

COST RECOVERY MECHANISM FOR ENERGY EFFICIENCY PROGRAMS PILOT

(Docket No. G-5, Sub 681)

The purpose of this Mechanism is to (1) allow Public Service Company of North Carolina, Inc., d/b/a Enbridge Gas North Carolina (PSNC), 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 Settlement between PSNC and the Public Staff, filed on October 15, 2021 in Docket No. G-5, Subs 632 and 634 (Stipulation), North Carolina Utilities Commission (Commission) Rule R6-95, and the additional principles set forth below, and (2) establish certain requirements for requests by PSNC 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, which expires June 30, 2025. On June 27, 2025, the pilot period for this Mechanism was extended for an additional three years.

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 PSNC operations.
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, 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 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 costs 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 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 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. PSNC's Programs (Residential Energy Efficient Equipment Rebate Program, Commercial Energy Efficient Equipment Rebate Program, Conservation Education Program, Residential New Construction Program, Residential Home Energy Report Program, and Residential Low Income Program, plus administrative costs supporting the portfolio and each Program thereunder) shall be placed in a pilot of 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 PSNC's effective

base rates no longer include recovery of Costs for EE Measures and Programs, November 1, 2021, and will end on June 30, 2028 (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 measure listed above will commence operation as soon as practicable after the date of the Commission's Order approving the Stipulation, but no later than six months thereafter.

12. During the Pilot Period and with reference to each pilot Program, PSNC 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.

13. The criteria for a successful Program is a Utility Cost Test result greater than 1.0.

14. PSNC 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.

15. 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 44 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 as

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 PSNC will commence approximately between January 1, 2022 and June 30, 2022; the additional time will allow all Programs to be in effect for at least three years.

previously approved. The existing 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 the implementation of new Programs, will begin when approved by the Commission.

16. At the end of the Pilot Period or sooner, if Program performance dictates, PSNC should seek either approval for each Program as a full Program or terminate the Program. Any petition for full approval or termination should include the updated inputs for participation, savings, NTG Ratio, avoided costs, Program Costs, and cost-effectiveness test results. PSNC may end the pilot for any and all Programs 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 PSNC will remove the Program or apply for it to be granted full approval, respectively.

Program Extension

17. PSNC's Programs (Residential Energy Efficient Equipment Rebate Program, Commercial Energy Efficient Equipment Rebate Program, Conservation Education Program, Residential New Construction Program, Residential Home Energy Report Program, and Residential Low Income Program, plus administrative costs supporting the portfolio and each Program thereunder) shall be extended and modified as necessary for approximately three years in order to continue collecting operational data, perform EM&V, and assess cost-effectiveness. With respect to the portfolio, the extension will commence on July 1, 2025, and will end on June 30, 2028 (this period is referred to herein as the Program Extension Period).

18. During the Program Extension Period and with reference to each Program, PSNC 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.

19. The criteria for a successful Program is a Utility Cost Test result that is equal to or greater than 1.0.

20. The EE rider rates shall commence as of the beginning date of the Program Extension Period, July 1, 2025, and at that time shall be set to the current effective rider rates. The EE rider rates shall be subsequently modified pursuant to the process described herein in the "General Structure of Rider" and "Cost Recovery" sections of this Mechanism. The existing Programs as of the beginning date of the Program Extension Period will continue, subject to modification; implementation of such modifications, as well as the implementation of new Programs, will begin when approved by the Commission.

21. At the end of the Program Extension Period or sooner, if Program performance dictates, PSNC shall seek either approval for each Program as a full Program or terminate the Program. Any petition for full approval or termination should include the updated inputs for participation, savings, NTG Ratio, avoided costs, Program Costs, and cost-effectiveness test results. PSNC may end the Program Extension Period for any and all Programs before the end of the Program Extension Period if substantial evidence suggests the UCT will result in a value less than or greater than 1.0, in which case PSNC will remove the Program or apply for it to be granted full approval, respectively.

Term

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

Application for Approval of Programs

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

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

24. PSNC will then further screen Measures for cost-effectiveness. With the exception of Measures included in Low-Income Programs or other non-cost-effective Programs with similar societal benefits as approved by the Commission, a Measure with an estimated UCT result less than 0.9 will not be considered further, unless the Measure can be bundled into a 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.

25. 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.

26. If a Program fails the economic test in Paragraph 25, PSNC will determine if certain Measures can be removed from the Program to satisfy the criterion established in Paragraph 25.

27. Nothing in this Mechanism relieves PSNC from its obligation to comply with Commission Rule R6-95 when filing for approval of Programs. PSNC 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. PSNC 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 PSNC considered and rejected. Additionally, if PSNC plans to use an independent third party for purposes of EM&V, it shall, when known, identify the third party and include all projected third-party costs in its filing.

Program Management

28. For the annual Program Cost recovery filings, PSNC will work with the Public Staff to determine what should be included and also the format of each filing.

29. For purposes of calculating prospective and/or actual cost-effectiveness of Programs or Measures to be used to determine whether a Program or Measure should remain in the portfolio, PSNC 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 PSNC 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.

30. PSNC acknowledges 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 PSNC's control, including but not limited to market and economic conditions, avoided costs, and government mandates. PSNC 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, PSNC 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.

31. 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.

32. 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, PSNC shall consider terminating the Program effective at the end of the year following the EE rider order, unless otherwise ordered by the Commission.

33. PSNC shall 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 PSNC's incentives to participants. If so, these funds will not change the impacts or cost-effectiveness of PSNC's Programs as calculated using the UCT. Further, the amount of avoided costs recognized by PSNC will not be reduced if participants also use state or federal funds to offset any portion of their project costs.

Program Modifications

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

35. If approval of a modification is desired, PSNC 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

36. EM&V of Programs, conducted by an independent third-party using a nationally-recognized protocol provided to the Public Staff in an evaluation plan, will be performed to ensure that Programs remain cost-effective. If cost of a specific EM&V is too great, PSNC 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.

37. EM&V will also include updates of any 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.

38. 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.

General Structure of Rider

39. 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 beginning July 1, 2025, and then beginning on February 1 for each year thereafter unless otherwise approved by the Commission.

40. The annual filing date of PSNC's EE rider application and supporting documents for the years 2026, 2027, and 2028 shall be no later than October 15th of the prior year.

41. 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 February 1st.
- b. A schedule updating estimated and actual charges and credits to the EE deferral account, a) calculating the monthly beginning and ending balances for each month and b) cumulative balance for the annual period through January 31st of the filing year. At the time of the October 15th filing, this schedule shall incorporate actual charges and credits to the extent possible (from the last actual balance filed in the previous rider proceeding through at least June 30th of the year

preceding the current proceeding's filing date). Estimated amounts at the time of the filing may be updated to actual during the course of the proceeding; however, any such actual amounts shall remain subject to audit and correction in the following year's rider proceeding. 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 October 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 Program Extension Period.
- e. Requested Program modifications, if any.
- f. Estimated cost-effectiveness results by Measure, Program, and portfolio for the Rate Period (February 1st through January 31st of the upcoming year, updated as appropriate for EM&V). For this purpose, the Company will utilize the actual cost-effectiveness results collected during the preceding twelve months ended January 31st (also updated as appropriate for EM&V) and update its forecasted participation so that a proxy cost-effectiveness for each Measure, Program, and portfolio can be calculated.
- g. Any information required by Paragraph 29 of this Mechanism.

h. Any information not otherwise listed above that was previously provided in PSNC's annual EE report.

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

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

44. Upon the Commission's approval of the modified program and mechanism, PSNC and the Public Staff will collaborate to determine the initial set of EE rider rates in alignment with this mechanism. These rates will be submitted to the Commission for review and approval, with the goal of having them effective for the first rate period. If approved, the rider rates will become effective no later than July 1, 2025. The parties acknowledge that it may be impossible to fully meet the requirements of paragraphs 41 and 42 of this Mechanism but will make all reasonable efforts to do so.

45. By the 15th day of each month, PSNC shall file a deferred account report for the second preceding calendar month, a) setting forth the details of the changes to the deferred account for that month and b) the cumulative balance subject to the Rider F.

Cost Recovery

46. Pursuant to the requirements of this Mechanism for each EE rider proceeding held in 2026, 2027, and 2028, PSNC 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 for each proceeding (ending January 31st 2026, 2027, and 2028). The rider rates as annually set shall also include recovery of the estimated balance in the deferred account as of the day prior to the rates' effective date. Any remaining deferred account balance as of June 30, 2030, 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 Program Extension Period or any previously approved Measure or Program shall not preclude PSNC'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.

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

48. PSNC may implement deferred accounting for over- and under-recoveries 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 PSNC'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).

49. For purposes of cost recovery through the EE rider, system-level Costs of each Program shall be assigned or allocated to PSNC's operations, 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.

50. The assignment or allocation methodology described in Paragraph 49 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

51. 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-5, Subs 632 and 634, to be completed no later than June 30, 2025. PSNC 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.

High Efficiency Discount Rate Program

52. The annual Conservation Report which is related to the High Efficiency Discount Rate that is currently included in base rates pursuant to Docket No. G-5, Sub 495A, and not subject to this EE Mechanism, shall be discontinued with the

implementation of this EE Mechanism and Rider F. The Public Staff reserves the right to request information regarding this program in discovery during the rider proceedings.

No Precedential Effect

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