \$0 per therm. Piedmont and the Public Staff shall work together to determine EE rider rates consistent with this Mechanism, and shall file such proposed rates with the Commission by October 8, 2021. If approved by the Commission, these rider rates shall become effective as of the effective date of the base rates approved in Docket No. G-9, Sub 781.

42. By the 15th day of each month, Piedmont shall file a deferral account report for the second preceding calendar month, setting forth the details of the changes to the deferral account for that month and since inception.

Cost Recovery

43. Pursuant to each annual EE rider proceeding held in 2022, 2023, and 2024, Piedmont shall be allowed to recover, through the EE rider, all reasonable and prudently incurred Program and portfolio costs appropriately estimated to be incurred in expenses during the upcoming rate period (presumably January 1st through December 31^s of years 2023 and 2024, and January 1st through June 30th of year 2025). The rider rates as annually set shall also include recovery of the estimated balance in the deferral account as of December 31st of the year just prior to the rates' January 1st effective date. Any

remaining deferral account balance as of June 30, 2025 that is found appropriate and reasonable by the Commission for recovery (after true-up to reflect reasonable and prudently incurred charges and credits), shall be eligible for subsequent rate recovery as determined appropriate by the Commission. Modification, discontinuation, and/or termination of the pilot or any previously-approved EE Measure or Program shall not preclude Piedmont's ability to otherwise recover through rates the Program or related portfolio Costs incurred in expenses for operation and EM&V of such EE Program or Measure.

44. The cost and expense information filed by Piedmont pursuant to the rider and this Mechanism shall be categorized at a Measure, Program, and portfolio level..

45. Piedmont may implement deferral accounting for over- and underrecoveries of costs that are eligible for recovery through the annual EE rider. The balance in the deferral account, gross of deferred income taxes, may accrue a return at the annual net-of-tax rate of return approved in Piedmont's then most recent general rate case, using a mid-month convention. Such return will not be eligible for further gross-up for income taxes. Interest shall be eligible for compounding only at December 31st of each calendar year (to avoid an annual accrual of return at greater than the annual rate).

46. For purposes of cost recovery through the EE rider, system-level costs of each Program shall be assigned or allocated to the North Carolina jurisdiction and the North Carolina customer classes or rate schedules eligible to participate in that Program, by use of appropriate factors as approved in each case by the Commission. The individual rates for each participating customer class or rate schedule shall be calculated

by dividing the assigned or allocated costs by volumes applicable to the class or rate schedule, as approved by the Commission in the most recent general rate case.

47. The assignment or allocation methodology described in Paragraph 46 above shall be utilized for the initial rider and for succeeding riders as appropriate. If it becomes evident that non-participating classes also benefit from cost reductions related to particular Programs, the methodology will be subject to change to reflect such benefits.

Review of Mechanism

48. The terms and conditions of this Mechanism shall first be reviewed by the Commission beginning two years after the effective date of rates in Docket No. G-9, Subs 781 and 786, to be completed no later than June 30, 2025. The Company and other parties shall submit any proposed changes to the Commission for approval at the time of the filing of the Company's annual EE rider proposal. During the time of review, the Mechanism shall remain in effect until further order of the Commission revising the terms of the Mechanism or taking such other action as the Commission may deem appropriate.

No Precedential Effect

49. The terms of this Mechanism shall not be considered precedential for any purpose other than their application to eligible EE Programs and cost recovery associated with those Programs, and only until those terms are next partially or wholly reviewed.