

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. E-2, SUB 1002

In the Matter of)	
Application by Carolina Power & Light Company,)	ORDER APPROVING DSM/EE
d/b/a Progress Energy Carolinas, Inc. for)	RIDER AND REQUIRING
Approval of Demand-Side Management and)	FILING OF PROPOSED
Energy Efficiency Cost Recovery Rider Pursuant)	CUSTOMER NOTICE
to G.S. 62-133.9 and Commission Rule R8-69)	

HEARD IN: Commission Hearing Room 2115, Dobbs Building, 430 North Salisbury Street, Raleigh, North Carolina on Tuesday, September 27, 2011, at 10:20 a.m.

BEFORE: Commissioner ToNola D. Brown-Bland, Presiding; Chairman Edward S. Finley, Jr.; Commissioner Lorinzo L. Joyner; Commissioner William T. Culpepper, III; Commissioner Bryan E. Beatty; Commissioner Susan W. Rabon; and Commissioner Lucy T. Allen

APPEARANCES:

For Progress Energy Carolinas, Inc.:

Kendal C. Bowman, Associate General Counsel, Progress Energy Carolinas, Inc., Post Office Box 1551, PEB 17B2, Raleigh, North Carolina 27602-1551

For the Using and Consuming Public:

David T. Drooz, Staff Attorney, Public Staff – North Carolina Utilities Commission, 4326 Mail Service Center, Raleigh, North Carolina 27699-4326

BY THE COMMISSION: G.S. 62-133.9(d) authorizes the North Carolina Utilities Commission (Commission) to approve an annual rider to the rates of electric public utilities to recover all reasonable and prudent costs incurred for the adoption and implementation of new demand-side management and energy efficiency (DSM/EE) programs. The Commission is also authorized to award incentives to electric utilities for adopting and implementing new DSM/EE programs, including rewards based on the sharing of savings achieved by the programs. Commission Rule R8-69(b) provides that the Commission will each year conduct a proceeding for each electric utility to establish an annual DSM/EE rider to recover the reasonable and prudent costs incurred for adopting and implementing new DSM/EE measures previously approved

by the Commission pursuant to Commission Rule R8-68. Under Commission Rule R8-69, such rider consists of the utility's forecasted cost during the rate period, similarly forecasted performance incentives and net lost revenues as allowed by the Commission, and an experience modification factor (EMF) rider to collect the difference between the utility's actual reasonable and prudent costs and incentives incurred and earned during the test period and the actual revenues realized during the test period under the DSM/EE rider (based on previous forecasts) then in effect.

Docket No. E-2, Sub 1002

Pursuant to G.S. 62-133.9 and Commission Rule R8-69, on June 3, 2011, Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc. (PEC or Company), filed an application and the associated direct testimony of Robert P. Evans and Julie Hans for the approval of a DSM/EE rider to recover reasonable and prudent forecasted DSM/EE costs, carrying costs, incremental administrative and general (A&G) costs, capital costs, taxes, net lost revenues, and an additional incentive. In addition, PEC asked for approval of a DSM/EE EMF rider and, pursuant to Commission Rule R8-69(b)(2), PEC also requested recovery through the DSM/EE EMF rider of its costs, including carrying costs, net lost revenues, and an additional incentive, incurred up to 30 days prior to the hearing in this proceeding.

On June 7, 2011, PEC filed its statement of verification for the prefiled testimony of Julie Hans which was inadvertently excluded from the Company's June 3, 2011 filing.

On June 8, 2011, the Commission issued an Order scheduling a public hearing in this matter on September 27, 2011, immediately following the 9:30 a.m. hearing in Docket No. E-2, Sub 1001, establishing discovery guidelines, providing for intervention and testimony by other parties, and requiring public notice. On August 25, 2011, PEC filed its affidavits of publication indicating that the Company had provided notice in newspapers of general circulation as required by the Commission's June 8, 2011 Order.

On June 21, 2011, PEC filed a revised Appendix D to its Exhibit No. 1 included in its application filed on June 3, 2011. In its filing, PEC stated that due to measurement and verification related adjustments and other factors impacting both the test period and prior periods, the original Appendix D was not necessarily representative of test period activities. PEC stated that the revised Appendix D was based solely on test period participation levels and impacts.

The intervention of the Public Staff is recognized pursuant to G.S. 62-15(d) and Commission Rule R1-19(e). On July 11, 2011, Carolina Utility Customers Association, Inc. (CUCA) filed a petition to intervene, which was granted by Commission Order

issued July 20, 2011. On September 6, 2011, the Southern Alliance for Clean Energy (SACE) filed a Statement of Position Letter.¹

On August 23, 2011, PEC filed the supplemental direct testimony and exhibits of witness Evans. On September 2, 2011, the Public Staff filed a motion for an extension of time to file its direct testimony. By Order issued September 6, 2011, the Commission granted the Public Staff's motion. On September 9, 2011, the Public Staff filed the affidavits of Michael C. Maness and Jack L. Floyd.

On September 27, 2011, the hearing was held as scheduled. The Applicant stated that it agreed with the recommendations of the Public Staff; consequently, PEC and the Public Staff agreed to accept all prefiled testimony, exhibits, and affidavits into evidence and to waive cross-examination of the witnesses. PEC stated that CUCA, who is an intervenor in this proceeding, was not planning to attend the hearing. Based upon such stipulation, the Commission received into evidence the prefiled testimony and exhibits of PEC witnesses Evans and Hans and the affidavits of Michael C. Maness and Jack L. Floyd, as if given orally from the witness stand. No public witnesses appeared at the hearing. On October 20, 2011, PEC and the Public Staff filed a Joint Proposed Order.

Other Pertinent Docket Nos. E-2, Sub 931 and Sub 926

On June 15, 2009, in Docket No. E-2, Sub 931, the Commission issued an Order Approving Agreement and Stipulation of Partial Settlement, Subject to Certain Commission-Required Modifications in PEC's first DSM/EE rider proceeding (Sub 931 Order). In that Order, the Commission approved, with certain modifications, an Agreement and Stipulation of Partial Settlement (Stipulation), between PEC, the Public Staff, and Wal-Mart Stores East, LP and Sam's East, Inc. setting forth the terms and conditions for approval of DSM/EE measures and the annual DSM/EE rider proceedings pursuant to G.S. 62-133.9 and Commission Rules R8-68 and R8-69. Such Stipulation included a Cost Recovery and Incentive Mechanism for Demand-Side Management and Energy Efficiency Programs (Mechanism), which was modified by the Commission in its Sub 931 Order, to allow PEC to recover all reasonable and prudent costs incurred for adopting and implementing new DSM and EE measures in accordance with G.S. 62-133.9, Commission Rules R8-68 and R8-69, and the additional principles set forth in the Mechanism.

On July 13, 2009, PEC filed a Motion for Reconsideration and Stay regarding certain decisions made by the Commission in Docket Nos. E-2, Sub 926² and

¹ In its Statement of Position Letter, SACE stated that it was not filing for intervention in the present proceeding because it did not anticipate participating beyond submitting such statement. Further, SACE noted that it was aware of the limited manner in which statement of position letters are considered by the Commission.

² Docket No. E-2, Sub 926 is PEC's application for approval of its proposed Distribution System Demand Response Program.

Sub 931.³ The request for reconsideration filed by PEC involved, among other things, the Commission's decision that industrial and large commercial customers may not opt-out of cost recovery with respect to PEC's Distribution System Demand Response (DSDR) Program. After receiving comments and reply comments, on August 24, 2009, the Commission issued an Order on Motion for Full Commission Review setting the matter for oral argument before the full Commission on September 16, 2009.

On November 25, 2009, in Docket No. E-2, Sub 931, the Commission issued an Order Granting Motions for Reconsideration in Part determining, among other things, that industrial and large commercial customers that opt out of PEC's DSM and EE programs will not be charged, via a rider, for the DSDR program.

In the present proceeding, based upon PEC's verified application, the affidavits and the testimony and exhibits received into evidence at the hearing, and the record as a whole, the Commission now makes the following

FINDINGS OF FACT

1. PEC is a duly organized corporation existing under the laws of the State of North Carolina and is engaged in the business of developing, generating, transmitting, distributing, and selling electric power to the public in North and South Carolina, and is subject to the jurisdiction of the Commission as a public utility. PEC is lawfully before this Commission based upon its application filed pursuant to G.S. 62-133.9 and Commission Rule R8-69.

2. The test period for purposes of this proceeding is the 12-month period April 1, 2010 through March 31, 2011.

3. The rate period for the purposes of this proceeding is the 12-month period December 1, 2011 through November 30, 2012.

4. Pursuant to Commission Rule R8-69(b)(2), PEC is permitted to include in its DSM/EE EMF rider its over- or under-recovery of DSM/EE costs, including net lost revenues and an additional incentive, experienced up to 30 days prior to the hearing. In this proceeding, such period is referred to as the prospective period, and is April 1, 2011 through July 31, 2011.

5. For purposes of this proceeding, PEC has requested the recovery of costs and incentives, where applicable, related to the following DSM/EE programs: Distribution System Demand Response (DSDR); EnergyWise™; Commercial, Industrial, and Governmental (CIG) Demand Response; Residential Home Advantage; Residential Home Energy Improvement Program (RHEIP); Residential Low Income-Neighborhood Energy Saver (NES); CIG EE; Residential Lighting; Residential Energy Efficiency

³ Motions for reconsideration were also filed by three intervenors (CUCA, Wal-Mart, and CIGFUR II) in those dockets.

Benchmarking; Residential Appliance Recycling; Residential Solar Water Heater Pilot; and Compact Fluorescent Light (CFL) Pilot.

6. PEC also requested recovery of incremental A&G expenses not directly related to specific DSM or EE programs. The incremental costs are \$2,116,426 for the test period; \$670,307 for the prospective period; and \$2,320,405 for the rate period. Additionally, as requested by the Commission in the Sub 951 Order, PEC has provided data regarding the reach and extent of its general DSM/EE education and awareness (GEA) initiatives. It is appropriate for PEC to recover these incremental A&G costs, subject to further review in PEC's future DSM/EE rider proceedings, to the extent allowed in the Stipulation and Mechanism.⁴

7. In the present proceeding, PEC provided information regarding the appropriateness of incorporating GEA costs (and the associated A&G costs) into the cost-effectiveness tests and evaluations of PEC's currently approved programs and all future programs, as requested by the Commission in its Order Approving PEC's present DSM/EE rider, issued on November 17, 2010 in Docket No. E-2, Sub 977. It is appropriate for the impact of indirect GEA and other indirect A&G costs to be taken into account when calculating the cost-effectiveness of PEC's DSM/EE portfolio, as opposed to such impact being employed when calculating the cost-effectiveness of individual programs.

8. PEC requested the recovery of net lost revenues and program incentives in the amount of \$7,123,294 for the test period, \$3,057,357 for the prospective period, and \$19,294,870 for the rate period. PEC's proposed recovery of net lost revenues and program incentives are consistent with the Sub 931 Order, as modified by the Commission's November 25, 2009 Order Granting Motions for Reconsideration in Part, in the same docket, and are appropriate for recovery in this proceeding, subject to further review in PEC's future DSM/EE rider proceedings, to the extent allowed in the Stipulation and Mechanism.

9. For purposes of determining the DSM/EE EMF rider, PEC's reasonable and prudent North Carolina retail total amount for the test period consisting of amortized DSM/EE operations and maintenance (O&M) costs, capital costs, taxes, amortized incremental A&G costs, carrying charges, net lost revenues, and program incentives is \$31,416,882. Subject to review in PEC's next annual DSM/EE rider proceeding, PEC's North Carolina retail total DSM/EE program amount for the prospective period consisting of amortized O&M costs, capital costs, taxes, amortized incremental A&G costs, carrying charges, and net lost revenues is \$11,607,966. The sum of these two amounts is \$43,024,848 and it should be reduced by \$6,047,851 to remove the revenue requirement for the period April 1, 2010 to July 31, 2010, to avoid double counting amounts which were recognized in Docket No. E-2, Sub 977. The resulting amount of

⁴ The Stipulation and Mechanism was approved by the Commission on June 15, 2009, in its Order Approving Agreement and Stipulation of Partial Settlement, Subject to Certain Commission-Required Modifications, in Docket No. E-2, Sub 931 (Sub 931 Order), and modified by the Commission's November 25, 2009 Order Granting Motions for Reconsideration in Part, in that same docket.

\$36,976,997 is the appropriate amount to use to develop the DSM/EE EMF revenue requirement.

10. The appropriate DSM/EE EMF riders for the Residential and General Service rate classes, *excluding* gross receipts tax (GRT) and the North Carolina regulatory fee (NCRF) are increments of 0.006 cents per kilowatt-hour (kWh) and 0.001 cents per kWh, respectively. The appropriate DSM/EE EMF rider for the Lighting rate class, *excluding* GRT and the NCRF is a decrement of 0.009 cents per kWh. The appropriate DSM/EE EMF riders *including* GRT and the NCRF are, for the Residential and General Service rate classes, increments of 0.006 cents per kWh and 0.001 cents per kWh, respectively, and, for the Lighting rate class, a decrement of 0.009 cents per kWh.⁵

11. For purposes of determining the DSM/EE rider, PEC's reasonable and appropriate estimate of its North Carolina retail total DSM/EE program amounts for the rate period consisting of amortized O&M costs, capital costs, taxes, amortized incremental A&G costs, carrying charges, net lost revenues, and program incentives is \$65,354,771. This is the appropriate amount to use to develop the forward-looking DSM/EE revenue requirement.

12. The appropriate forward-looking DSM/EE riders to be charged by PEC during the rate period for the Residential, General Service, and Lighting rate classes, *excluding* GRT and the NCRF, are increments of 0.290 cents per kWh, 0.185 cents per kWh, and 0.094 cents per kWh, respectively. The appropriate DSM/EE riders *including* GRT and the NCRF for the Residential, General Service, and Lighting classes are increments of 0.300 cents per kWh, 0.191 cents per kWh, and 0.097 cents per kWh, respectively.

13. While the initial evaluation, measurement, and verification (EM&V) analyses and reports prepared by PEC are adequate, refinements and improvements are appropriate for future reports.

14. PEC's requested true-up of its RHEIP for Vintage Year 2009 activities properly recognizes the Program's independent EM&V results for that period and is in compliance with the governing provisions contained in the Commission's Sub 931 Order.

15. Pursuant to Paragraph No. 2.D. of the Stipulation and Paragraph No. 45 of the Mechanism, as approved by the Commission in its Sub 931 Order and modified by the Commission in its November 25, 2009 Order Granting Motions for Reconsideration in Part, in that same docket, it will be appropriate for the Public Staff to initiate a formal review of such Mechanism not later than June 1, 2012. Such review should specifically address whether the incentives in the Commission-approved Mechanism are producing significant DSM and EE results; whether the customer rate impacts from the DSM/EE

⁵ GRT and NCRF are calculated at the combined rate of 3.34%; however, when rounded to three decimal places, the DSM/EE EMF riders *excluding* and *including* these items are the same.

rider are reasonable and appropriate; whether overall portfolio performance targets should be adopted; and any other relevant issues that may arise during the review process.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 1 THROUGH 4

These findings of fact are essentially informational, procedural, and jurisdictional in nature and are uncontroverted. The rate period, test period, and prospective period proposed by PEC are supported by the Public Staff and are consistent with Commission Rule R8-69.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 5

The evidence for this finding of fact can be found in PEC's application; in the testimony and exhibits of PEC witness Evans; in the affidavit of Public Staff witness Floyd; and in various Commission orders.

In direct testimony filed on June 3, 2011, witness Evans testified that PEC is requesting the recovery of costs associated with the following DSM/EE programs: DSDR; EnergyWise™; CIG Demand Response; Residential Home Advantage; Residential Home Energy Improvement; Residential Low Income-NES; CIG Energy Efficiency; Residential Lighting; Residential Energy Efficiency Benchmarking; Residential Appliance Recycling; Residential Solar Water Heater Pilot; and CFL Pilot. Further, witness Evans stated that PEC is not requesting net lost revenues for its Residential Solar Water Heater Pilot program⁶ and that net lost revenue for event-driven measures has only been requested in association with actual deployments, not for forecasted periods which cannot be accurately predicted in advance.⁷

In his affidavit, Public Staff witness Floyd also listed the DSM/EE programs for which PEC is seeking a cost recovery rider and noted that each of these programs has previously received Commission approval as a new DSM or EE program and is eligible for cost recovery in this proceeding under G.S. 62-133.9. The Commission approved the DSM/EE programs in which cost recovery is requested in this proceeding in Docket Nos. E-2, Subs 908, 926, 927, 928, 935, 936, 937, 938, 950, 952, 953, and 970.

⁶ Ordering Paragraph No. 3 of the Commission's April 21, 2009 Order Granting Program Approval in Docket No. E-2, Subs 928, 938, and 937, states that PEC will not be allowed to recover net lost revenues or other utility incentives for its Residential Solar Water Heater Pilot Program.

⁷ In its November 25, 2009 Order Concerning DSM/EE Rider and DSM/EE EMF Rider issued in Docket No. E-2, Sub 951, the Commission approved PEC's request to estimate its net lost revenues for event-driven DSM and EE measures on the basis of actual events as opposed to estimates of such events.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 6

The evidence for this finding of fact can be found in PEC's application; in the testimony of PEC witness Hans; in the testimony and exhibits of PEC witness Evans; and in the affidavit of Public Staff witness Floyd.

PEC witness Hans testified that during the test period PEC's general education and awareness expenses decreased 12.3% from the prior test period and that PEC implemented new tactics for reaching customers, including online advertising and social media outreach. PEC created a Twitter profile called "Energy Advisors" to help educate customers about energy efficiency and the programs available for customers. Over 220 tweets have been sent out with almost 500 followers ranging from customers to industry experts. PEC has published General Awareness Advertising in 14 different publications in PEC's service territory. PEC also offers a free Customized Home Energy Report (CHER) tool to help customers identify home energy improvements and other actions that can be taken to save money on electric bills. More than 837,000 customers received a bill insert from PEC directing them to visit the CHER website and to complete the survey. As of March 2011, more than 21,000 customers had completed the CHER questionnaire and were provided information on specific programs and rebates. Additionally, witness Hans observed that PEC's Save the Watts website received more than 200,000 first time and repeat visits during the test year. PEC representatives also attended 28 community events across PEC's service territory to educate customers about PEC's EE programs and to share energy savings tips. More than 5,000 fliers containing low-cost/no-cost solutions and materials associated with energy efficiency rebate programs were distributed at these events.

PEC witness Evans stated that the common A&G costs associated with the programs provide a system benefit in support of both EE and DSM programs. Witness Evans explained that since A&G costs relate to both EE and DSM programs, A&G amounts are included in both categories. Further, witness Evans explained that the division of these costs into either the EE or DSM category is based upon the percentage of each type of expenditure anticipated during the next forecast calendar year. For example, if 30% of these costs in the forecast period are EE-related, then 30% of the A&G costs will be considered as EE-related costs for allocation purposes. Witness Evans submitted that the use of a forecast period recognizes the types of new programs PEC will offer in the immediate future that will be supported by these administrative costs. Witness Evans stated that the assignment of A&G costs as either EE- or DSM-related is reviewed annually each May based upon forecasted costs for the next calendar year. Witness Evans explained that the A&G costs in this proceeding have been assigned to these categories based upon forecasted DSM and EE costs for 2012. Further, PEC witness Evans stated that, due to its scope and nature, DSDR costs, including A&G, are being tracked separately. PEC's incremental A&G costs were presented on PEC witness Evans Exhibit No. 1. The incremental A&G costs are \$2,116,426 for the test period, \$670,307 for the prospective period, and \$2,320,405 for the rate period.

The incremental GEA costs, which are a part of the aforementioned A&G costs, were identified on Page 5 of PEC witness Evans' direct testimony. These costs are \$728,976 for the test period, \$324,514 for the prospective period, and \$808,451 for the rate period.

Public Staff witness Floyd stated in his affidavit that PEC's expenditures for its GEA initiatives were reasonable. Witness Floyd recommended that PEC continue to provide a list of GEA initiatives and the volume of activity associated with each initiative during the test year in future DSM/EE rider proceedings. He also recommended that PEC be required to investigate the feasibility and cost of conducting a market survey to assess the effectiveness of PEC's GEA activities in terms of market transformation instead of program impact.

No party opposed the recovery of PEC's reasonable and prudent GEA expenditures described in witness Floyd's affidavit and in PEC's testimony. The Commission finds and concludes that it is appropriate for PEC to be allowed to recover its reasonable and prudent incremental A&G costs, including its incremental GEA expenditures, as set forth hereinabove. Such costs will be subject to further review in PEC's future DSM/EE rider proceedings, to the extent allowed in the Commission-modified Stipulation and Mechanism. Further, the Commission concludes that PEC should continue to provide a list of GEA initiatives and the volume of activity associated with each initiative during the test year in future DSM/EE rider proceedings and investigate the feasibility and cost of conducting a market survey to assess the effectiveness of PEC's GEA activities as soon as practicable.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 7

The evidence for this finding of fact can be found in the testimony of PEC witness Evans and in the affidavit of Public Staff witness Floyd.

PEC witness Evans testified that indirect GEA costs and A&G costs primarily represent common or shared costs that cannot be directly assigned to an individual program, and that these costs support all programs and offerings and only exist at the portfolio level. Given this, and other rationale, witness Evans indicated that these costs should be accounted for at the portfolio level.

Public Staff witness Floyd concurred with witness Evans regarding the inclusion of indirect costs in the evaluation of the cost-effectiveness of the entire portfolio of DSM/EE programs. Witness Floyd observed that if a portion of indirect costs were allocated to a particular program, those costs might have no relation to or bearing on the actual cost-effectiveness of the program and yet would lower the result of the cost-effectiveness calculation.

Based upon the testimony of PEC witness Evans and the affidavit of Public Staff witness Floyd, the Commission finds and concludes that it is appropriate for PEC to continue to consider the impact of indirect GEA and other indirect A&G costs on the

cost-effectiveness of PEC's DSM and EE programs at the portfolio level. Accordingly, the Commission finds and concludes that PEC should not be required to recognize indirect costs in its determination of the cost-effectiveness of individual programs.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 8 THROUGH 12

The evidence for these findings can be found in the testimony and exhibits of PEC witness Evans and the affidavits of Public Staff witnesses Floyd and Maness.

PEC witness Evans calculated PEC's North Carolina retail test period DSM/EE net lost revenues and program incentives to be \$7,123,294. He calculated PEC's North Carolina retail prospective period DSM/EE net lost revenues and program incentives (net of the prior prospective period total) to be \$3,057,357. He also calculated PEC's North Carolina retail rate period DSM/EE net lost revenues and program incentives to be \$19,294,870.

Further, PEC witness Evans calculated PEC's North Carolina retail total amount for the test period, consisting of its amortized DSM/EE O&M costs, capital costs, taxes, amortized incremental A&G costs, carrying charges, net lost revenues, and program incentives to be \$31,416,882. For the prospective period, witness Evans calculated the total to be \$11,607,966. Witness Evans took the sum of these amounts and reduced it by \$6,047,851 to remove the revenue requirement for the period April 1, 2010 to July 31, 2010, to avoid double counting amounts, as provided by the Sub 977 Order. According to witness Evans the resulting amount is \$36,976,997; and this amount is appropriate to use to develop the DSM/EE EMF revenue requirement. Further, witness Evans estimated PEC's North Carolina retail DSM/EE program rate period amounts, consisting of its amortized O&M costs, amortized incremental A&G costs, carrying charges, net lost revenues, and program incentives to be \$65,354,771.

PEC witness Evans calculated the DSM/EE EMF riders for the Residential and General Service rate classes for the rate period to be increments of 0.006 cents per kWh and 0.001 cents per kWh, respectively, and a decrement of 0.009 cents per kWh for the Lighting rate class, *excluding* GRT and the NCTF. He calculated these DSM/EE EMF riders, *including* GRT and the NCRF, to be increments of 0.006 cents per kWh and 0.001 cents per kWh, respectively, for the Residential and General Service rate classes, and a decrement of 0.009 cents per kWh for the Lighting rate class. He also calculated the forward-looking DSM/EE rates for the Residential, General Service, and Lighting rate classes for the rate period to be increments of 0.290 cents per kWh, 0.185 cents per kWh, and 0.094 cents per kWh, respectively, *excluding* GRT and the NCRF, and 0.300 cents per kWh, 0.191 cents per kWh, and 0.097 cents per kWh, *including* GRT and the NCRF.

Public Staff witness Maness stated that the method by which PEC has calculated its proposed rates in this proceeding is the Mechanism, approved by the Commission in the Sub 931 Order, and modified by the Commission's November 25, 2009 Order Granting Motions for Reconsideration in Part, in that same docket.

According to witness Maness, the overall focus of the Public Staff's investigation of PEC's filing in this proceeding was whether the proposed DSM/EE riders were calculated in accordance with the Mechanism and otherwise adhered to sound ratemaking concepts and principles. Witness Maness stated that the Public Staff's investigation included a review of the Company's filing and relevant prior Commission proceedings and orders, and the selection and review of a sample of source documentation for test year costs included by the Company for recovery. Witness Maness explained that the Public Staff's investigation required the review of responses to written and verbal data requests, discussions with Company personnel, and site visits to the Company's offices to review documentation.

Witness Maness observed that Public Staff's investigation, including its sampling procedure, was concentrated primarily on costs and incentives related to the April 2010 – March 2011 test period, which are to be included in the DSM/EE EMF riders approved in this proceeding, with a more general review of the estimated costs and incentives included in the rate period (December 2011–November 2012) component of the riders. Actual costs and incentives applicable to the rate period, as well as costs and incentives applicable to the April 2011–July 2011 "prospective" period, which are also included in the DSM/EE EMF riders, will be subject to detailed review in future DSM/EE cost recovery proceedings.

Witness Maness noted that his investigation of PEC's filing indicates that the Company generally has calculated the proposed riders in accordance with the methods set forth in the approved Mechanism for recovery of costs, net lost revenues, and the additional incentive, the program performance incentive (PPI).

Public Staff witness Floyd also reviewed PEC's rider calculations and inputs. Witness Floyd confirmed that PEC allocated DSM- and EE-related costs to its North Carolina and South Carolina retail jurisdictions on the basis of retail peak demand and energy sales, respectively. Witness Floyd stated that PEC's calculation of its DSM/EE and DSM/EE EMF riders included allocations of program costs, net lost revenues, and PPIs related to the specific customer classes that the programs were designed to serve. According to witness Floyd, costs related to the DSDR EE program have been allocated to all classes on the basis of retail energy sales. Further, energy sales related to customers who have opted-out of participation in PEC's DSM and EE programs pursuant to G.S. 62-133.9(f) were not included in the class-allocation factor calculations. Based upon his review, witness Floyd concluded that PEC's allocations in the present proceeding are consistent with previous DSM/EE cost recovery proceedings and prior Commission orders.

The Commission notes that no party opposed PEC's proposed recovery of net lost revenues and program incentives. The Commission finds that such proposed recovery is consistent with the Commission's Sub 931 Order, as modified by the Commission's November 25, 2009 Order Granting Motions for Reconsideration in Part, issued in that same docket, and that net lost revenues and program incentives are appropriate for recovery in this proceeding, subject to further review in PEC's future

annual DSM/EE rider proceedings, to the extent allowed in the Commission-modified Stipulation and Mechanism. The Commission concludes that PEC has complied with G.S. 62-133.9, Commission Rule R8-69, and the Sub 931 Order, as modified by the Commission's November 25, 2009 Order Granting Motions for Reconsideration in Part, with regard to calculating costs and incentives for the test, prospective, and rate periods at issue in this proceeding.

Therefore, the Commission finds and concludes that for the purposes of determining the DSM/EE EMF rider to be set in this proceeding, PEC's reasonable and prudent North Carolina retail total test period amount, consisting of its amortized DSM/EE O&M costs, capital costs, taxes, amortized incremental A&G costs, carrying charges, net lost revenues, and program incentives is \$31,416,882. The Commission further concludes that subject to review in PEC's next annual DSM/EE rider proceeding, PEC's North Carolina retail total DSM/EE program amount for the prospective period consisting of its amortized O&M costs, capital costs, taxes, amortized incremental A&G costs, carrying charges, and net lost revenues is \$11,607,966. The sum of these two amounts is \$43,024,848 and it should be reduced by \$6,047,851 to remove the revenue requirement for the period April 1, 2010 to July 31, 2010, to avoid double counting amounts already recognized in Docket No. E-2, Sub 977. Therefore, the Commission finds that \$36,976,997 is appropriate to use to develop the DSM/EE EMF revenue requirement. For purposes of the DSM/EE rider to be set in this proceeding and subject to review in PEC's future DSM/EE rider proceedings, the Commission concludes that PEC's reasonable and appropriate estimate of its North Carolina retail DSM/EE program rate period amounts, consisting of its amortized O&M costs, capital costs, taxes, amortized incremental A&G costs, carrying charges, net lost revenues, and program incentives is \$65,354,771, and this is the appropriate amount to use to develop the DSM/EE revenue requirement.

Based upon the testimony of witness Evans, the affidavits of witnesses Maness and Floyd, and the entire record in this proceeding, the Commission finds and concludes that the DSM/EE EMF riders proposed by PEC in the August 23, 2011 supplemental direct testimony of PEC witness Evans for the Residential, General Service, and Lighting rate classes are appropriate. The Commission further concludes that the forward-looking DSM/EE riders proposed by PEC in the August 23, 2011 supplemental direct testimony of PEC witness Evans to be charged during the rate period for the Residential, General Service, and Lighting rate schedules are appropriate.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 13

The evidence for this finding of fact can be found in the affidavit of Public Staff witness Floyd.

Public Staff witness Floyd recommended that future EM&V analyses should incorporate more detail, as appropriate for the measure being analyzed, especially regarding: net-to-gross savings; using PEC service-area-specific climate data, where available; the establishment of more accurate baselines, where realistically and cost

effectively achievable; and the inclusion of a larger sample size for the duct sealing and attic insulation measures in the RHEIP analysis. No party indicated that it disagreed with the Public Staff's recommendations. Public Staff witness Floyd also recommended that PEC should be required to file a more detailed EM&V schedule.

The Commission agrees with the Public Staff that PEC should incorporate more detail, as described by witness Floyd, in its future EM&V analyses. The Commission finds and concludes that PEC should file its EM&V schedule, including identification of major milestones such as the schedule for completing the initial sample design; the schedule for completing the process and impact evaluations; and the date for the completion of the EM&V report for each DSM/EE program. The Commission requests that PEC and the Public Staff collaborate on the definition of major milestones that should be included in the EM&V schedule. Further, the Commission finds and concludes that the parties should file an EM&V schedule with the Commission, which incorporates such additional details, within 60 days of the date of this Order.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 14

The evidence for this finding of fact can be found in the affidavits of Public Staff witnesses Maness and Floyd.

Public Staff witness Maness stated that, in this proceeding, PEC had adjusted its proposed PPI incentives to reflect the results of a recently completed EM&V analysis of its RHEIP for the 2009 Vintage Year, and that Public Staff witness Floyd addressed this analysis in his affidavit. (The Commission's findings with regard to Public Staff witness Floyd's review will not be repeated as they have been previously set forth in the Evidence and Conclusions for Finding of Fact No. 13.) Witness Maness explained that based upon the results of that analysis, PEC had recalculated the PPI due on the RHEIP for Vintage Year 2009 and as recalculated, the annual levelized PPI amount related to RHEIP measures installed/implemented during the Vintage Year 2009 was reduced from \$52,551 to \$10,405. Witness Maness stated that PEC is proposing to true up the PPI previously approved in the Sub 977 Proceeding for Vintage Year 2009 RHEIP measures to reflect the results of its recently completed EM&V analysis.

With respect to PEC's EM&V based true-up adjustment, witness Maness stated that based on his review, the adjustment to the PPI amount had been made in a reasonable manner and that the analogous adjustments to the net lost revenue calculations also appear to have been pursued in a reasonable manner. Witness Maness also noted that all of the net lost revenues and PPI incentive amounts included in the riders approved in this proceeding (with the exception of those trued up in this proceeding related to the 2009 Vintage Year RHEIP), including those within the DSM/EE EMF riders, remain subject to true-up in future proceedings.

The Commission finds and concludes that PEC's requested true-up of its RHEIP for Vintage Year 2009 activities is in compliance with the governing provisions contained in the Commission's Sub 931 Order and should be approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

This finding of fact is supported in part by Paragraph No. 2.D. of the Stipulation, and Paragraph No. 45 of the Mechanism, which states that the Mechanism will be revisited by the stipulating parties every three years, and the Commission's general statutory authority over PEC's rates. Therefore, the Commission finds and concludes that the Public Staff should initiate a formal review of the Commission-approved Mechanism not later than June 1, 2012, unless requested to do so earlier by PEC or another interested party. Such review should specifically address whether the incentives in the Commission-approved Mechanism are producing significant DSM and EE results; whether the customer rate impacts from the DSM/EE rider are reasonable and appropriate; whether overall portfolio performance targets should be adopted; and any other relevant issues that may arise during the review process.

IT IS, THEREFORE ORDERED, as follows:

1. That the appropriate DSM/EE EMF riders, *excluding* gross receipts tax and the North Carolina regulatory fee, for the Residential and General Service rate classes are increments of 0.006 cents per kWh and 0.001 cents per kWh, respectively, and a decrement of 0.009 cents per kWh for the Lighting rate class. *Including* gross receipts tax and the North Carolina regulatory fee, these DSM/EE EMF riders are increments of 0.006 cents per kWh and 0.001 cents per kWh, respectively, for the Residential and General Service rate classes, and a decrement of 0.009 cents per kWh for the Lighting rate class.

2. That the appropriate DSM/EE riders to be charged by PEC during the rate period for the Residential, General Service, and Lighting rate classes are increments of 0.290 cents per kWh, 0.185 cents per kWh, and 0.094 cents per kWh, respectively, *excluding* gross receipts tax and the North Carolina regulatory fee. *Including* gross receipts tax and the North Carolina regulatory fee, the rates for the Residential, General Service, and Lighting rate classes are increments of 0.300 cents per kWh, 0.191 cents per kWh, and 0.097 cents per kWh, respectively.

3. That the appropriate total DSM/EE annual riders including PEC's proposed EMF riders for the Residential, General Service, and Lighting rate classes are increments of 0.296 cents per kWh, 0.186 cents per kWh, and 0.085 cents per kWh, respectively, *excluding* gross receipts tax and the North Carolina regulatory fee. *Including* gross receipts tax and the North Carolina regulatory fee, the total riders for the Residential, General Service, and Lighting rate classes are increments of 0.306 cents per kWh, 0.192 cents per kWh, and 0.088 cents per kWh, respectively.

4. That within five days of the date of this Order, PEC shall file appropriate rate schedules and riders with the Commission in order to implement these adjustments. Such rates are to become effective for service rendered on or after December 1, 2011.

5. That PEC shall work with the Public Staff to prepare a joint proposed Notice to Customers giving notice of the rate changes ordered by the Commission in Docket No. E-2, Subs 1000, 1001, and 1002, and PEC shall file such proposed notice for Commission approval as soon as practicable.

6. That PEC shall continue to provide a list of GEA initiatives and the volume of activity associated with each initiative during the test period in future DSM/EE rider proceedings; and that PEC and the Public Staff shall jointly investigate the feasibility and cost of conducting a market survey to assess the effectiveness of PEC's GEA activities as soon as practicable.

7. That PEC shall consult with the Public Staff and agree upon enhancements to be implemented to incorporate more detail into its EM&V reports.

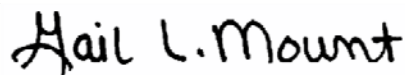
8. That PEC and the Public Staff shall agree upon the major milestones to be incorporated into PEC's EM&V schedule, and that PEC shall within 60 days of the date of this Order file an EM&V schedule which incorporates the agreed-upon additional details.

9. That not later than June 1, 2012, unless requested to do so earlier by PEC or another interested party, the Public Staff shall initiate a formal review of the Commission-approved Mechanism. Such review shall specifically address whether the incentives in the Commission-approved Mechanism are producing significant DSM and EE results; whether the customer rate impacts from the DSM/EE rider are reasonable and appropriate; whether overall portfolio performance targets should be adopted; and any other relevant issues that may be identified during the review process.

ISSUED BY ORDER OF THE COMMISSION

This the 14th day of November, 2011.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in black ink that reads "Gail L. Mount". The signature is written in a cursive, slightly stylized font.

Gail L. Mount, Deputy Clerk

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