BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-7, SUB 1249

In the Matter of		
Application of Duke Energy Carolinas, LLC, for Approval of Demand-Side Management and Energy Efficiency Cost Recovery Rider Pursuant to N.C. Gen. Stat. § 62-133.9 and Commission Rule R8-69	))))))	TESTIMONY OF MICHAEL C. MANESS PUBLIC STAFF – NORTH CAROLINA UTILITIES COMMISSION

May 10, 2021

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PRESENT POSITION.

A. My name is Michael C. Maness. My business address is 430 North Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am Director of the Accounting Division of the Public Staff – North Carolina Utilities Commission (Public Staff).

Q. BRIEFLY STATE YOUR QUALIFICATIONS AND DUTIES.

A. A summary of my qualifications and duties is set forth in Appendix B of this testimony.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to present my recommendations regarding the overall Demand-Side Management/Energy Efficiency (DSM/EE) rider (Rider 13) proposed by Duke Energy Carolinas, LLC (DEC or the Company), in its Application filed in this docket on February 23, 2021, pursuant to N.C. Gen. Stat. § 62-133.9 and Commission Rule R8-69.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony begins with a review of the statutory framework for DSM/EE cost recovery by electric utilities and the historical background of DEC's Application in this docket. I then discuss the Company's proposed billing factors and other aspects of its filing.

Following a summary of my investigation, I present my findings, conclusions, and recommendations regarding approval of proposed Rider 13.

<u>THE RATE-SETTING PROCESS FOR DEC'S DSM/EE REVENUE REQUIREMENTS</u>

Q. PLEASE DESCRIBE THE BASIS FOR THE COMPANY'S FILING.

A. N.C. Gen. Stat. § 62-133.9(d) allows a utility to petition the Commission for approval of an annual rider to recover: (1) the reasonable and prudent costs of new DSM and EE measures; and (2) other incentives to the utility for adopting and implementing new DSM and EE measures. However, N.C. Gen. Stat. § 62-133.9(f) allows industrial and certain large commercial customers to opt out of participating in the power supplier's DSM/EE programs or paying the DSM/EE rider, if each such customer notifies its electric power supplier that it has implemented or will implement, at its own expense, alternative DSM and EE measures. Commission Rule R8-69, which was adopted by the Commission pursuant to N.C. Gen. Stat. § 62-133.9(h), sets forth the general parameters and procedures governing approval of the annual rider, including but not limited to: (1) provisions for both (a) a DSM/EE rider to recover the estimated costs and utility incentives applicable to the "rate period" in which that DSM/EE rider will be in effect; and (b) a DSM/EE experience modification factor (EMF) rider to recover the difference between the DSM/EE rider in effect for a given test period (plus a possible extension) and the actual recoverable amounts incurred during that test period; and (2) provisions for interest or return on amounts deferred and on refunds to customers.

The costs and utility incentives proposed to be recovered via Rider 13 are all related to DSM and EE measures actually or expected to be installed or implemented during calendar years 2017-2022 (Vintage Years 2017 through 2022). DEC has calculated each proposed Rider 13 billing factor related to Vintage Years 2017 through 2021 by use of the Cost Recovery and Incentive Mechanism for Demand-Side Management and Energy Efficiency Programs approved on October 29, 2013, in Docket No. E-7, Sub 1032 (the 2013 Sub 1032 Order), as revised in the 2017 DSM/EE rider proceeding, Docket No. E-7, Sub 1130 (2017 Mechanism). However, on October 20, 2020, also in Docket No. E-7, Sub 1032 (the 2020 Sub 1032 Order), the Commission approved a revised Cost Recovery and Incentive Mechanism of Duke Energy Carolinas, LLC, for Demand-Side Management and Energy Efficiency Programs (2020 Mechanism), to be effective January 1, 2022.[1] Therefore the

[1] In the same order, which was also issued in Docket No. E-2, Sub 931, the Commission also approved a revised DSM/EE Cost Recovery and Incentive Mechanism for Duke Energy Progress, LLC (DEP).

Rider 13 billing factors related to estimated Vintage Year 2022 costs and utility incentives have been calculated by use of the 2020 Mechanism. In the following paragraphs, I will describe the essential characteristics of the 2017 and 2020 Mechanisms; however, each Mechanism includes and is subject to many additional and more detailed criteria than are set forth in this testimony.

Q. PLEASE DESCRIBE THE DEVELOPMENT OF THE 2017 AND 2020 MECHANISMS AND THEIR MAJOR COMPONENTS.

A. In the 2013 Sub 1032 Order, the Commission approved an Agreement and Stipulation of Settlement, filed on August 19, 2013, and amended on September 23, 2013, by and between DEC, the Public Staff, and certain other intervenors[2] (Sub 1032 Settlement), which incorporated the mechanism at that time. However, as the result of discussions that took place during the Company's 2017 Sub 1130 proceeding, the Company and the Public Staff recommended certain changes to Paragraphs 19, 23, and 69 of the mechanism, and the addition of new Paragraphs 23A through 23D. These revisions were set forth in Public Staff witness Maness Exhibit II filed in Sub 1130, and were approved as set forth therein by the Commission in

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[2] The parties to the Sub 1032 Settlement were DEC; the North Carolina Sustainable Energy Association; the Environmental Defense Fund; the Southern Alliance for Clean Energy; the South Carolina Coastal Conservation League; the Natural Resources Defense Council; the Sierra Club; and the Public Staff.

its *Order Approving DSM/EE Rider, Revising DSM/EE Mechanism, and Requiring Filing of Proposed Customer Notice*, issued August 23, 2017 (Sub 1130 Order).

The overall purpose of the 2017 Mechanism was to: (1) allow DEC to recover all reasonable and prudent costs incurred for adopting and implementing new DSM and new EE measures; (2) establish certain requirements, in addition to those of Commission Rule R8-68, for requests by DEC for approval, monitoring, and management of DSM and EE programs; (3) establish the terms and conditions for the recovery of certain utility incentives - net lost revenues (NLR) and a Portfolio Performance Incentive (PPI) to reward DEC for adopting and implementing new DSM and EE measures and programs; and (4) provide for an additional incentive to further encourage kilowatt-hour (kWh) savings achievements. The 2017 Mechanism included provisions addressing mechanism continuity and review, program modification flexibility, and the treatment of opted-out and opted-in customers, as well as provisions directly affecting the calculation of the DSM/EE and DSM/EE EMF riders. A summary of these provisions is set forth in Appendix A of this testimony.[3] The 2017

[3] A consolidated version of the entire 2017 Mechanism was filed on May 22, 2018 as Maness Exhibit II in DEC's 2018 DSM/EE rider proceeding, Docket No. E-7, Sub 1164.

Mechanism adopted and continued certain requirements from several prior Commission orders.

The purpose of the 2020 Mechanism remains largely the same as the 2017 Mechanism. However the 2020 Mechanism, as approved by the Commission, also includes the following new characteristics:

1. Addition of a Program Return Incentive (PRI) – The PRI is an incentive to encourage DEC to pursue savings from existing and new low-income DSM/EE programs, and to maintain and increase the cost effectiveness of these programs. For these types of programs, the PRI initially will be based on 10.6% of the net present value of the avoided costs savings achieved by those DSM and EE programs. The percentage ultimately used to determine the PRI for each Vintage Year will be based on the Company's ability to maintain or improve the cost effectiveness of the PRI-eligible programs over and above that initially estimated for the Vintage Year. At no time will the PRI percentage utilized fall below 2.65% or rise above 13.25%.

2. Reduction of PPI Percentage – Beginning with Vintage Year 2022, the PPI percentage is reduced from 11.50% to 10.60%.

3. Cap and Floor on PPI - The amount of pre-tax PPI allowed will not exceed or fall below the amount that produces a specified margin over the aggregate pre-tax program costs for the PPI-

eligible programs. The maximum margin is set at 19.50% for Vintage Year 2022 and afterward, until completion of the next Mechanism review. Additionally, a minimum margin over aggregate pre-tax program costs for PPI-eligible programs will be established at 10% for Vintage Year 2022, 6% for Vintage Year 2023, and 2.50% for Vintage Year 2024 and afterward, until completion of the next Mechanism review.

4. Clarification of the Criteria for Bundling Measures within Programs – Measures bundled within a DSM/EE program must be consistent with and related to the measure technologies or delivery channels of the program, unless otherwise ordered by the Commission.

5. Use of the Utility Cost Test (UCT) – The test used to calculate the prospective cost-effectiveness of new and ongoing programs is changed from the Total Resource Cost (TRC) Test to the UCT.

6. Review of Avoided Transmission and Distribution (T&D) Costs – The Public Staff and DEC will review avoided T&D costs no later than December 31, 2021, and make recommendations for any adjustment in the rider proceedings thereafter. Avoided T&D costs will be reviewed at least every three years and will be updated if they change by at least 20%.

7. Additional Incentive and Penalty - If the Company achieves annual energy savings of 1.0% of the prior year's system retail electricity sales in any year during the four-year period of 2022-2025, it will receive an additional incentive of $500,000 for that year. During that same period, if the Company fails to achieve annual energy savings of 0.5% of retail sales, net of sales associated with customers opting out of the Company's EE programs, it will reduce its EE revenue requirement by $500,000.

8. Non-Energy Benefits - The definition of the TRC Test is revised to provide that non-energy benefits, as approved by the Commission, may be considered in the determination of TRC results.

In addition to the above, the 2020 Sub 1032 Order requires, consistent with the recommendation of the parties to the 2020 Stipulation, that "DEC and DEP shall work with the DSM/EE Collaborative to develop a scope for a one-time study on the market penetration of EE programs with low and moderate income customers to be performed by qualified independent third-party EM&V providers. . . . [U]pon Commission approval for recovery of study costs, they shall have the study completed prior to the cost recovery Mechanism modifications approved herein taking effect in 2022."[4]

The entire text of the 2020 Mechanism is attached to the 2020 Sub 1032 Order as Attachment A.[5]

THE COMPANY'S PROPOSED BILLING FACTORS AND OTHER ASPECTS OF ITS FILING

Q. PLEASE DESCRIBE THE BILLING FACTORS AND VINTAGE YEARS BEING CONSIDERED IN THIS PROCEEDING.

A. In witnesses Listebarger's and Evans's separately filed Testimonies and Exhibits, DEC has requested approval of 14 billing factors [including the North Carolina Regulatory Fee (NCRF)] comprising Rider 13, which is to be charged for service rendered during the rate period January 1, 2022, through December 31, 2022. These proposed billing factors are set forth on Listebarger Exhibit 1, Pages 1 and 2.

For purposes of the Company's filing, the identified vintage years correspond to the following time periods:

Vintage Year 2017: The year ended December 31, 2017.

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[4] Additional details regarding the performance of the study are included in the body of the 2020 Sub 1032 Order.

[5] The revisions to the Mechanism recommended by the Public Staff were also supported by DEC, DEP, the North Carolina Sustainable Energy Association; the Southern Alliance for Clean Energy; the South Carolina Coastal Conservation League; the Natural Resources Defense Council; the Sierra Club; and the North Carolina Attorney General's Office.

Vintage Year 2018: The year ended December 31, 2018.
Vintage Year 2019: The year ended December 31, 2019.
Vintage Year 2020: The year ended December 31, 2020.
Vintage Year 2021: The year ended December 31, 2021.
Vintage Year 2022: The year ended December 31, 2022.

Q. WHAT ARE THE GENERAL CHARACTERISTICS OF DEC'S PROPOSED DSM/EE BILLING FACTORS?

A. DEC's proposed billing factors have the following general characteristics[6]:

1. For Vintage Year 2022, proposed Rider 13 includes billing factors (or components of billing factors) intended to recover estimated program costs, a PPI, and a PRI, as well as estimated calendar year 2022 NLR, applicable to DSM and EE measures projected to be installed or implemented during Vintage Year 2022, all subject to future true-up;

2. For Vintage Year 2021, the proposed Rider includes billing factors (or components of billing factors) intended to prospectively recover estimated calendar year 2022 NLR associated with Vintage Year 2021 installations, subject to future true-up;

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[6] In addition to the 2017 and 2020 Mechanisms, particular billing factors may also be subject to Commission rulings in Docket No. E-7, Subs 831, 938, 979, and 1032, as well as DEC's various annual DSM/EE cost and incentive recovery proceedings and individual program approval proceedings.

3. For Vintage Year 2020, the proposed Rider includes billing factors (or components of billing factors) intended to: (a) prospectively recover estimated calendar year 2022 NLR associated with Vintage Year 2020 installations, subject to future true-up; and (b) true up 2020 program cost and, to the extent evaluation, measurement, and verification (EM&V) of these results has been completed, Vintage Year 2020 participation and per-participant avoided cost savings and calendar year 2020 NLR;

4. For Vintage Year 2019, the proposed Rider includes billing factors (or components of billing factors) intended to: (a) prospectively recover estimated calendar year 2022 NLR associated with Vintage Year 2019 installations, subject to future true-up; and (b), to the extent EM&V of these results has been completed, true up Vintage Year 2019 participation and per-participant avoided cost savings and calendar years 2019 and/or 2020 NLR;

5. For Vintage Year 2018, the proposed Rider includes billing factors intended to, to the extent EM&V of these results has been completed, true up Vintage Year 2018 participation and per-participant avoided cost savings and calendar years 2018, 2019, and/or 2020 NLR; and

6. For Vintage Year 2017, the proposed Rider includes billing factors intended to true up calendar years 2017, 2018, 2019, and/or 2020 NLR.

The calculations of the billing factors for each vintage year may also include adjustments to the return on undercollections or overcollections of DSM/EE revenue requirements, as well as to amounts to be collected to compensate DEC for the NCRF.

Q. COULD THERE BE FUTURE TRUE-UPS OF THE DSM/EE REVENUE REQUIREMENTS?

A. Certain components of the revenue requirements related to certain prior, current, and future years will remain subject to prospective update adjustments and/or retrospective true-ups in the future. The various types of other expected or possible adjustments to the revenue requirements for these vintage years include prospective recovery of NLR requirements; true-ups of program cost; and true-ups of the PPI, PRI, and NLR requirements to reflect the results and possible adjustments to participation and EM&V analyses.

Q. WHAT IS THE IMPACT OF THE COMPANY'S PROPOSED BILLING FACTORS IN THIS PROCEEDING ON CUSTOMERS' RATES?

A. Based on the pro forma kWh sales used by the Company to calculate the DSM/EE riders in this case, the Company-proposed Residential

DSM/EE combined prospective and EMF revenue requirement is approximately $104.6 million, an approximate $9.0 million decrease from the revenue that would be produced by the rates currently in effect. The decrease in the monthly bill of a Residential customer using 1,000 kilowatt-hours of energy resulting from this revenue requirement decrease would be $0.41. For the Non-Residential class, the proposed overall combined revenue requirement is approximately $89.1 million, an approximate $19.3 million reduction. The change in a Non-Residential customer's bill would depend on which particular Vintage Years of DSM and/or EE rates for which the customer is opted out or opted in.

INVESTIGATION AND CONCLUSIONS

Q. PLEASE DESCRIBE YOUR INVESTIGATION OF DEC'S FILING.

A. My investigation of DEC's filing in this proceeding focused on whether the Company's proposed DSM/EE billing factors were: (a) calculated in accordance with, as appropriate, the 2017 or 2020 Mechanism and the Commission Orders with which they are associated; and (b) otherwise adhered to sound ratemaking concepts and principles. The procedures I and other members of the Public Staff's Accounting Division utilized included a review of the Company's filing, relevant Commission proceedings and orders, and workpapers and source documentation used by the Company to develop the proposed billing factors. Performing the investigation required the review of responses to written and verbal data requests, as well as discussions with Company personnel. As part of its investigation, the Public Staff performed a review of the DSM/EE program costs incurred by DEC during the 12-month period ended December 31, 2020. To accomplish this, the Public Staff selected and reviewed samples of source documentation for test year costs included by the Company for recovery through the DSM/EE riders. Review of this sample, which is still underway as of the filing date of this testimony, is intended to test whether the costs included by the Company in the DSM/EE riders are valid costs of approved DSM and EE programs.

Q. WHAT ARE YOUR FINDINGS AND CONCLUSIONS?

A. With the exception of items specifically described later in this testimony, as well as subject to the outcome of the Public Staff's program cost review described above, I am of the opinion that the Company has calculated the Rider 13 billing factors in a manner consistent with N.C. Gen. Stat. § 62-133.9, Commission Rule R8-69, the 2017 and 2020 Mechanisms (and the Commission Orders with which they are associated), and other relevant Commission Orders. However, this conclusion is subject to the caveat that the Public Staff is still in the process of reviewing certain data responses recently received from the Company, including documentation of costs selected for review in the Public Staff's sample. Once this review is complete, the Public Staff will file with the Commission any findings not already set forth in testimony.

I would like to note the following regarding the Public Staff's investigation:

1. Review of Vintage Year 2020 Program Costs – The Public Staff's review of the selected sample items from the population of 2020 DSM/EE program costs has resulted in one matter of concern, to date. This matter is further discussed below.

2 Return on Deferred Program Costs and Interest on Overrecoveries – As stated in past proceedings, the Public Staff reserves the right to raise the issue of the appropriate interest rate on overrecoveries of utility incentives in future proceedings.

Q. PLEASE EXPLAIN FURTHER THE CONCERNS YOU HAVE REGARDING THE PUBLIC STAFF'S REVIEW OF 2020 DSM/EE PROGRAM COSTS.

A. As described in my testimony in DEC's 2020 DSM/EE Rider proceeding (Docket No. E-7, Sub 1230), and in Public Staff witness Williamson's testimony in that proceeding and this year's proceeding, DEC operates a referral channel (entitled "FinditDuke" for marketing purposes). This referral channel enables DEC customers, as well as non-DEC customers located within or surrounding the Duke Energy service territory, to locate contractors who may be able to provide certain services. The contractors pay a fee to DEC for performing referrals, and this fee is used to offset program costs of the Company's Residential SmartSaver EE program. The referable services include those that are associated with measures under the Residential SmartSaver Program, but have been expanded since the referral channel began to include other Residential and non-Residential services, including electrical residential solar, and tree services that are unrelated to DSM/EE. While some of these services could result in higher efficiency measures being installed, the remaining do not appear to be related to DEC's currently approved DSM/EE programs. Furthermore, it appears possible that some of the services that could be referred through FinditDuke are services that are not regulated by the Commission. Thus, DEC may be operating a referral service that includes referrals for non-regulated services to be performed by third parties.

Mr. Williamson testifies in this proceeding that it appears that some of the revenues received through the FinditDuke program should be recorded to accounts not related to the Company's DSM/EE programs, in that the related services are not part of the Company's DSM/EE efforts, and that they may be related to services provided to non-customers of DEC. He recommends that the Company work to refine its accounting so that the only revenues that are credited as offsets against DSM/EE program cost accounts are those that are attributable to referrals that are actually related to DSM/EE measures that are installed as a result of the referral.

This principle should also apply to the costs incurred by DEC to administer and operate the FinditDuke effort. For example, in its review of 2020 DSM/EE program costs, the Public Staff discovered costs related to the production of a video advertisement promoting the FinditDuke program. In its review of the accounting details of the costs of production, it was not evident that any of the costs were charged to non-DSM/EE accounts. However, when viewing the video advertisement, there was nothing to indicate that the contractor referrals being promoted were limited to contractors that would be specifically providing DSM/EE-related services. Thus, there appears to be a mismatch between the potential effects of the advertisement (referral of contractors for a potentially broad spectrum of services) and the accounting and ratemaking for the advertisement's cost (only charged to DSM/EE).

I believe that the principles elucidated by Mr. Williamson with regard to the revenues associated with FinditDuke are equally appropriate with regard to the costs of administering and operating the referral effort. Therefore, I recommend that the Company refine its referral channel accounting to also properly assign, apportion, or allocate costs to DSM/EE, and non-DSM/EE efforts, working in conjunction with third party vendor-managers where appropriate. While such assignment may require estimates and approximations of the appropriate assignments and allocations, the effort is highly likely to produce a better result than the current approach of simply assigning 100% of all the revenues and costs to the Residential SmartSaver Program. Otherwise, the current practice could result in distorted cost-effectiveness results for the program as well as over- or underpayments of PPI and PRI utility incentives to the Company.

Q. WHAT OTHER IMPACTS DOES THE TESTIMONY OF PUBLIC STAFF WITNESS WILLIAMSON HAVE ON YOUR CONCLUSIONS REGARDING THE DSM/EE RIDERS IN THIS PROCEEDING?

A. Mr. Williamson has filed testimony in this proceeding discussing several other topics related to the Company's filing. None of the matters discussed by Mr. Williamson necessitate an adjustment in this particular proceeding to the Company's billing factor calculations, although some of them may affect the determination of the factors in future proceedings.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING THE RIDER 13 BILLING FACTORS.

A. In summary, although we have general concerns regarding FinditDuke accounting that we believe should be followed up, the Public Staff has found no errors or other issues necessitating an adjustment to the Rider 13 billing factors, subject to completion of our program cost sample review.

RECOMMENDATION

Q. WHAT IS YOUR RECOMMENDATION IN THIS PROCEEDING?

A. Based on the results of the Public Staff's investigation (subject to completion of its review of 2018 program costs), I recommend that the billing factors proposed by the Company, as set forth in Listebarger Exhibit 1, be approved by the Commission. These factors should be approved subject to any true-ups in future cost recovery proceedings consistent with the 2017 and 2020 Mechanisms and the Commission Orders with which they are associated, as well as other relevant orders of the Commission, including the Commission's final order in this proceeding. Most specifically, I recommend that the application of the 2020 Mechanism to the estimated costs and utility incentives associated with Vintage

Year 2022 not be considered final until those costs and utility incentives are trued up in future rider proceedings.

In making its recommendations in this proceeding, the Public Staff notes that reviewing the calculation of the DSM/EE rider is a process that involves reviewing numerous assumptions, inputs, and calculations, and its recommendation with regard to this proposed rider is not intended to indicate that the Public Staff will not raise questions in future proceedings regarding the same or similar assumptions, inputs, and calculations.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

SUMMARY OF CERTAIN PORTIONS OF DEC'S 2017 DSM/EE MECHANISM[1]

1. With the exception of Low-Income Programs or certain other societally beneficial non-cost-effective programs approved by the Commission, all programs submitted for approval will have an estimated Total Resource Cost (TRC) and Utility Cost (UC) test result greater than 1.00. For purposes of calculating cost-effectiveness for program approval, the Company shall use projected avoided capacity and energy benefits specifically calculated for the program, as derived from the underlying resource plan, production cost model, and cost inputs that generated the avoided capacity and avoided energy credits reflected in the most recent Commission-approved Biennial Determination of Avoided Cost Rates as of the date of the program approval filing, but using, for program-specific avoided energy benefits, the projected EE portfolio hourly shape rather than an assumed 24x7 100 MW reduction.

2. In each annual DSM/EE cost recovery filing, DEC shall perform and file (a) prospective cost-effective test evaluations for each of its approved DSM and EE programs, and (b) prospective aggregated portfolio-level cost-effectiveness test evaluations for its approved DSM/EE programs, using the same methodology for determining avoided capacity and energy benefits as set forth in the Revised Mechanism for program approval, except that the reference Commission-approved avoided cost credits shall be derived from those approved as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing. For any program that initially demonstrates a TRC result, determined pursuant to paragraph 23A above, of less than 1.00, the Company shall either terminate the program or undertake a process over the next two years to improve program cost-effectiveness. For programs that demonstrate a prospective TRC result of less than 1.00 in a third DSM/EE rider proceeding after the initial non-cost-effective result, the Company shall terminate the program effective at the end of the year following the DSM/EE rider order, unless otherwise ordered by the Commission.

[1] For a summary of revisions made to the 2017 Mechanism by the 2020 Mechanism, please see the testimony accompanying this Appendix.

3. Industrial and large commercial customers have the flexibility to opt out of either or both of the DSM and EE categories of programs for one or more vintage years, as well as the ability to opt back into either or both the categories for a later vintage year. If a customer opts back into the DSM category, it cannot opt out again for three years; however, a customer has the freedom to opt in or out of the EE category for each vintage year. Additionally, if a customer opts out of paying the rider for a vintage year after one or more years in which the customer was "opted in," DEC may charge the customer subsequent DSM/EE and DSM/EE EMF riders only for those vintage years in which the customer actually participated in a DSM/EE program.

4. DSM/EE and DSM/EE EMF riders will be calculated on a vintage year basis, with separate riders being calculated for the Residential customer class and for those rate schedules within the Non-Residential customer class that have DEC DSM/EE program options in which they can participate.

5. Incurred DSM and EE program costs will be directly recovered as part of the annual riders. Deferral accounting for over- and underrecoveries of costs is allowed, and the balance in the deferral account(s), net of deferred income taxes, may accrue a return at the net-of-tax rate of return approved in DEC's then most recent general rate case.

6. DEC will be allowed to recover NLR as an incentive (with the exception of those amounts related to research and development or the promotion of general awareness and education of EE and DSM activities), but will be limited for each measurement unit installed in a given vintage year to those dollar amounts resulting from kWh sales reductions experienced during the first 36 months after the installation of the measurement unit. NLR related to pilot programs are subject to additional qualifying criteria.

7. The eligibility of kWh sales reductions to generate recoverable NLR during the applicable 36-month period will cease upon the implementation of a Commission-approved alternative recovery mechanism that accounts for NLR, or new rates approved by the Commission in a general rate case or comparable proceeding.

8. NLR will be reduced by net found revenues (as defined in the Revised Mechanism) that occur in the same 36-month period. Net found revenues will continue to be determined according to the "Decision Tree" process approved by the Commission on February 8, 2011, in Docket No. E-7, Sub 831.[2]

9. DEC will be allowed to recover a PPI for its DSM and EE portfolio based on a sharing of actually achieved and verified energy and peak demand savings (excluding those related to general programs and measures and research and development activities). Any PPI related to pilot programs is subject to additional qualifying criteria. Unless the Commission determines otherwise in an annual DSM/EE rider proceeding, the amount of the pre-income-tax PPI initially to be recovered for the entire DSM/EE portfolio for a vintage year will be equal to 11.5% multiplied by the present value of the estimated net dollar savings associated with the DSM/EE portfolio installed in that vintage year. Low-income programs with expected UC test results less than 1.00 and other non-cost-effective programs with similar societal benefits as approved by the Commission will not be included in the portfolio for purposes of the PPI calculation. The PPI for each vintage year will ultimately be trued up based on net dollar savings as verified by the EM&V process and approved by the Commission. For Vintage Years 2019 and afterwards, the program-specific per kilowatt (kW) avoided capacity benefits and per kWh avoided energy benefits used for the initial estimate of the PPI and any PPI true-up will be derived from the underlying resource plan, production cost model, and cost inputs that generated the avoided capacity and avoided energy credits reflected in the most recent Commission-approved Biennial Determination of Avoided Cost Rates as of December 31 of the year immediately preceding the date of the annual DSM/EE rider filing, but using, for program-specific avoided energy benefits, the projected EE portfolio hourly shape rather than an assumed 24x7 100 MW reduction.

10. If the Company achieves incremental energy savings of 1% of its prior year's system retail electricity sales in any year during the five-year 2014-2018 period, the Company will receive a bonus incentive of $400,000 for that year.

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[2] Additionally, in its Order issued on August 21, 2015, in Docket No. E-7, Sub 1073, the Commission found that "it is reasonable, for purposes of this proceeding, for DEC to include negative found revenues associated with its current initiative to replace mercury vapor (MV) lighting with light emitting diode (LED) fixtures in the calculation of net found revenues used in the Company's calculation of NLR."

APPENDIX B

QUALIFICATIONS AND EXPERIENCE

MICHAEL C. MANESS

I am a graduate of the University of North Carolina at Chapel Hill with a Bachelor of Science degree in Business Administration with Accounting. I am a Certified Public Accountant and a member of both the North Carolina Association of Certified Public Accountants and the American Institute of Certified Public Accountants.

As Director of the Accounting Division of the Public Staff, I am responsible for the performance, supervision, and management of the following activities: (1) the examination and analysis of testimony, exhibits, books and records, and other data presented by utilities and other parties under the jurisdiction of the Commission or involved in Commission proceedings; and (2) the preparation and presentation to the Commission of testimony, exhibits, and other documents in those proceedings. I have been employed by the Public Staff since July 12, 1982.

Since joining the Public Staff, I have filed testimony or affidavits in a number of general, fuel, and demand-side management/energy efficiency rate cases of the utilities currently organized as Duke Energy Carolinas, LLC, Duke Energy Progress, LLC., and Virginia Electric and Power Company (Dominion Energy North Carolina) as well as in several water and sewer general rate cases. I have also filed testimony or affidavits in other proceedings, including applications for certificates of public convenience and necessity for the construction of generating facilities, applications for approval of self-generation deferral rates, applications for approval of cost and incentive recovery mechanisms for electric utility demand-side management and energy efficiency (DSM/EE) efforts, and applications for approval of cost and incentive recovery pursuant to those mechanisms.

I have also been involved in several other matters that have come before this Commission, including the investigation undertaken by the Public Staff into the operations of the Brunswick Nuclear Plant as part of the 1993 Carolina Power & Light Company fuel rate case (Docket No. E-2, Sub 644), the Public Staff's investigation of Duke Power's relationship with its affiliates (Docket No. E-7, Sub 557), and several applications for business combinations involving electric utilities regulated by this Commission. Additionally, I was responsible for performing an examination of Carolina Power & Light Company's accounting for the cost of Harris Unit 1 in conjunction with the prudence audit performed by the Public Staff and its consultants in 1986 and 1987.

I have had supervisory or management responsibility over the Electric Section of the Accounting Division since 1986, and also was assigned management duties over the Water Section of the Accounting Division during the 2009-2012 time frame. I was promoted to Director of the Accounting Division in late December 2016.